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What Drives New Ventures to Internationalize from Emerging to Developed Economies?

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The internationalization of new ventures from emerging economies to developed economies remains an unfilled gap at the intersection of the literature between international entrepreneurship and strategy in emerging economies. What drives some (but not all) new ventures from emerging economies to enter developed economies? We address this question by developing a comprehensive framework based on the three leading perspectives on strategy—industry-based, resource-based, and institution-based views. A series of propositions are proposed to explore the underlying logic behind new ventures' entrepreneurial entries from emerging to developed economies.

Introduction

In response to the rising theoretical, empirical, and practitioner interest, two streams of research have grown rapidly in the recent literature: (1) international entrepreneurship and (2) strategy in emerging economies (EE). However, such rapid development has left many gaps. International entrepreneurship research (McDougall & Oviatt, 2000; Oviatt & McDougall, 1994) to date has largely focused on new ventures based in developed economies (DE) and has not paid significant attention to new ventures based in EE. Strategy research on EE has mostly dealt with foreign entrants entering EE as well as firms competing domestically within EE (Hoskisson, Eden, Lau, & Wright, 2000). There is relatively little research on the internationalization of firms based in EE (Luo & Tung, 2007; Wright, Filatotchev, Hoskisson, & Peng 2005a).

To the extent that limited research on the internationalization of firms based in EE exists, the focus has been on *large* firms, such as Brazil's AmBev, China's Lenovo, India's Tata, and Mexico's Cemex—in other words, Cells 1 and 2 in Figure 1 (Child & Rodrigues, 2005; Mathews, 2006; Tung, 2005; *Business Week*, 2006). Clearly, there is a gap in our understanding on how small entrepreneurial firms based in EE internationalize (Cells 3

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Figure 1

Internationalization of Firms Based in Emerging Economies

		<i>Direction of Internationalization</i>	
		Emerging Economies → Emerging Economies	Emerging Economies → Developed Economies
<i>Firm Size</i>	Large	Cell 1:	Cell 2:
	Small	Cell 3:	Cell 4: <i>Our Focus</i>

and 4 in Figure 1). There is emerging evidence that some EE-based new ventures have begun to internationalize and make their presence felt overseas. For example, of the top 100 fastest growing Asia-Pacific-based firms (both large and small) identified by Deloitte Touche Tohmatsu (2006), 15 of them are new ventures based in EE that have internationalized some of their operations by entering DE (Table 1). The top three such firms (ranked by growth rates) are CapitalBio (China), Spreadtrum Communications (China), and Syntronix (Taiwan), all founded during 2000–2001. While most scholars probably have never heard of them, those interested in entrepreneurship and internationalization would be fascinated by their astonishing three-year growth rates: 4229%, 1462%, and 1443%, respectively. If research on entrepreneurship and internationalization is to keep up with practice, it seems imperative that at least some of our attention be devoted to these cutting-edge cross-border entrepreneurial activities moving from EE to DE.

This article partially fills this gap by developing a model of the internationalization of entrepreneurial new ventures from EE venturing to DE—that is, Cell 4 in Figure 1. Wright et al. (2005a) complain that there is virtually no research in Cell 4. This is understandable, because most EE research on foreign entries deals with firms from DE entering EE (Meyer, 2004; Ramamurti, 2004). Venturing from EE to DE is “the other way around,” which no doubt is tremendously challenging, especially for those that are recent new ventures (Sapienza, Autio, George, & Zahra, 2006; Zhou, Tse, & Li, 2006). Yet, precisely because this route of internationalization is risky and challenging (Jones & Coviello, 2005; Oviatt & McDougall, 1994), it presents potential room for “the identification and exploitation of previously unexplored opportunities,” which is a widely accepted definition of entrepreneurship (Hitt, Ireland, Camp, & Sexton, 2001, p. 480; Shane & Venkataraman, 2000).

The level of internationalization examined here is beyond exporting. We focus on EE-based new ventures that engage in foreign direct investment (FDI) in DE, which is a more decisive strategic action—some exporting may be “sporadic” exporting in response to an occasional overseas order. There is some evidence that in the long run, FDI may be “potentially a more competitive way than exporting for operating in international markets” (Lu & Beamish, 2001, p. 582). The *World Investment Report* (2006) highlights the changing role of EE in global FDI activities. The *Report* suggests that EE as a group have emerged as significant outward investors. As recently as 1990, only six countries in EE reported outward FDI stocks of more than \$5 billion; however, by 2005, that threshold had been exceeded by 25 countries (UNCTAD, 2006). FDI outflow from EE has increased from 3% (1978–1980 average) of the world’s total FDI outflow to over 17% (\$133 billion)

Table 1

Fastest-Growing Asia Pacific-Based New Ventures that Internationalize from Emerging Economies to Developed Economies

Our rank	Deloitte rank	Company	Nationality	Industry	Year founded	3-year growth (%)	Activities
1	8	CapitalBio Co.	China	Biotechnology/ pharmaceutical	2000	4,229	CapitalBio develops and commercializes total health-care solutions. CapitalBio has rapidly evolved from a young innovative biochip developer into a comprehensive life science entity with fully owned subsidiaries based in the United States and in Hong Kong.
2	19	Spreadtrum Communications Inc.	China	Communications/ networking	2001	1,462	Founded by a group of innovative entrepreneurs, Spreadtrum Communications successfully set up offices in cities in China and in Silicon Valley, United States. Spreadtrum has grown rapidly within the past few years in the IC and wireless communications industry.
3	21	Syntronix Corporation	Taiwan	Semiconductor, components, and electronics	2001	1,443	Syntronix is a dedicated customized SoC/ASIC design- and production-service provider. Capitalizing on the alliances with leading design companies in Japan, Syntronix develops advance process technologies for a wide variety of specific applications to its customers worldwide.
4	32	VeriSilicon Holdings Co., Ltd.	China	Semiconductor, components, and electronics	2001	959	VeriSilicon's services range from SoC design and verification platform, IP, front-end and back-end design services, and software design. VeriSilicon has design, operations, and sales offices in the United States, Japan, France, Korea, China, and Taiwan to service worldwide customers.
5	46	Genesis Photonics Inc.	Taiwan	Semiconductor, components, and electronics	2002	703	Genesis Photonics and its subsidiaries in the United States provide GaN-based LED Epi-wafer, LED Chips for lighting, display, backlight, and auto lamp applications, and the most powerful LED chips for scientific, industrial, and research applications.

