

***The Entrepreneurial Orientation of Rapidly Internationalizing Service
Firms and its Link to International Operations***

Competitive Paper Submitted to:

The Eighteenth Annual High Technology Small Firms Conference

Enschede, Netherlands

May 27-28, 2010

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ABSTRACT

This paper studies the international entrepreneurial orientation of rapidly internationalizing services firms (RISFs) and its relationship to three of their foreign market activities. Using multiple case studies we explore the research question: How does the international entrepreneurial orientation of rapidly internationalizing service firms affect their foreign market entry, market penetration, and growth? We build on entrepreneurship and international services literature to develop our research question that leads to the advancement of seven propositions as a foundation for further research. Three entrepreneurial orientation elements were investigated, of which proactiveness and innovativeness seemed to have the strongest links to RISF foreign activities. The analysis also uncovered interesting insights about RISF innovativeness some of which contradict extant services literature. Our paper makes three contributions: it provides *empirical* insights about RISFs, addressing a historical shortage of international services firm studies; it answers calls for further research in this area; it introduces an empirical analysis on service firm innovativeness at an international level, lending weight to similar future studies. We separately hope our research contributes to International Entrepreneurship research via our results linking RISF foreign activities and international entrepreneurial orientation.

Introduction

The importance of service firms in the global economy is unquestionable. Services have become the largest part of the world economy and their export growth has more than doubled in the past decade (UNCTAD 2008), which is evidence of an increasing trend in services internationalization. Yet international service firms have been historically understudied (Erramilli, 1990, 1992; Clark et al. 1996; Chadee & Mattsson 1998; Clark & Rajaratnam 1999; Samiee 1999; Davis 2004) and our knowledge about such organizations is relatively new (Knight 1999) and quite limited (Samiee 1999). As a consequence and despite a growing number of investigations into Born Globals (e.g. Knight & Cavusgil 2004; Gabrielsson et al. 2008), International New Ventures (e.g. Oviatt & McDougall 1994, 1995) and similar firms, little is known about the entrepreneurial orientation of Rapidly Internationalizing Service Firms (RISFs), that is, service companies that internationalize shortly after inception. This is problematic for two reasons: first, because numerous scholars believe that entrepreneurial behavior is related to superior firm performance (Covin & Slevin 1991; Lumpkin & Dess 1996, 2001; McDougall & Oviatt 1996; Knight 2001; Balabanis & Katsikea 2003) yet little is known about service firm entrepreneurial orientation; and second, because the particular challenges faced by service firms are frequently overlooked, such as having limited choices of foreign entry modes (Erramilli 1990), facing unique regulation and government policy (Davis 2004), and other operational difficulties unique to services (Zeithaml et al 1985). This situation prompts our main research question: how does the international entrepreneurial orientation of RISFs impact their foreign market entry, market penetration, and growth?

Studies about service companies have made a number of significant contributions including Erramilli's seminal works on international market entry (Erramilli 1990, 1992; Erramilli & D'Souza 1993; Erramilli et al 2002), marketing (Zeithaml et al 1985), typologies (Lovelock & Yip 1996; Clark et al 1996; Clark & Rajaratnam 1999; Patterson & Cicic 1995), sector specific internationalization (Majkgård & Sharma 1998; Coviello & Martin 1999), and comparisons to products firms (e.g. Peters & Brush 1996; Morris & Johnston 1987; Vargo & Lusch 2004). Yet these studies' application to RISFs is limited because most focus on well established, mature companies and few adequately explain *how* these firms behave entrepreneurially. At the same time, an emerging body of literature on service firm innovation shows that service firms face unique challenges and opportunities when they innovate, and innovativeness is a fundamental element of entrepreneurial orientation (Schumpeter 1934; Covin & Slevin 1991; Zahra & Covin 1995; Lumpkin & Dess 1996). However, few of these studies consider the relationship innovativeness may have with the foreign activities of service firms, particularly those that internationalize rapidly. This paper aims to contribute to this gap.

Based on a review of entrepreneurship and international services literature, we develop arguments that position our research question. We then briefly discuss our methods and findings, after which we advance seven propositions driven by our empirical results. Finally, we conclude with the aimed contributions to both theory and management, and areas for further research.