Table 1

Continued

Our rank	Deloitte rank	Company	Nationality	Industry	Year founded	3-year growth (%)	Activities
6	49	Green Packet Berhad	Malaysia	Communications/networking	2000	666	Green Packet Berhad is engaged in the business of research, development, manufacturing, marketing, and distribution of wireless networking and telecommunication products. Operations are carried in Malaysia and international branch offices in the United States, China, and Taiwan.
7	57	Huaya Microelectronics, Inc.	China	Semiconductor, components, and electronics	2001	564	Huaya Microelectronics provides digital TV and video processing solutions. With its innovative technologies and proactive business management, Huaya Microelectronics serves international markets from its offices in the United States and Taiwan.
8	60	Kingmax Digital Inc.	Taiwan	Computers/peripherals	2001	552	Kingmax Digital Inc. is a global corporation with offices in the United States and Australia. Kingmax Digital specializes in offering various flash storage products for use in a wide range of portable electronic devices; including digital cameras, mobile cameras, PDA's, MP3s, and others.
9	64	Nits Technology Inc.	Taiwan	Computers/peripherals	2002	532	Nits Technology manufactures and sells LCD TV, TFT monitor, UBT panel, TV card and USB 2.0 TV card, data memory, processors, and other electronic materials all over the world. Thinking globally and acting locally, Nits Technology operates from the United States and the Netherlands.
10	68	ASRock Inc.	Taiwan	Semiconductor, components, and electronics	2002	512	Devoting efforts to bring customers the innovative and reliable motherboards with the design concept of 3C, "creative, considerate, cost-effective," ASRock serves customers around the world via its sales and marketing offices in the United States and the Netherlands.

11	71	Vivotek Inc.	Taiwan	Communications/networking	2000	501	Vivotek specializes in the integration of audiovisual components into network operation and is a manufacturer in the IP surveillance industry. Vivotek's international network of partners and integrators (in the United States, Canada, and Japan) allow them to operate and sell globally. GlobalSat Technology is a manufacturer of GPS receivers and electronic communications, serving not only its domestic market but also the larger markets in Europe and North America. GlobalSat's sales are mainly facilitated by its subsidiary in the United States.
12	74	GlobalSat Technology Corp.	Taiwan	Communications/networking	2000	496	Geodesic Information Systems is a software solutions company formed by entrepreneurs and professionals with experience in the information technology industry. Geodesic Information Systems operates in the United States and other countries to serve its global market.
13	82	Geodesic Information Systems Limited	India	Software	1999	454	Liquid is a fast growing integrated eLearning content solutions company from India. Liquid delivers quality learning services for corporations, academic institutions, and government organizations across the world from offices in the United States and in India.
14	83	Liquid eLearning Services Private Limited	India	Other	—	452	Ocimum Biosolutions is a life sciences R&D enabling company with three focus areas, BioIT, BioMolecules, and BioResearch. Ocimum delivers end-to-end genomic products and services out of three strategic locations worldwide, the United States, the Netherlands, and India.
15	91	Ocimum Biosolutions	India	Biotechnology/ pharmaceutical	2000	414	

Source: Deloitte Touche Tohmatsu (2006). This survey ranks the top 500 Asia Pacific-based companies—both public and private, large and small—that have the highest revenue growth over three years (“Deloitte rank”). We examined the top 100 such fastest growth companies. We first eliminated all companies based in DE in the region (Australia, Japan, and New Zealand). Then we identified new ventures based on the founding year (since 1999) and eliminated older firms. Then we examined the websites of each firm to identify whether they had FDI activities in DE. Ranked in descending order based on Deloitte’s three-year growth rates, “our rank” is based on the remaining new ventures based in EE in Asia Pacific that have identifiable FDI activities in DE (based on their websites). [— missing data (after we contacted the company for more information).
DE, developed economies; FDI, foreign direct investment; EE, emerging economies; IC, integrated circuit; SoC/ASIC, system-on-chip/application-specific integrated circuit; IP, Internet protocol; LED, light-emitting diode; PDA, personal digital assistant; LCD, liquid crystal display; TFT, thin-film transistor; UBT, universal bus transceiver; USB, universal serial bus; GPS, global positioning system.

in 2005, which is projected to grow even further. Approximately 20% of such FDI from EE is directed to DE (UNCTAD). While it may be likely that FDI from EE to DE is driven by large EE-based multinational enterprises (MNEs) in Cell 2 in Figure 1, Table 1 hints at the emerging scale and scope of new ventures internationalizing from EE to DE.

In sum, it is this fascinating phenomenon of new ventures' internationalization from EE to DE that we draw theoretical attention to. The key questions we address are: (1) What drives new ventures to internationalize from EE to DE? (2) Are particular industries likely to foster certain new ventures to enter DE? (3) What are the key resources and capabilities behind such overseas venturing? (4) How does the institutional environment at home (EE) and abroad (DE) shape such internationalization?

Overall, this article departs from the literature in at least two significant ways. First, we identify a previously unexplored gap in the literature (Cell 4 in Figure 1). Second, following Peng (2006), we develop a comprehensive framework based on three leading perspectives in strategy—namely, industry-based, resource-based, and institution-based views. In contrast, most previous research draws on only one of these perspectives (such as the resource-based view). Our framework, thus, distinguishes itself by its timeliness and comprehensiveness.

Integrating the Three Leading Perspectives

To date, two leading perspectives have been influential in the strategy literature. First, an industry-based view argues that conditions within an industry, to a large extent, determine strategy and performance (Porter, 1980). Second, a resource-based view suggests that it is firm-specific differences that drive strategy (Barney, 1991; Teece, Pisano, & Shuen, 1997). More recently, propelled by research on EE, an institution-based view has emerged (Meyer & Peng, 2005; Peng, 2003; Wright et al., 2005a). Influenced by North (1990) and Scott (1995), this view considers strategic choices, such as internationalization, as the outcome of the dynamic interaction between organizations and institutions. Specifically, strategic choices are not only driven by industry conditions and firm capabilities, but are also a reflection of the formal and informal constraints of a particular institutional framework that managers and entrepreneurs confront (Peng, 2006). This institution-based view has recently become a dominant perspective underpinning strategy research on EE (Hoskisson et al., 2000; Peng, 2007; Wright et al., 2005a).¹

While each of the perspectives illustrates an important aspect of a new venture's internationalization from EE to DE, all three seem necessary to paint a more complete picture. Insightful as each of the perspective is, none of them is likely to be strong enough to sustain on its own; rather, it is the combination of their insights that lead to a better and more insightful understanding of the complex phenomenon such as new ventures' internationalization from EE to DE (Young, Dimitratos, & Dana, 2003). The industry-based view is noteworthy for its rigor in identifying the external forces at work at the industry level. Its primary focus on the *external* conditions allows us to examine the new venture's external opportunities and threats. The resource-based view excels in identifying the *internal* strengths and weaknesses of the new venture. This perspective at the firm level allows us to examine the firm-specific resources and capabilities that largely differentiate the internationalization behavior of new ventures. In addition to industry- and firm-level

1. For example, seven out of eight articles (88%) in a *Journal of Management Studies* special issue on strategy research on EE edited by Wright et al. (2005a) rely primarily on the institution-based view.

conditions, it is also critical to take into account even wider and higher societal-level influences from sources such as the state and society, especially when trying to address a complex phenomenon such as new ventures' internationalization from EE to DE. Firms in EE may be especially susceptible to institutional influences such as domestic market reforms and foreign political backlash (Peng, Wang, & Jiang, 2008).

In sum, the integration of these three perspectives in particular sheds considerable light on the question, "How do firms behave?," which is identified as one of the "four fundamental questions in strategy"² (Rumelt, Schendel, & Teece, 1994). In other words, the lynchpin for the joint consideration of the three perspectives is the fundamental question of how firms behave (Peng, 2006). If entrepreneurship is about the discovery and exploitation of opportunities (Shane & Venkataraman, 2000), this question certainly falls within the boundary of entrepreneurship research—and perhaps more importantly, filling in the overlapping interest between entrepreneurship and strategic management research. After all, our focus is to address interesting and important research questions that better explain and predict currently emerging but vaguely explained phenomena in entrepreneurship (Alvarez & Busenitz, 2001).

Therefore, following Peng (2006), we develop a comprehensive framework drawing on each of the three perspectives (see Figure 2). First, the industry-based view predicts that some industries, such as those with high degree of competition and technology intensiveness, may promote more internationalization of new ventures from EE to DE. Second, the resource-based view posits that new ventures in EE may focus on organizational learning, seek alliances, and leverage social capital and entrepreneurial orientation in DE. Third, the institution-based view highlights how regulative, normative, and cognitive forces both at home and abroad assert influence behind these internationalization strategies for "the other way around." The remainder of this article develops this framework in some detail.

Industry-Based View

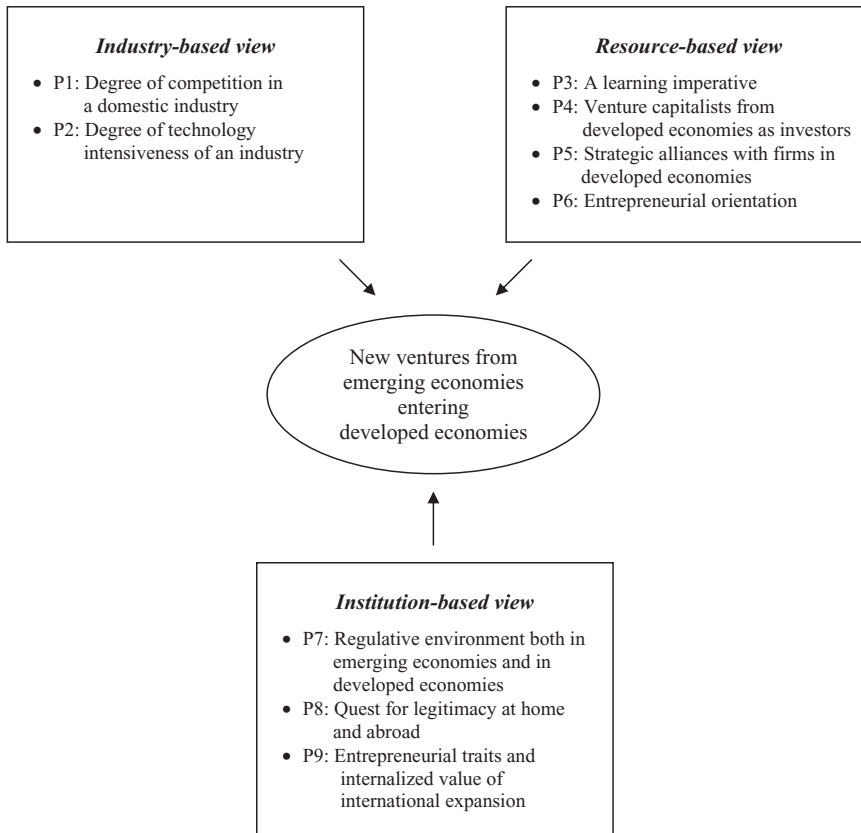
According to the industry-based view (e.g., Porter, 1980), the internationalization strategy of new ventures and their performance crucially depend upon the degree of competitiveness of the particular industry (Boter & Holmquist, 1996). As market competition develops throughout many EE, some industries may become intensely competitive domestically. Such intense competition may drive some new ventures, which by definition are not dominant firms, to seek fortunes abroad in order to avoid clashing with dominant incumbents head-on in their home market (Dawar & Frost, 1999; Mascarenhas, 1986). Conversely, if the level of competition is not very high, new ventures in EE may not have enough incentive to venture abroad, especially to DE.