Literature Review

International Entrepreneurship

Largely fueled by the Born Global phenomenon, International Entrepreneurship (IE) attempts to explain the pursuit of international business opportunities through the integration of multiple disciplines (Dimitratos & Jones 2005; Oviatt & McDougall 1994; Zucchella & Scabini 2007). Although the field is still at an embryonic stage, several studies have already made significant contributions including conceptualizing IE (Oviatt & McDougall 1994, 2005; McDougall & Oviatt 2000; Jones & Coviello 2005; Zucchella & Scabini 2007), investigating differences between IE and domestic entrepreneurship (McDougall 1989; McDougall & Oviatt 1996); and exploring links between a firm's performance and its international entrepreneurial orientation (Knight 2001). In particular, these studies seem to have at least four characteristics in common. First, IE involves entrepreneurial behavior; second, it involves the crossing of domestic borders; third, it differs significantly from domestic entrepreneurship (McDougall 1989, McDougall & Oviatt 1996; McDougall et al. 2003); and fourth, it requires the *ongoing* pursuit of international opportunities (Zahra & George 2002). Although the mentioned contributions are significant and valuable, there are still other important areas in International Entrepreneurship that necessitate further investigation. To this end, our review revealed that little is known about the international entrepreneurship of *services* firms mainly due to three reasons. First, much of the entrepreneurship literature concentrates on new venture creation (e.g. Gartner 1988) or large firms (Covin & Slevin 1991; Zahra & Covin 1995) in the manufacturing sector and inside domestic borders. As a result, such studies lack an international focus and tend to overlook service firms. Second, the entrepreneurship field has long struggled to gain consensus on *what* constitutes entrepreneurship and what *entity* is entrepreneurial (Gartner 1988; Jantunen et al. 2005) fueling its conceptual fragmentation and making it difficult to separate entrepreneurial service firms from others. Third, innovativeness—a fundamental aspect of entrepreneurship (Schumpeter 1934; Covin & Slevin 1991; Lumpkin & Dess 1996)—in service firms is subject to unique challenges and opportunities (Gallouj & Weinstein 1997; Sundbo 1997; Van der Aa & Elfring 2002), and service innovation studies are scant and rarely include an international focus.

As a result, in this study we address these shortages as follows. We adopt Oviatt & McDougall's (2005) view of IE as "*the discovery, enactment, evaluation, and exploitation of opportunities—across national borders—to create future goods and services*" (p.540), but we emphasize that such pursuit of international opportunities must be *continual* and extend well beyond venture creation. To this regard, we agree with Zahra & George (2002) in their assertion that entrepreneurial behavior "*is an ongoing process that unfolds over time*" (p. 258). Furthermore, we take support from Lumpkin & Dess (1996) and Covin & Slevin (1991) to define International Entrepreneurial Orientation as behavior that is characterized by proactiveness, innovativeness, and risk-taking in a firm's pursuit of international opportunities. In this respect, a *proactive* firm has the capacity to anticipate and act on future needs and aggressively pursues opportunities; an *innovative* firm has a tendency to support new ideas, new combinations of extant ideas, entry to new markets, experimentation and new processes; *risk-taking* indicates the will to commit proportionately large amounts of resources despite a high potential for failure (Covin & Slevin 1991; Lumpkin & Dess 1996; Shane & Venkataraman 2000; Zucchella & Scabini 2007).

International Services

Our review of international services literature uncovered several contributions, three of which are most relevant for this paper. First, services have unique characteristics in comparison to other offering types (Zeithaml et al. 1985). Second, the characteristics of services limit the international entry options for the related companies (Erramilli 1990; 2002). Third, service firms face significant obstacles in their foreign operations as a result of heavy government regulation, labor laws, etc (Samiee 1999; Davis 2004). Each of these is briefly reviewed next.

Services have four main characteristics that differentiate them from other types of offerings: intangibility, perishability, heterogeneity, and inseparability (Zeithaml et al. 1985). In brief, these mean that services cannot be stored or readily displayed (intangibility); cannot be inventoried and perish after consumption (perishability); have variable quality and standardization making them difficult to control (heterogeneity); and often require production and consumption to be simultaneous, which means the consumer may be an active participant in the production process (inseparability). These characteristics pose unique challenges for service firms abroad, particularly in their international entry and foreign operations. The international market entry of service firms tends to be restricted (Erramilli 1990) since only those firms with the ability to decouple the production and consumption process –i.e. *hard services* firms—are able to export in a similar fashion as manufacturing companies (Erramilli 1990; Erramilli et al. 2002). Conversely, *soft services* firms—those in which the offering is inseparable between producer and consumer—are forced into choosing a more restricted set of market entry options like licensing, franchising, joint ventures, or wholly owned subsidiaries (ibid). These and other studies also show that the market entry behavior of services firms is considerably diverse, and this behavior seems to be moderated *inter alia* by the degree of uniqueness of the firm’s offering (Erramilli et al. 2002). At the same time, rendering services in a foreign country typically requires firms to manage unique obstacles including immigration and labor policies, differing tax laws, the absence of bilateral tax treaties, government protectionism and policy (Samiee 1999, Davis 2004). In many instances, such obstacles prevent the rapid penetration of foreign markets (Lovelock & Yip 1996), particularly because of challenges in conducting foreign operations. Services are labor intensive (Davis 2004), have significant ‘production’ variability, and are highly susceptible to governmental monitoring (Morris & Johnston 1987). *People* render services and thus ‘production’ can only be increased by hiring additional staff, making economies of scale difficult to achieve (Davis 2004). Similarly, mass production is unachievable since producer and consumer must be proximate and co-participate in the ‘production’ process, which prevents the use of distributors and makes it difficult to balance supply and demand without the benefit of inventories (Zeithaml et al. 1985; Clark & Rajaratnam 1999). Similarly, in the ‘production’ of services, both producers and consumers are being transformed and are the transforming sources, making the inputs, outputs, and performance of ‘production’ difficult to specify in advance (Morris & Johnston 1987). At the same time, services sell *competences* (Gallouj & Weinstein 1997) which, at an international level, requires the hiring and training of individuals with particular characteristics, including multi-language abilities, cultural sensitivity, international business acumen, and local customer orientation (Clark & Rajaratnam 1999). This is an important point because a client’s perception of quality and value depends highly on the manner in which that service is delivered (Clark & Rajaratnam 1999; Davis 2004), particularly because services cannot be typically be evaluated independently and in advance of the ‘production’ process (Patterson & Cicic 1995). As a result, the ‘production’ of services is

characterized by high variability and uncertainty (Morris and Johnston 1987) and quality assurance is difficult to predict, measure, and standardize (Zeithaml et al. 1985). Finally, international services firms face labor-related barriers such as immigration laws, labor regulation and policy, licensing or certification requirements (e.g. accountants, lawyers, surgeons, etc.), and local acculturation of hiring practices (Clark & Rajaratnam 1999; Davis 2004).