However, within one industry, why would competition spur an EE-based venture to enter DE rather than other EE? We believe the answer is due to three benefits that accrue to firms entering DE: (1) enhanced learning opportunities, (2) lower levels of institutional and country risk, and (3) greater market potential. While entering another EE may provide some respite from their home market competitors, it may provide little opportunity for organizational learning. Entering into a sophisticated DE market may provide opportunities to enhance EE-based new ventures' capabilities, knowledge base, and competitive

2. The other three are: "Why do firms differ?" "What determines the scope of the firm?" and "What determines the international success and failure of firms?" (Rumelt et al., 1994).

Figure 2

Three Perspectives



position in their home market through their learning in DE (we will discuss this issue further in a subsequent section of this article).

Beyond the learning potential DE provides, new ventures from EE can also benefit from both risk reduction and increased potential. While FDI in DE by a new venture in EE may appear at first glance to entail higher competitive risks, Brouthers, O’Donnell, and Hadjimarcou (2005) argue that the competitive risks, if managed well, may actually be lower in DE, thus resulting in an overall lower risk profile for a DE investment than an EE investment. For example, if some or all of the EE venture’s competitive advantage resides in the lower cost of basic inputs such as labor, this advantage is likely to be enhanced in DE while providing little or no competitive advantage in another EE that also enjoys low labor cost. Lu (2007) finds that entrepreneurial firms that internationalize from EE leverage home-based advantages to successfully reach out into overseas markets including DE. In addition, because DE have a lower risk of expropriation and corruption, entering DE may be a lower risk option than entering EE. Under these circumstances, the overall risk may actually be higher in an EE investment than in a DE investment. Finally, there is simply the lure of the huge developed market in DE that may entice the attention of new ventures from less developed EE (Porter, 1990), by providing them access to a market that can substantially increase their potential revenues, profits, and cash flows.

Furthermore, evidence also supports that a high degree of industry competition can lead to a mimetic isomorphism that McKinley, Sanchez, and Schick (1995) call *strategic cloning*—that firms replicate each others' strategic decisions under intense industry competition. New ventures may imitate the strategic behavior of large firms and their internationalization into DE. More recently, Yiu, Lau, and Bruton (2007) empirically show the significance of the degree of home industry competition on the relationship between firm-specific ownership advantages and international venturing by emerging economy firms. Thus:

Proposition 1: A high degree of competition in a domestic industry will motivate some new ventures to internationalize from EE to DE.

In addition to the level of competition that may fundamentally affect new ventures' internationalization behaviors, industries also differ by their level of technological intensity. The link between technological intensity and rapid internationalization has been well established in the literature. As Jones and Coviello (2005, p. 291) report: "rapid internationalization has repeatedly been found to occur among high technology firms." Knight and Cavusgil (2004, p. 135) also find that "innovation, R&D, knowledge development, and capabilities leveraging play important roles in positioning born globals for international success." Finally, Spence (2003, p. 277) argues that "for some companies, especially in the high technology sector, internationalization is no longer a matter of choice, but of necessity."

The basic argument for this link is that the substantially higher development costs in technologically intensive industries require new ventures to seek larger international markets to earn the returns required to justify their investment (Bruton & Rubanik, 2002; Bruton, Dess, & Janney, 2007; McDougall, Covin, Robinson, & Herron, 1994). Industries vary by the level of development costs that must be incurred by new ventures. In the case of a low-technology, traditional industry with established production processes, there will be very limited expenditure in the up-front costs (such as R&D) required to create the product or service. In contrast, in a technology driven industry, the up-front costs often run into the tens, if not hundreds, of millions of dollars. For example, in the biotechnology industry, the current estimates run in excess of \$200 million and as high as \$800 million in development cost for a successful new drug (Rothaermel & Deeds, 2004).

Therefore, low technology ventures may have relatively little incentive to take on the risk of FDI, since they do not need to reach out to larger markets to achieve the return required to justify huge development costs. However, in technology intensive industries (e.g., biotechnology), new ventures may be more strongly tempted to enter foreign markets on a larger, more aggressive scale, by taking on more risks in DE in order to justify the investment required to create the product or service. Thus:

Proposition 2: A high degree of technology intensiveness of an industry will motivate new ventures to internationalize from EE to DE.

Resource-Based View

The resource-based view (Barney, 1991; Teece et al., 1997) has become an influential perspective in international business research (Hitt, Bierman, Uhlenbruck, & Shimizu, 2006; Peng, 2001b; Westhead, Wright, & Ucbasaran, 2001). We argue that three elements of the resource-based view may drive EE-based new ventures' entry into DE: (1) organizational learning via FDI, (2) overcoming resource and capability deficiencies, and (3) leveraging entrepreneurial orientation. Each is highlighted here.

Organizational Learning via FDI

Exploitation of proprietary assets such as innovative technologies has long been considered as a necessary condition for FDI (Dunning, 1993). While some new ventures (e.g., Korea's ReignCom) take advantage of their innovative technologies and expand into DE (Park & Bae, 2004), as a rule of thumb, it seems safe to suggest that new ventures in EE in general are not likely to possess such advantages over their counterparts in DE, which tend to be larger and more established (Ahlstrom, Young, Chan, & Bruton, 2004; Brouthers et al., 2005). Certainly, most EE-based new ventures, if they internationalize at all, probably do not aggressively target DE. Then, how can we explain some (but not all) EE-based new ventures' interest in FDI entries into DE?