Under such challenging conditions, it is difficult to envision how young services firms make their journey into foreign markets. Yet many firms within the Born Global and similar literature are in services (e.g. Coviello 2006). However, the majority of these service firms tend to be technology developers (Coviello & Jones 2004) with few exceptions (e.g. Majkgård & Sharma 1998), leaving the internationalization of other service firms types overlooked. What remains understudied is what happens to young small services firms after they enter markets and how successful is their continued operation in their respective international markets, in terms of growth and market penetration. Our study aims to contribute to this gap.

Innovation in Services

As we have mentioned, according to the Schumpeterian school of thought, innovation is a significant element of entrepreneurship (Schumpeter 1934), and we agree. But given the particular characteristics of services mentioned above, a more detailed explanation of innovation is necessary. For this, we take support from Gallouj & Weinstein (1997) and view innovation in services as a process of introducing changes to the service ‘product’, delivery of that service, competences of the firm, or competences of the client, which are novel, repeatable, and have a lasting benefit on the firm (economic, strategic or otherwise). With this understanding of innovation in services, we found three types of innovation that appear to be the most prominent in the literature: product, process, and market innovations. An additional type that is commonly found among services firms but frequently neglected in academic research are *ad hoc* innovations (Gallouj & Weinstein 1997; Sundbo 1997).

In this study we will use the preceding explanation of innovation in services that takes support from Gallouj & Weinstein (1997). For purposes of brevity, our focus will be on *product* innovations, which refer to new service offerings that require fundamental changes in the type of services rendered, the competences of the producer and consumer, and may also involve changes to the service delivery process (Gallouj & Weinstein 1997). Furthermore, our study compares *radical* versus *incremental* innovations in order to investigate their respective impact on the foreign market operations of service firms. In this respect, radical innovations require the development of a complete new set of service characteristics, delivery processes, and competencies including recruitment, training, etc., which make it difficult (but not impossible) to apply in services (Gallouj & Weinstein 1997; Sundbo 1997); while incremental innovations are characterized by the addition or substitutions of elements (e.g. comprehensive versus collision-only car insurance) or combinations of services (Gallouj & Weinstein 1997; Sundbo 1997; van der Aa & Elfring 2002).

Methodology

The research question guiding this study is of an explanatory nature, since it investigates links between the international entrepreneurship and foreign operations of RISFs. As a result, a holistic multiple-case study design (Yin 2009) was considered most adequate for three reasons. First, because case studies are best positioned to answer “how” and “why” inquiries (Yin 2009), as is the case with our research question. Second, because we wished to acquire rich, in-depth data (Wright et al. 1988, Yin 2009). Third, because case studies facilitate the inductive gathering of new insights (Sutton 1997), which may have been originally unknown to the researchers.

We selected three case firms based on theoretical sampling (Eisenhardt & Graebner 2007) because they were particularly suitable for illuminating and extending the relationships we are investigating. Our case companies emerged from a wider set of firms operating inside a large Finnish business incubator as well as from other firms known to the researchers. In order to be selected as a case, companies had to pass through three ‘filters’. First, all companies had to be purely within the services industry and not manufacture any physical goods. Second, all firms had to meet Oviatt & McDougall’s (1994) definition of an International New Venture in that from inception, the firm sought to “derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries” (p. 49). Third, they had to be organizations that were originally incepted as new firms (i.e. not spinoffs, joint ventures, etc.) at different stages of development and growth. (e.g. Gabrielsson et al. 2008). Furthermore, we excluded firms that had no sales because of difficulties in evaluating the market acceptance of their products or services. A brief description of the selected firms is included in table 2 below.

Table 1. Case Firm Summaries

MPS	Since 1975, Management Personnel Services (MPS) has created a market for many Human Resource (HR) services that previously did not exist in several of its current locations. From personnel assessment at inception to a portfolio of seven services today, (including HR strategy development, Executive coaching, Executive Search and helping organizations in their transitions), the two-person startup grew into a firm with more than 50% sales growth in nine years. Having entered its first foreign market just five years after inception, the firm now operates in over 30 countries across the globe. The firm is headquartered in Finland, has a staff of over 120, and has offices in 10 countries. MPS is now a mature organization with a strong brand and an established reputation.
Citec	Citec provides technical solutions and project services across many disciplines for clients in the Power, Civil, Rail Vehicles, Telecom, Life Science, and Process industries. In addition, the firm provides a wide range of technical communication services and solutions. Founded in 1984 by two colleagues, the firm has grown to into two divisions that employ a combined 1100 employees. In the past ten years, the firm’s revenues have grown by an annual average of 33%. After an 8-year period of domestic growth, the firm entered Sweden as its first international market. It has since expanded to more than eight countries in Europe and Asia. The firm is headquartered in Finland, has offices in four locations across Europe and Asia. Citec is now a mature organization with strong brand and established reputation.
DynaRoad	Since inception in 2000, DynaRoad has developed software solutions for some of the largest civil engineering and construction companies in the Nordic region. After developing its 1 st product, the firm grew domestically and abroad only three years after inception. Through a brief period of external ownership in 2003-2005, the firm remained autonomous and virtually with

	the same management team. It has since expanded its operations to six countries across three continents. Despite significant sales growth, the firm has yet to achieve profitability, which it expects to reach in 2010. The firm is headquartered in Finland, hires seven people, and is actively pursuing entry into additional foreign markets.
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To gather data, we conducted semi-structured interviews and supplemented them with company and public documentation. Using an interview guide, data was collected per Yin's (2009) description of focused interviews and each case was treated as an independent experiment. In all questions, interviewees were asked to describe the progression of the particular topic from inception until today (e.g. "how has your firm's proactiveness developed from inception until today?"). All interviews included at least one of the original founders, and in the case of DynaRoad, the current Managing Director was also interviewed. In all cases, the founders were still active members of the leadership or executive team, except DynaRoad, which meant that the whole history of the firm resided with the original entrepreneurs. In DynaRoad's case, the original founder and the present Managing director were both interviewed, providing an entire picture of the firm's development.

Our data analysis followed the cross-case pattern matching guidelines set by Eisenhardt (1989) and Yin (2009) and was aided by NVIVO. More specifically, data was 'coded' into two sets of three constructs each. The first set included proactiveness, innovativeness, and risk-taking, which attempted to capture entrepreneurial orientation elements of the firm. Data coding into each of these three constructs had to be consistent with their explanation set forth in the literature review section. Proactiveness data was captured whenever a firm took specific action to discover, develop, and/or exploit business opportunities. When a firm created a new product, new offering, new market, or combination thereof, we logged it as innovativeness data. Similarly, risk-taking proclivity was recorded whenever the firm took actions that demonstrated a commitment of resources in the face of uncertainty or possibilities of substantial loss. The second set included firm growth, market entry, and market expansion, and these attempted to capture the progression of the firms' foreign activities. Firm growth was captured via annual sales, and in the absence of such information, we used employee growth and number of foreign markets entered as proxies. Market *entry* data was coded whenever a firm took action to enter particular foreign markets and such action led to revenues. Similarly, we coded market *penetration* data whenever the company actively tried to increase its client base and/or revenues in entered markets. The data results were then analyzed and synthesized into the findings reported in the sections that follow. NVIVO significantly facilitated the impartiality of data coding, the finding of relationships between the two sets of constructs, as well as the management of data.

Empirical Findings

International Entrepreneurial Orientation of RISFs

The international entrepreneurial orientation of the case firms appeared to be idiosyncratic to each organization. In general, all case firms had the intention to become international firms from the start, were aggressive in pursuing opportunities, created new innovations and/or markets, and demonstrated tolerance for risk-taking. These three elements of entrepreneurial orientation are analyzed further in detail next.

Proactiveness

All three firms were successfully able to anticipate and commercialize emerging opportunities. In two cases, alertness to new opportunities led to the introduction of new services that resulted in significant and sustained revenue growth for MPS and Citec. Similarly, DynaRoad's active search for opportunities led to the creation of its flagship products and hence its main source of revenues. Networking and 'cold-calling' were the two most frequent activities whenever all case firms pursued such opportunities both domestically and internationally. The companies seemed to be strongly active in networking for two main reasons. First, two of the companies (MPS & DynaRoad) initially had to create their own market as their services did not previously exist in their target geographies, and network relationships seemed to offer the easiest venue to 'educate' potential clients about the new services while simultaneously generating demand. As a result, both firms aggressively employed their extant networks and actively sought to enlarge them. Moreover, Citec and MPS believed that new business opportunities are best pursued by nurturing client relationships, delivering quality, and securing positive references. Consequently, their networking activities focused on preserving the (perceived) value in their client relationships rather than on activities to purely extract further revenues. Second, the organizations rely heavily on clients for novel ideas, co-development, references, or reputation building, in an effort to identify and pursue new business. In addition to networking, two of the firms vigorously sought and won significant new business via 'cold-calling' customers outside their known network of relationships. One of Citec's single largest clients and many of DynaRoad's recent customers were obtained through cold-calling.

Today, all companies remain highly proactive in their pursuit of new opportunities and continue to use networking activities both to generate new revenues and pursue emerging opportunities. However, given their larger size, MPS and Citec also employ partnerships and acquisitions as additional venues for growth, whereas DynaRoad continues to use the same venues mentioned above.