As we noted in the previous arguments on the role of home country competition, the potential to learn and transfer that knowledge into competitive advantage beyond the DE market provides a motivation for investment in DE rather than EE. Recent research suggests that some FDI, especially in the R&D area, may be driven by an innovation-seeking imperative (Dunning, 1993; Frost, Birkinshaw, & Ensign, 2002). Firms are interested in using R&D-related FDI as a means for organizational learning to gain access to innovations resident in host countries (Peng & Wang, 2000). EE-based new ventures often use alliances to tap into the knowledge bases of world-class regional clusters in DE such as Silicon Valley (Coombs, Mudambi, & Deeds, 2006). This is consistent with the argument that a central motivation for EE firms to enter DE is an emphasis on "exploration" of new opportunities as opposed to "exploitation" of existing advantage (Wright et al., 2005a). Firms use exploration to develop absorptive capacity (Zahra & George, 2002), as well as expand the diversity and novelty of their knowledge base (Chetty, Eriksson, & Lindbergh, 2006; Coviello, 2006). Each of the motivation has been shown to be critical to successful new product development in new ventures (Rothaermel & Deeds, 2004). These benefits provide strong motivation for new ventures from EE to invest in DE to develop new technological and organizational capabilities to improve their competitiveness (Autio, Sapienza, & Almeida, 2000; Cantwell, 1992; Li, Li, & Dalgic, 2004; Zahra, Ireland, & Hitt, 2000). For example, one of the widely noted motives for Chinese firms' recent FDI moves is to gain access to both superior technology and brands (Child & Rodrigues, 2005). Elango and Pattnaik (2007) also find how Indian firms build capabilities to operate in international markets through learning. They find that firms that lack market power in their home country benefit through learning from foreign partnerships when internationalizing operations.

In one of the most recent efforts to develop FDI theory based on the accelerated internationalization of firms from EE, Mathews (2006) develops a new "linkage, leverage, and learning" (LLL) framework, which extends Dunning's (1993) "ownership, location, and internalization" (OLI) framework. Mathews (2006) argues that internationalization of EE-based firms is not necessarily based on the possession of overwhelming assets, but rather based on firms' ability to leverage its capability in organizational learning—organizational learning thus takes center stage in Mathews's new LLL framework. Mathews further contends that the LLL framework is ideal for EE-based small and medium-sized enterprises (SMEs) rather than large, resource-rich, DE-based MNEs. While we may certainly debate the appropriateness of the LLL framework relative to the OLI framework,³ it seems plausible to suggest:

Proposition 3: An organizational learning motive to access new capabilities will motivate new ventures to internationalize from EE to DE.

3. Participating in this LLL vs. OLI debate is beyond the scope of the present article. See Dunning's (2006) and Narula's (2006) responses to Mathews (2006).

Overcoming Resource Deficiencies: Venture Capital (VC) and Strategic Alliances

VC activities have increasingly internationalized and have impacted firm behavior. Recently, Hall and Tu (2003) argue that reflecting the growing maturity of the industry, VC investment is undertaken on a much wider basis internationally rather than a simple opportunity constraint in a domestic market. For example, most large international VC investors and private equity investors from DE have a presence in China (Ahlstrom, Bruton, & Yeh, 2007) and India (Asher & Mehta, 2004).

Accordingly, many researchers have subsequently shifted their attention toward VC investors from DE that invest in firms within EE. Bruton, Ahlstrom, and Singh (2002) report that in Singapore, there has been a significant growth in the VC activity and a Western-like investment focus on high-technology, early stage new ventures. Bruton and Ahlstrom (2003) compare Chinese and Western VC firms and find that China's institutional environment creates a number of significant differences from that of the West. Scheela and Van Dinh (2004) examine the operations of VC firms in Vietnam. They identify unique issues relating to the development of the industry in emerging and transition economies.

Pruthi, Wright, and Lockett (2003) find that DE-based VC firms active in EE spend more time and effort on customer and supplier introductions and on assisting with marketing plans than they do on investments in DE. In other words, DE-based VC firms have a more strategic focus in assisting their EE investments, in contrast to the more operational focus of the EE-based domestic VC firms. Given that DE-based VC firms' expertise and networks naturally center on their home country (Wright, Pruthi, & Lockett, 2005b; Wright, 2007), DE-based VC firms may significantly lower the psychological, managerial, and financial barriers for EE-based new ventures contemplating to enter DE. In other words, DE-based VC firms will help EE-based new ventures that receive VC injection enhance managerial effectiveness, network reach, and in turn, the probability of entering DE market. Of course, of the population of EE-based new ventures, only a selected few may be capable (and lucky) enough to have received VC from DE-based investors. For recipient new ventures, such a VC involvement thus is a valuable, rare, and hard-to-imitable resource that distinguishes themselves from other ventures that are unable to secure such VC. Therefore:

Proposition 4: The involvement of venture capitalists from DE as investors will motivate new ventures to internationalize from EE to DE.

Strategic alliances can be an effective strategy for new ventures to overcome capability deficiencies when expanding internationally (Lee, Lee, & Pennings, 2001; Zacharakis, 1998). In partner selection, firms essentially have three choices: to partner with (1) firms in their home country, (2) firms in the host country, (3) firms from a third country (Makino & Delios, 1996). With a more advanced infrastructure, a more demanding customer base, and more intense competition, firms in DE (relative to those in EE) are more likely to possess capabilities valuable to new ventures from EE (Hitt, Ahlstrom, Dacin, Levitas, & Svobodina, 2004). Overall, great incentives exist for new ventures in EE to first access and then hopefully internalize competitive capabilities resident in partner firms in DE through the use of strategic alliances (Hamel, 1991). However, this engagement is likely to have impacts beyond simply capability transfer; ventures which engage in alliances with DE partners learn not only the capabilities, but also how to do business in DE and to build contacts and networks within DE. The combination of the venture's enhanced competitive position through the acquired capabilities and knowledge of DE

lowers both the costs and the risks of internationalizing into DE. Historically, this was the process employed by Japanese firms internationalizing into the United States, such as Komatsu's alliances with Allison Diesel. More recently, SIF, a Chinese information technology venture, formed an alliance with Fuji Denki Systems in Japan to access software development capabilities which it leveraged to enter other developed markets in Asia, as well as Japan (RECOF, 2005). This leads to our next proposition.

Proposition 5: Strategic alliances with firms in DE will motivate new ventures to internationalize from EE to DE.