Innovativeness

The case firms demonstrated strong innovativeness by creating services that did not previously exist or solving existing problems in new ways. All organizations had both radical and incremental innovations, but not from the start: Only two of the firms were inceptioned to pursue radical innovations, while Citec's radical innovations came at a later stage. Although all firms continue to produce innovations, only MPS and Citec seem to have developed subsequent radical innovations, whereas Dynaroad's have been primarily incremental. The degree of innovation in

DynaRoad's original product has been difficult to replicate since the products that followed have been enhancements to the original creation. Citec has a handful of radical innovations, which are backed by patents and seem to be outnumbered by incremental innovations. Lastly, two of MPS's innovations can be considered radical (personnel assessment and outplacement services) because at the time when they were introduced, such services were rare or non-existent in many of MPS's target markets. The differences in the production of radical innovations may be related to differences in the firms' development, because as both MPS and Citec are mature firms, they may have had more time to develop subsequent radical innovations than DynaRoad, who is emerging from its initial stages. That said, the data suggested that incremental innovations (as compared to radical innovations) were the most frequently produced by all firms.

As a result of their radical innovations, MPS and DynaRoad went through a period of 'product' or market development, which *inter alia* kept them domestic for five and three years respectively. The firms deemed this necessary in order to develop completely new markets, a mature product (DynaRoad), and a strong reputation (MPS) prior to engaging in international markets. In all instances, radical innovations facilitated entry to foreign markets, while incremental innovations seem to have become more relevant in markets where the firm was already operating. The data seemed to reveal that the radical innovation is what initially attracted the business to the foreign country whereas incremental innovations occurred most frequently once the firm and client(s) were already working together. Citec's innovations were less related to its delayed entry into foreign markets. More specifically, the firm's founder believed no international customer would be interested in their services unless the firm demonstrated a history of positive results, prompting Citec to develop its domestic sales *prior* to going international.

It is important to note that not all firms co-created their innovations with clients. MPS explained that all of its business ideas emerged from within the firm. Citec *identified* some of innovations during client engagements, however, the *development* of such innovations (some of which were later patented) was not co-created with customers. Conversely, DynaRoad has always developed their innovations jointly with clients.

Risk-Taking

All three firms seemed to have a preference to internationalize in nearby markets before going further outward. Sweden, Denmark, or Norway was most frequently sought as the first international market, although DynaRoad's first foreign entry was fortuitously in the USA as a result of attending a local academic conference.

To cope with internationalization risks, all firms seem to rely on their networks, although DynaRoad has also risked international entry without its networks. More specifically, it seems that MPS prefers to enter countries via partnerships while Citec's recent international acquisitions are companies that had a history with the firm. Similarly DynaRoad has a policy to secure at least one customer to fund and jointly develop products, perhaps restricting its ability to independently choose entry into particular foreign markets.

All companies continue to pursue additional international opportunities, but their risk-taking proclivity seems to have changed. That is, MPS and Citec will only explore new opportunities that fit or complement their services portfolio. Although DynaRoad continues its policy to secure

at least one customer to fund and jointly develop products, it is significantly strengthening its internationalization efforts via additional funding and hiring. We believe the differences in entrepreneurial orientation between firms are related to differences in their development phase, with DynaRoad being the least developed. More explicitly, the data suggests that the younger the firm, the more it was willing to pursue new ideas, but as the firm grows, that willingness becomes more structured and less spontaneous.

Foreign Activities of RISFs

International Market Selection & Entry

The international market selection and entry of all firms seemed to be both deliberate *and* fortuitous. On the one hand, when entry was deliberate, the most common criteria to select countries were the availability of networks in target locations, market attractiveness & perceived opportunities, and language capabilities of firm staff. Entry was typically achieved through networking, partnerships, acquisitions, subsidiaries, or cold-calling. For example, MPS's founder describes their entry into Japan: "*we recruited a Japanese person [in Finland]...who took care of our Japanese clients in Scandinavia...for more than ten years, and then [he] moved back to Japan...and represented us there*". On the other hand, when entry was serendipitous, it typically emerged from events such as attending international academic conferences, organizing or participating in trade shows, obtaining direct international orders, etc. These findings revealed that the *fit* between foreign markets and the firms' innovations as a reason to *select* particular locations for entry was often subordinate to the other reasons mentioned above. However, the companies' innovations *did* facilitate the actual entry process in several cases, particularly when such innovations were patented.

Although our case firms are similar in that they operate in highly-specialized service sectors, their speed to internationalization varied significantly. DynaRoad's ability to license and export its products abroad facilitated its international entry only three years after inception. However, the international entry of the two other firms appeared to delay for two reasons. First, the firms needed to establish a new highly-specialized market for services that were rare, non-existent, or required the 'education' and 'training' of target customers. Second, MPS and Citec sought to build a strong reputation on their way to international markets because the founders of both firms believed that this was a fundamental way to secure business, particularly as the founders of both firms remarked that in services, the company's reputation is absolutely fundamental. In addition, Citec's international entry was further delayed because the founders began working on a full-time basis at the firm four years after inception, (taking the firm international three years after that).

International Market Penetration

During their early stages, all case companies seemed to experience difficulties in expanding operations in their respective foreign markets. Three elements that emerged as causes for delays in expansion were the degree of 'novelty' in the services offered, the maturity of the target market (that is, whether the target market was more or less developed than the domestic market,

helping to determine the level of adjustment required to the services offered), and the level of interconnectedness between target clients.