Entrepreneurial Orientation as a Firm-Specific Capability

While previous sections suggest that new ventures in EE may lack certain key resources, and the need to overcome deficiencies are possible sources of motivation to their venturing into DE, what capabilities do they have? While many of the new ventures cannot afford to compete on tangible resources, they excel in “intangible resourcefulness—that is, the ability of doing more with less” (Peng, 2001b, p. 818). One prominent example of a new venture's internationalization from EE to DE offers a clue: The international orientation of the founders of Brazil's Camarao Brasiliensis enabled the start-up to leapfrog the normally expected stages of internationalization and to enter DE (Ray, 1989). A more recent study shows that emerging market corporations overcome their latecomer disadvantage in the global stage via a series of aggressive and risk-taking measures to compensate for their competitive weaknesses (Luo & Tung, 2007). An interesting avenue is thus to apply the concept of entrepreneurial orientation (EO) of new ventures within this context. EO is defined as the propensity to act autonomously, the willingness to innovate and take risks, and the tendency to be aggressive toward competitors and proactive to market opportunities (Lumpkin & Dess, 1996). While there is a great deal of research on EO, how EO relates to a firm's internationalization behavior remains underdeveloped (Knight, 2001).

Given that internationalization is certainly an act of entrepreneurship (Jones & Coviello, 2005; Kotha, Rindova, & Rathaermel, 2001; Zahra et al., 2000), we argue that the conceptual framework of EO can have implications for new ventures' entries from EE to DE. EO refers to attributes, processes, and practices that lead to new entry, such as autonomy, innovativeness, risk-taking, aggressiveness, and proactiveness (Lumpkin & Dess, 1996). As a new entry strategy, internationalization calls for autonomy from the existing routines of doing business domestically (Autio et al., 2000). It requires a great deal of innovativeness when venturing from EE to DE. It is also risky, given the extraordinary liability of foreignness that SMEs confront when venturing from EE to DE (Luo & Mezias, 2002). While most new ventures in EE probably will stay in their home market, a relatively small number of aggressive and proactive new ventures from EE, especially those with a high level of EO, would be interested in venturing out to DE (Knight, 2001; Lu & Beamish, 2001). Overall:

Proposition 6: A high level of entrepreneurial orientation (autonomy, innovativeness, risk-taking, aggressiveness, and proactiveness) will motivate new ventures to internationalize from EE to DE.

Institution-Based View

Institutions are commonly understood as the “rules of the game in a society” (North, 1990, p. 3). An institution-based view argues that strategies, such as internationalization,

are shaped at least in part by the institutional framework (Baker, Gedajlovic, & Lubatkin, 2005; Lee, Peng, & Barney, 2007; Meyer & Peng, 2005; Peng, 2003; Peng et al., 2008; Wan & Hoskisson, 2003; Yeung, 2002). Filatotchev, Strange, Piesse, and Lien (2007) suggest that FDI strategies of firms from newly industrialized economies are an outcome of a complex interplay of organizational and institutional factors. Given the resource constraints, low levels of legitimacy faced by many new ventures in EE, and their need for financial capital, these “rules” are likely to have a much greater impact on the action and performance of new ventures than established companies or government-supported enterprises.

Scott (1995) argues that at the most fundamental level, institutions have three “pillars”—regulative, normative, and cognitive. The crucial difference between existing and our work is that most existing work typically deals with one institutional framework (e.g., in EE), whereas new ventures’ internationalization from EE to DE are influenced by at least two institutional frameworks—both EE *and* DE. Here, we follow Busenitz, Gomez, and Spencer (2000) and Peng (2003) by organizing our discussion around Scott’s (1995) three pillars.

Regulative Pillar: The Push and Pull Effects

A new venture’s entry strategy from EE to DE can be critically determined by the country-level regulative environment—both at home and abroad (Yeung, 2006). Countries differ significantly in the way they regulate entry of new businesses. EE as a group, relative to DE, tend to impose higher costs on new ventures. For example, in Russia, it takes 57 days and 43% of per capita GDP to set up a new business; in India, 77 days and 88%; and in China, 92 days and 51%. In contrast, in the United States, it only takes 4 days and 1.7% of per capita GDP; in Denmark, 3 days and 11%; and in Australia, 2 days and 3% (Djankov, La Porta, Lopez-De-Silanes, & Shleifer, 2002, pp. 18–20). Overall, it seems reasonable to suggest that despite great progress recently, the regulative environment in many EE is still not entrepreneur-friendly (Peng, 2003; Peng & Zhou, 2005).

Many new ventures may be pushed abroad, because domestically they are discriminated against. The government in many EE tends to be more interested in supporting large domestic incumbents (and sometimes large multinational investors) than new ventures, and, as a result, new ventures may be starving for resources domestically. As a case in point, the Chinese government’s “Go Global” policy has encouraged large state-owned enterprises (SOEs) to expand overseas (Child & Rodrigues, 2005). Moreover, in China, state banks are prohibited from lending to private new ventures and such ventures are barred from listing on China’s stock exchanges. New ventures in China thus are denied access to two major sources of financing because of regulative discrimination. These institutional barriers leave new ventures seeking growth capital in China at a distinctive disadvantage domestically. However, interestingly and paradoxically, they may be able to access more financing and may not be discriminated against in DE (Peng, 2001a). China is not alone in this regard. For example, private new ventures in Vietnam are also found to starve for bank financing due to the discriminatory lending policy against them (Le, Venkatesh, & Nguyen, 2006).

While some new ventures may be “pushed” by the harsh regulative environment in EE, they may also be “pulled” by the relatively more-friendly institutional framework in DE. As a group, DE, relative to EE, tend to have more entrepreneur-friendly regulations, better protection of intellectual property rights, less corruption, and more transparent and better functioning capital markets (Lee et al., 2007; Peng, 2003; Puffer & McCarthy, 2001). Not surprisingly, Israeli new ventures often choose to list in New York instead of

Tel Aviv, and Russian and Czech new ventures prefer to list in London. Many mainland Chinese new ventures are interested in listing in Hong Kong and in the United States. For example, in August 2005, Baidu, a Chinese Internet start-up, listed on NASDAQ, and its shares surged 354% on the same day (from \$27 to \$154), thus scoring the biggest one-day stock surge in U.S. capital markets since 2000 (at that time). This pushed its market value to \$4 billion, whereby its 2004 sales were only \$13 million.⁴ While there was some possible “irrational exuberance” among U.S. investors chasing this Chinese start-up nicknamed “China’s Google,” it is evident that they did not discriminate against Baidu. The sad reality for Baidu is that at home, it was blatantly discriminated against by the Chinese securities authorities. As a private start-up, it was not allowed to list its stock on China’s stock exchanges—only SOEs need apply. Essentially, Baidu was pushed out of China to list in the United States, which turned out to be successful. Conceptually, the Baidu example highlights the importance of misalignment between firm needs and home country institutional conditions that force firms to *escape* from their home market (Witt & Lewin, 2007). Overall, such a combination of “push” and “pull” factors leads to:

Proposition 7a: A regulative environment in EE that favors large established firms (e.g., SOEs) and that discriminates against new ventures will motivate new ventures to internationalize from EE to DE.