As we have previously mentioned, the high degree of novelty in MPS' and DynaRoad's services, required the firms to educate their target market at the beginning stages in order to create demand. In short, this meant that further expansion required further client 'educating' and therefore took time. At the same time, the companies depended on the overall development of their target markets. For example, as MPS grew, the markets in which it operates also developed, significantly raising awareness for the firm's services, thus making market penetration easier. Similarly, when DynaRoad's markets were more 'advanced' than that of Finland, the firm's products were adjusted to satisfy clients' needs, and when they were 'less advanced', the firm defaulted back to 'educating' customers. In DynaRoad's case, two additional reasons have hindered market penetration: first, DynaRoad believes its target clients are not well interconnected (as in other industries) and hence rarely share or disseminate information about the firm's products; second, clients consider DynaRoad's products a competitive advantage and therefore do not wish to divulge the existence of such products.

Firm Growth

The case firms have achieved varying levels of growth in terms of sales, number of employees, or number of foreign markets entered. Citec and MPS are the most developed by all three measures, and they are also the oldest. In turn, Dynaroad, is the youngest and is still working toward profitability. Today, MPS has the broadest world coverage with operations in thirty countries, whereas Citec and DynaRoad have a presence in seven and six international markets respectively.

Table two below provides a summary of our empirical results.

Table 2. Empirical Results Summary

	International Entrepreneurial Orientation	Market Entry, Market Penetration, and Firm Growth
MPS	Strongly proactive in networks during early stages and today. Incepted to pursue radical innovation, and created a least two radical innovations and multiple incremental ones. All innovations emerged from within the firm. Risk appetite to internationalize strong during early stages but more structured today.	Seemed to have a preference for Nordic countries as first points of international entry. Radical innovations kept firm domestic briefly but later facilitated foreign entry. Seems to prefer partnerships as main foreign entry mode. Has achieved tremendous growth in terms of employees and number of foreign markets entered.

Citec	<p>Demonstrates strong proactiveness via networking and cold-calling. Started with incremental innovations and later developed several radical ones. Some innovations developed in-house and others jointly with clients. Risk tolerance to internationalize strong but structured.</p>	<p>Seemed to have a preference for Nordic countries as first points of international entry but now has major operations in other regions. Chose to have domestic growth prior to internationalizing. Both incremental and radical innovations facilitated foreign entry and penetration. Employs partnerships, acquisitions, and whole subsidiaries as venues for international entry. Has achieved significant growth in revenues, employees, and number of foreign markets entered.</p>
DynaRoad	<p>Aggressive in both networking and cold-calling. Started with radical innovation and has yet to duplicate it, but has produced multiple incremental innovations. All innovations jointly developed with clients as a matter of policy. Risk appetite to attach international markets is as strong today as during inception.</p>	<p>Did not appear to have particular regional preference for first points of foreign entry. Ability to license enabled its fast international entry. Radical innovations kept firm domestic briefly but later facilitated foreign entry. Has achieved growth in revenues, employees, and number of foreign markets entered, but has yet to achieve profitability.</p>

Discussion and Proposition Development

In this section, we discuss our empirical findings in order to identify emerging patterns and compare them to extant research. More specifically, we analyze the international entrepreneurial orientation (IEO) and foreign activity constructs to identify relationships between them and juxtapose such relationships with earlier studies. On the basis of this analysis, we advance seven propositions, of which five are about the aforementioned relationship and two are about the innovation of RISFs.

Proactiveness and firm growth

As we previously mentioned, all firms demonstrated strong proactiveness mainly via networking and cold-calling activities. Not only did our case firms aggressively seek out, establish, and expand their own networks, but they used such networks to anticipate and act upon emerging opportunities: Citec's and DynaRoad's largest customers emerged from within the firms' networks and MPS used its networks to successfully commercialize two radical innovations at separate points in time. These findings contradict Sundbo (1997) who suggests *service* firms are not very efficient in establishing or using external networks. On the other hand, our results find support in (non-service specific) studies that suggest networks are a primary source for the discovery and exploitation of entrepreneurial opportunities (Håkansson & Snehota 1995; Hoang & Antoncic 2003; Harris & Wheeler 2005; Zhou et al. 2007). DynaRoad and Citec were also very active in cold-calling new clients, which yielded positive results including Citec's market entry into Norway. This finding contradicts much of the internationalization literature which suggests companies internationalize through networks (e.g. Johanson & Mattsson 1988, 1992) or that service firms establish foreign operations to follow clients or seek new markets (Erramilli 1990; Majkgård & Sharma 1998) because in this particular instance, Citec simply pursued the opportunity directly, without the benefit of networks in Norway or without having already targeted Norway as a potential market.

The data suggests that the years when the firms achieved their strongest results appear to coincide with the firms' most proactive efforts to grow. For example, the year after DynaRoad emerged from external ownership, the firm revamped its full-time sales staff and realigned its sales strategies, which led to revenue growth of more than 230% that year (in comparison to a yearly growth average of 128% up to that point). Similarly, in 1989 Citec began to experience unprecedented revenue growth because of their partnering efforts and the founders' switch from part-time to full-time employees. In the words of one of the founders:

“from '84 to '89, five years...[Citec] was growing very slowly, I think [in] '89 we were six employees ... But then we [joined] a company...that was an engineering company...that gave an umbrella...[and in '89] I started one hundred percent to work for the company... I should say, then it started to grow very fast, this company”