Proposition 7b: A regulative environment in DE that does not discriminate against foreign entrants and that offers better financing, protection, and transparency will attract new ventures to internationalize from EE to DE.

Normative Pillar: The Quest for Legitimacy

As new organizations, new ventures need to rapidly establish legitimacy (Aldrich & Fiol, 1994). Legitimacy is defined as a generalized perception that the actions of an entity are desirable and appropriate within some socially constructed norms, values, and beliefs (Zimmerman & Zeitz, 2002). Establishing legitimacy has been shown to enhance the flow of resources that are crucial for new ventures’ survival and prosperity (Deeds, Mang, & Frandsen, 2004). How can new ventures enhance legitimacy and conform to the norms by venturing from EE to DE?

The power of the “halo effect” for new ventures, through association with high-prestige players, activities, and locations, has been shown to enhance the resource flows into new ventures (Deeds et al., 2004).⁵ In the case of EE-based new ventures, entering DE will help establish their legitimacy at home in EE. By establishing themselves in DE, new ventures will benefit from their association and participation in “credible” locations (Stuart, Hoang, & Hybels, 1999). Their presence in DE signals high quality and credibility to important resource providers, such as home country governments, investors, and consumers in EE.

In the case of home country governments, operating in DE will enhance the governments’ view of the potential of the new ventures to generate jobs and foreign currency. Such a presence also limits the new ventures’ threat to the local SOEs, since the new ventures’ focus has become DE rather than competing in the domestic market. In the case

4. J. Friedman and D. Lee (2005), “Chinese firm’s rousing stock debut echoes dot-com boom,” *Los Angeles Times*, August 6, A17.

5. Theoretically, there are other strategies to enhance legitimacy such as manipulation of norms and practices. However, Suchman (1995) notes that legitimacy by manipulation is an unlikely path for new ventures, as it typically requires a great deal of influence—an attribute unlikely to be found in new ventures.

of home country investors, the ability to compete in large, wealthy DE markets enhances the attractiveness of the investment and separates this particular investment from investment in other struggling domestic ventures. This enhanced legitimacy may lower the cost of capital raised from domestic EE sources. Finally, in the case of home country consumers, being in DE gives new ventures the ability to feature these cases prominently in their advertisements. Anecdotal evidence suggests that some Chinese aircraft and auto manufacturers advertise in China that their products are sold to “eager customers” in the United States. Further digging reveals that such “eager customers” are about a dozen American hobbyists who have purchased made-in-China military training aircraft (sold as “civilian aircraft”) and off-road vehicles as “collectibles.” Nevertheless, such small-scale penetration of the U.S. market enables Chinese ventures to signal their prowess and legitimacy in the eyes of their home market consumers in China.

It is also important to note that while entering another EE market may provide a limited amount of legitimacy, most of the aforementioned benefits are only available to ventures establishing a presence in DE. In other words, for an Indian IT start-up, an advertising campaign in India (and elsewhere) centered on “We’re doing well in Africa” is likely to be less effective than one centered on “We’re doing well in America.” A state government in India or a provincial government in China is likely to see a new venture penetrating the United States and European markets as having much greater wealth and job-creating potential than one expanding into Vietnam, Nigeria, or any other EE. Preliminary evidence of the legitimating effects of investments in DE for EE ventures is provided by Bell, Moore, and Al-Shammari (2007), who show that firms from EE can overcome negative country-of-origin perceptions by engaging in FDI activities in DE, prior to beginning the initial public offering (IPO) process in DE.

Overall, in search of greater legitimacy, there is a certain element of normative pressure motivating some EE new ventures to enter DE. In summary:

Proposition 8: The potential to enhance legitimacy at home (and abroad) as more credible players will motivate new ventures to internationalize from EE to DE.

Cognitive Pillar: The Right Thing to Do

The beliefs and values internalized by managers and entrepreneurs also constitute an important pillar (Mitchell, Smith, Seawright, & Morse, 2000; Scott, 1995). Many EE-based new ventures may have global ambitions from the inception (Oviatt & McDougall, 1994). Some founders of EE-based new ventures do not necessarily view expansion into DE as an indirect way to enhance legitimacy at home, but may view this as an important contribution to their nation’s success and the right thing to do despite its costs and risks. In other words, they have internalized and appreciated the value of entry into DE as a societal good.

Given that on the surface, the observed behavior—venturing from EE to DE—is identical or similar, how can we distinguish new ventures compelled by cognitive motives (“to do the right thing to do”) from new ventures motivated by normative pressures (“to follow the norms” and “to do window dressing”)? One reasonably unambiguous trait is entrepreneurs’ age and background. Older entrepreneurs in EE may be less educated and have acquired substantial experience during the pre-transition era, often characterized by market protection and isolation. They would be relatively more uncomfortable venturing to DE, although they may realize the importance of creating legitimacy by entering DE. Younger entrepreneurs may be better educated (perhaps even educated in DE) and have

acquired most of their experience during the transition era, in which global competition (including venturing from EE to DE) is increasingly viewed as the norm. Therefore, younger entrepreneurs may be more enthusiastic in spearheading the efforts to venture from EE to DE, because they believe that this is the right thing to do. Not only the internalized value associated with age of entrepreneurs but also their social capital developing from kinship, education, working background, and experience with DE can play a role informing what the right thing is to do (Peng, 2004). Wright, Liu, Buck, and Filatotchev (2007) find that overseas experience influences strategic decisions of returnee entrepreneurs in China. Therefore:

Proposition 9: New ventures founded by entrepreneurs who have internalized the value of international expansion with a focus on DE (such as younger entrepreneurs trained more recently; kinship and working experience in DE) will be more likely to internationalize from EE to DE.