These and other efforts have taken Citec from a two-man operation to over 1100 employees in numerous locations across Europe and Asia. In a similar vein, MPS funded its aggressive internationalization activities by plowing back all dividends during its first 20 years, by which time MPS was firmly established in Nordic, the Baltics, central Europe, and Japan. MPS's also grew from its original two founders to well above 120 employees in offices across ten countries. These findings suggest a strong relationship between proactiveness and firm growth, and extant

research supports this finding (e.g. Lumpkin & Dess 1996, 2001). However, our results differ slightly from Lumpkin and Dess (1996) who propose that entrepreneurial orientation has a stronger link to performance when the firm is in a technologically sophisticated environment than the opposite low-tech environment. Our findings suggest that the performance of all case firms had a positive link with entrepreneurial orientation—regardless of technological sophistication. Based on the preceding discussion, we believe that proactiveness and firm growth, (when an increase in sales, employees, or number of foreign markets is viewed as firm growth) are related, particularly when the firm operates in international markets. Consequently, we advance our first proposition:

Proposition 1: *The proactiveness of a RISF is positively related to firm growth in foreign markets*

Innovativeness and its links to market entry and penetration

In investigating links between RISF innovativeness and market entry & expansion, we focused our analysis in three areas. First, we evaluated the firm's innovativeness in terms of radical and incremental innovations. The aim was to identify the firms' ability to create and duplicate such innovations at various points in their development. Second, we searched for emerging patterns between innovativeness and market entry and penetration. Third, we wished to identify additional patterns related to RISF innovativeness and foreign operations that we may not have initially considered. Each of these is discussed next.

As previously mentioned, all case firms had both radical and incremental innovations, but the development of these found mixed support in extant studies. Consistent with *services* literature (Gallouj & Weinstein 1997), Citec's innovations progressed from incremental to radical. However the two other firms were *incepted* to pursue radical innovations as suggested in Born Global and similar literature (e.g. Gabrielsson et al. 2008). This latter finding suggests that the development of radical versus incremental innovations is idiosyncratic to each firm and at times may be different than a 'trial-and-error' development process that culminates in radical innovations (Gallouj & Weinstein 1997). Having said that, the firms generated more incremental innovations than radical ones, and only MPS and Citec have successfully commercialized subsequent radical innovations. As a result, we believe that the progression from incremental to radical may be present in the innovations of all firms but at different points in their development—even though their starting innovation type may differ, they seem to eventually enter the same innovation production 'circle' that fluctuates between incremental and radical. This may be particularly true as international service offerings must typically be adjusted to local environments (Clark et al. 1996; Lovelock & Yip 1996; McLaughlin & Fitzsimmons 1996; Samiee 1999), hence promoting the creation of incremental innovations (as enhancements or adaptations) more so than radical ones. Based on these results, we propose:

Proposition 2: *The radical innovation(s) of RISFs:*

2a: are seldom replicated;

2b: tend to occur less frequently than incremental innovations;

2c: fluctuate between incremental innovations, if subsequent radical innovations are generated

Interestingly, the radical innovations of some firms seemed to both delay *and* facilitate the companies' international entry. On the one hand, the degree of 'radicalism' or novelty of the firms' innovations caused a delay in the firms' international entry. This delay was prompted by a need to develop a mature product (DynaRoad), a drastically new market (MPS), and a strong reputation (MPS) prior to engaging in international markets. More specifically, Dynaroad delayed its international market entry after attending international conferences and trade shows where it determined that its products needed to be adjusted to better satisfy international standards and expectations. Similarly, MPS went through a brief period of domestic growth, which it considered necessary to develop its market and build a reputation prior to internationalizing. These results suggest that, contrary to some of the Born Global and related literature (Oviatt & McDougall 1995; Gabrielsson et al 2008), the 'novelty' in some of our case firms' innovations prompted the companies to *delay* international entry, even if at times the innovations could offer a competitive advantage over indigenous firms. This finding aligns with Erramilli et al. (2002) who propose that service firm market entry is moderated *inter alia* by the degree of uniqueness of the firm's offering. On the other hand, once Citec and DynaRoad had decided to go international, their radical innovations facilitated their ability to enter foreign markets: Four of Citec's patents paved their market entry into Japan and several locations in central Europe; while DynaRoad's product uniqueness facilitated entry into six countries in three continents. In turn, the data suggests that incremental innovations are the most frequently used in *penetrating* extant markets because after the firms enter a foreign market, they frequently adjust service offerings to meet local expectations, prompting incremental innovations that may yield additional revenues. However, MPS seems to be an exception in that the firm generated an additional radical innovation that was used to penetrate business in all extant locations. Based on these results we make the following two propositions:

Proposition 3: *The more radical the innovation, the longer a RISF takes to develop its extant foreign markets*

Proposition 4: *Radical innovations facilitate the foreign market entry of RISFs while incremental innovations help penetrate extant markets*

One of our early intuitions in this investigation was that the fit between innovativeness and target foreign market would be a fundamental reason to select and enter particular foreign markets, as implied in some of the services literature (e.g. Ekeledo & Sivakumar 1998; Erramilli et al. 2002). But as the data revealed, this reason was subordinate to other seemingly more important reasons in choosing foreign markets, as supported by extant research, including availability of networks in target geographies (Coviello & Martin 1999; Majkgård & Sharma 1998), market attractiveness & perceived opportunities (Erramilli 1990; Majkgård & Sharma 1998), and language capabilities of firm staff. We therefore propose:

Proposition 5: *The fit between a RISF's innovation(s) and a foreign market as a reason to enter that market is subordinate to other reasons including (1) availability of networks at the target country or (2) market attractiveness*

As we analyzed our data, we identified additional interesting patterns related to RISF innovativeness, which we had not originally considered. One such pattern is that not all firms jointly developed innovations with clients as frequently suggested by services research (Morris & Johnston 1987; Lovelock & Yip 1996; Vargo & Lusch 2004). As MPS explained, all of its

innovations emerged from within the firm, some of which were radical. Because MPS was creating a completely new market that had neither a precedent nor a comparable substitute, no knowledge could come from sources outside the firm, and we believe this is partially why all MPS innovations were incepted in-house. We also believe this view is supported in Sarasvaty's (2001) effectuation concept, which is appropriate to analyze the creation of firms and markets that have little or no precedence, as was the case with MPS. Based on these results we advance our next proposition:

Proposition 6: *Some of a RISF's innovations are not jointly created and/or developed with clients, and these tend to be radical innovations*

Risk-taking and market entry

The relationship between risk-taking and market selection was present, but it appeared to be much weaker than we originally thought. Contrary to much of service internationalization literature (e.g. Clark & Rajaratnam 1999; Lovelock & Yip 1999; Davis 2004), none of the case firms reported to have faced particular difficulties in entering their extant foreign markets due to government policy & regulation, labor laws, or the characteristics of services. However, they did emphasize that company reputation was of utmost importance due to the tangibility element of their offerings. Consequently, perceived foreign risks (specific to services companies) did not appear to be a primary factor in our firms' selection and entry of foreign markets. Instead, other elements seemed to be of stronger concern to the firms when going international, such as availability of local networks, market attractiveness, and likeness to domestic markets among others. This last point is strongly supported by much of the extant internationalization literature (Erramilli 1990; Coviello & Martin 1999; Majkgård & Sharma 1998) as we previously mentioned. In short, the RISFs' risk-taking appetite did not appear to be a primary factor in the selection and entry of foreign markets, hence:

Proposition 7: *The risk-taking proclivity of RISFs has a weak influence in market selection & entry, and is subordinate to other influences including (1) availability of networks at the target country or (2) market attractiveness*

Conclusion

This paper was an empirical study about the international entrepreneurship orientation (IEO) of rapidly internationalizing services firms (RISFs) and its relationship to three of their foreign market activities. Based on entrepreneurship and international services literature, we developed our research question: How does the international entrepreneurial orientation of rapidly internationalizing service firms affect the firm's foreign market entry, market expansion, and growth? Based on our findings we developed seven propositions, of which five are directly tied to the research question, and two that emerged from our analysis of RISF innovativeness.

Our analysis revealed the presence of a relationship between a RISF's international entrepreneurial orientation and its international activities, however, the findings varied across the elements examined. In summary, strong levels of proactiveness coincided with firm growth and international expansion. We also found that the more radical the innovation, the longer a RISF took to develop foreign markets, although radical innovations facilitated international entry while incremental innovations helped penetrate extant markets. Furthermore, the *fit* between a firm's innovation and a foreign market as a reason to enter that market was found to be subordinate to other reasons. Separately, risk appetite appeared to be idiosyncratic to each firm, but seemed to have a weak influence in some firms' foreign market selection and entry. Two of our most interesting findings were about a RISF's innovativeness. First, radical innovations were seldom duplicated, tended to be outnumbered by incremental ones, and their production fluctuated between periods of incremental innovation production. Second, some of the firms' innovations were *not* jointly developed with customers as it is often professed in extant services literature, and those tended to be radical innovations.

We acknowledge that the international operations and performance of RISFs are influenced by other elements than those discussed in this paper, including networks, internal resource development, and exogenous events. However, for purposes of focus our study concentrated only in the aforementioned elements. We also recognize that longitudinal studies may be better suited to understand RISF innovativeness and international performance, as both are ongoing processes that develop over time and may change as a result of numerous factors. In addition, this was an exploratory investigation mainly intended to identify extant patterns in RISFs' international entrepreneurial orientation. As a result, we believe there is significant value in further research about RISFs in general, but also about their *continual* international entrepreneurial orientation and international performance. One particularly interesting area for further research would be a study about the international entrepreneurial orientation of RISFs through the lens of causation and effectuation (Sarasvathy 2001) in order to understand how the firms manage the creation of totally new international service markets.

We believe our study contributes to theory by providing empirical results about a RISFs international entrepreneurial orientation; addressing a historical shortage of studies about international services; and introducing empirical insights about international service firm innovativeness that may lend weight to future studies in this area. We also hope the results help RISF managers in making decisions about internationalizing their innovations, particularly, in their strategic use of radical versus incremental innovations.

Acknowledgements

This research is part of the "Born Globals - Growth Stages and Survival" -cooperation project between the Helsinki School of Economics, the University of Vaasa, and six companies. We would like to thank the financiers of the project: the LIITO-program of the Finnish Funding Agency for Technology and Innovation (Tekes), and the partner firms.

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