Discussion

Contributions

In the same spirit as new ventures venturing from EE to DE, this article has ventured into the previously uncovered Cell 4 in Figure 1. While the idea of an EE-based new venture internationalizing into DE on its surface may engender a reaction of skepticism, facts on the ground indicate not only that it happens, but that it is highly probable that incidence of this phenomena will increase dramatically over the next several years. This article makes an important contribution simply by investigating the phenomena and raising its visibility. Our first contribution, thus as noted, is the identification of this gap in the rapidly expanding literature on international entrepreneurship and strategy in EE. This is an area of international research that demands further investigation. If this literature is to keep up with practice, it seems imperative that at least some of our attention be devoted to these cutting-edge cross-border ventures that are expanding from EE to DE.

Second, we have developed a comprehensive framework drawing on three leading perspectives on strategy to better address how new ventures from EE behave. This compares favorably with most existing work, which often invokes one of these perspectives. At the intersection of the literature on entrepreneurship, strategy, and international business, it is evident that we are dealing with some very complex phenomenon. Therefore, any single perspective is not likely to sustain itself. The combined insights of these three perspectives—especially the contribution from the more recent, institution-based view—are likely to generate more synergy than when trying to advance our research based on any single perspective (Peng, 2006). This is consistent with the recent research on EE which highlights the importance of a better understanding of the role institutions play (Meyer & Peng, 2005; Wright et al., 2005a).

Finally, we believe that embedding EO research within this context will not only provide a better understanding of the internationalization behavior from EE to DE, but will also advance EO research itself, which historically has often been undertaken in a domestic context in DE. Within the entrepreneurship literature, there has been an emphasis toward recognizing the role “opportunity” plays in the entrepreneurial process (Shane & Venkataraman, 2000). Accordingly, the study of entrepreneurship involves the discovery, evaluation, and the exploitation of unexplored opportunities (Baker

et al., 2005). These dimensions of the study of entrepreneurship match the concept of internationalization (Jones & Coviello, 2005; Zahra et al., 2000), thereby, reinforcing the link between EO and foreign market entry of new ventures.

Limitations and Future Research Directions

As a first step toward a better understanding of the internationalization of new ventures from EE to DE, we have barely scratched the surface of this intriguing entrepreneurial phenomenon. As a result, a number of limitations exist. First, although strategy is fundamentally about making a difference in firm performance (Sapienza et al., 2006), in this article, we have refrained from theorizing on the relationship between entrepreneurial internationalization and performance. This is simply a reflection that at present, we do not know enough about the antecedents (let alone the consequences) of such internationalization. As a result, we believe that it would be premature to theorize about the link with performance. What we can speculate, however, is that beyond certain threshold, these new ventures from EE will have the chance to benefit from international expansion into DE (Autio et al., 2000). While the relationship between international expansion and firm performance has been widely examined in the context of MNEs, relatively little has been explored on the performance implications of new ventures, and almost none when dealing with new ventures from EE entering DE. Based on a substantial amount of MNE research on the relationship between international expansion and firm performance (e.g., Contractor, Kundu, & Hsu, 2003; Hitt, Hoskisson, & Kim, 1997; Lu & Beamish, 2001, 2004), we may extrapolate to assert that new ventures will most likely experience a greater liability of newness and foreignness relative to MNEs, and that they may need more time than MNEs to reap the benefits of internationalization. However, along with the general positive relationship reported between international expansion and MNE performance, evidence supports that even for new ventures, FDI can be a promising way to enhance competitiveness and performance especially in the long run (Lu & Beamish, 2001).

To avoid misunderstanding, let us state that we are not single-mindedly advocating that all EE-based new ventures should venture into DE. While anecdotes of success (such as Baidu's) is indeed enticing, probably most entrepreneurial ventures from EE to DE, just like most entrepreneurial actions in general, will fail—at least initially (see Sapienza et al., 2006). Any EE-based new ventures would naturally face a great deal of liability of foreignness when venturing into DE. For example, a study in Hungary finds that aggressive internationalization may *reduce* new ventures' chances for survival (Lyles, Saxton, & Watson, 2004). While the study does not specify whether the Hungarian new ventures expanded to EE or DE, it serves as a cautionary reminder against any indiscriminate advice for SMEs to “go global.”

A second limitation is that at this point, we have limited systematic data on new ventures' internationalization from EE to DE. It is possible to overcome this limitation through sustained empirical efforts by scholars around the world—in both EE and DE. At least, a further longitudinal examination of the new ventures we identified in Table 1 can be a valuable starting point. On a final note, it is noteworthy to mention the dynamic approach as a future research agenda. While we have focused on Cell 4 (new ventures moving from EE to DE), Cell 3 (new ventures moving from EE to EE) is also a rare but increasingly observed phenomenon (whereas Cell 4 is truly an “even rarer” phenomenon). Do new ventures in EE initially internationalize into EE (Cell 3) before entering DE (Cell 4)? We believe that while some new ventures may embark on their internationalization in Cell 4, others may initially venture into other EE (start in Cell 3) and then migrate to focus on DE as their next target (Cell 4). In other words, the migration of new ventures'

internationalization activities from Cell 3 to Cell 4 may be an interesting and a fruitful area for future researchers to explore.

Conclusion

Over ten years ago, Oviatt and McDougall (1994) launched a new field on international entrepreneurship (Zahra, 2005). More recently, another new field on strategy in EE emerged (Hoskisson et al., 2000; Wright et al., 2005a). Our hope is that our article will similarly help spur research interest on the internationalization of new ventures from EE to DE—in other words, “the other way around.” Just like the very entrepreneurial behavior we study, venturing into the previously uncovered Cell 4 in Figure 1 is risky, uncertain, but potentially rewarding for scholars (Meyer, 2006; Peng, 2006; Tung, 2005). In conclusion, trying to keep up with a cutting-edge entrepreneurial phenomenon around the world, this article, in itself, is very entrepreneurial. If more scholars will join us in probing into new ventures’ internationalization from EE to DE, then our purposes for initiating this exciting new line of research will have been well served.

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