A Behavioral Economics Approach to Internationalization of Born Global Firms: An Exploratory Investigation

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MANCHESTER BUSINESS SCHOOL
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Abstract

The main aim of this research is to develop a conceptual model that describes the way managers make decisions about internationalizing. It also tries to explain under what conditions managers will be risk-seekers and under what conditions they will be risk-averse, and as a result which groups of strategies and tools they will choose to use when internationalizing. This investigation focuses on the field of behavioural economics in opposition to leading paradigms in the IB field that concentrate on the neoclassical economic theory. This research uses an interdisciplinary approach that combines the behavioural economics approach and theories drawn from the field of entrepreneurship, IB, market relations, industrial organization, RBV and institutional theory, in order to develop a comprehensive theoretical framework that can explain from the senior manager’s perspective when and why s/he chooses certain variables and not others. The findings link the manager's perception of his position vis-à-vis his industry reference point (IRP are defined as any variable that highlights a particular objective, seems capable of establishing a reference point, and as a result, creates a framework for organizational/individual decision making) and his decision making in the area of risk management, learning, and product adaption and development. The findings indicate that managers below their IRP display innovation when developing new marketing/distribution channels, and share their knowledge with partners. Nevertheless, they demonstrate low awareness of risk management. In contrast, managers above their IRP focus on the organization's existing technology and marketing and distribution channels and avoid adjusting their products to the market needs and sharing knowledge with distributors. On the other hand, they adopt an active risk management strategy.

Additionally we link between the manager's perceptions of his position vis-à-vis his IRP and his choice of entry mode strategy. The findings indicate that a number of differences exist between managers below their IRP and managers above their IRP. Managers below their IRP use positioning strategies but use TCA or institutional strategies very little. In contrast, managers above their IRP use TCA or institutional strategies but will hardly use positioning strategies at all. The two types of managers use network strategy and RBV, but each group uses different factors within the theories.

The research makes a number of important contributions to study of the IB sphere, particularly to the fields of research relating to the internationalization of BG companies, which is a relatively new field of knowledge. Today there is no comprehensive theoretical framework explaining the way BG companies internationalize and the reasons they choose one strategy or tool over another when entering foreign markets. The present research attempts to establish a conceptual model that describes the way managers make internationalization decisions. It does so by importing a new discipline from the field of behavioural economics into the IB field, which is deeply wedded to the tradition of neo-classical economics and integrates it with existing strategies in the field to create a conceptual model that mediates between traditional IB research and the BG research stream.
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IVC Research Center in Israel have willingly granted me access to their valuable database of Israeli high-tech companies and have been generous with their information, ideas and time, all of which have been an enormous help.

The many executives I interviewed – whom I cannot name here for lack of space and for obvious confidentiality issues – have shared with me their time, ideas, thoughts, and experience, and have made this a memorable and fascinating research experience.

Without the support system provided by all these people I could not have completed this dissertation, and for that I am infinitely grateful.
Declaration and Copyrights

Declaration

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Chapter 1

Introduction and Overview of the Study

1.0 Introduction

The technological developments of the past two decades, chiefly in the field of communications, IT and the Internet, compounded by the enormous geopolitical changes that occurred during this same period, and the shift from a bipolar world mired in the Cold War, have changed the way large, but also and especially, small businesses worldwide strategize and operate. According to the World Economic Forum, Small Business Enterprises (SBEs) are the backbone of the economy of every state, with SBEs traditionally being the main employers in most countries (The Economic Forum, 2010). In addition, many studies, particularly in the field of economics and entrepreneurship, have supported the idea that innovation, primarily technological innovation, emerges from the activities of local entrepreneurs establishing small companies (start-ups), and not, in fact, from international companies (Bell et al. 2003; Chetty and Campbell-Hunt 2004; Dunning 2001; Oviatt and McDougall 2005). In the past, small start-up companies, mainly because of financial constraints and lack of managerial knowledge, were confined to their local markets (Oviatt and McDougall 2005). Today, however, with the removal of most of the barriers (tariff and non-tariff) to the developing markets of Eastern Europe and the East, even small organizations now have access to international commerce and are able to enter the international business arena quickly and with fewer obstacles (Chetty and Campbell-Hunt 2004).

In fact, research has shown that many start-up companies now skip their local market and become global players very early in their development. McDougall and Oviatt
Introduction and Overview of the Study

(1994) dubbed such companies Born Global (BG) or International New Ventures (INV). The BG phenomenon has, as noted above, huge economic significance as a growth engine leading global economic development. Given that technological innovation is now the basis of technological start-up companies, these companies enable technology to diffuse and make its way into global markets. Nonetheless, despite the great importance of BG companies as generators of technological innovation and heightened competition, their rapid internationalization is a major cause of their failure (Chetty and Campbell-Hunt 2004; Crick and Spence 2005; Oviatt and McDougall 2005), even though it is their distinguishing characteristic (Westhead, Wright, and Ucbasaran 2002). The internationalization process is a significant event for a company — an event that many researchers assert involves a high risk that is likely to topple even large and experienced companies with large resources at their disposal (Crick and Spence 2005; Knight 2001). The risk for SBEs when internationalizing rapidly, needless to say, is so much higher.

The research literature in the field of BG internationalization is limited and has yet to reach theoretical maturity (Chetty and Campbell-Hunt 2004; Oviatt and McDougall 2005). The literature in the field focuses on describing the BG phenomenon and the strategies that drive entrepreneurs to internationalize. However, beyond a description based on a small number of cases that primarily come from the Australian, New Zealand, British and American markets (Chetty and Campbell-Hunt 2004; Freeman and Cavusgil 2007; Freeman et al. 2006), there is no comprehensive theory explaining the internationalization process of BG companies and why and how managers adopt certain strategies and not others when penetrating foreign markets.

Consequently, greater understanding of the manner and context in which senior managers make decisions about the how to internationalize and a theoretical framework
that explains why and how managers prefer one strategy over another when penetrating
a foreign market may increase the percentage of successful companies that
internationalize, and as a result, constitute a significant tool in the framework of
increasing competition and the pace of innovation diffusion into global markets.

The purpose of the research is to examine the decision making processes of managers
deciding to internationalize, to investigate why managers choose some entry modes, and
why they prefer to use certain strategies, rather than others when internationalizing.

The main research question is:

What is the relation between the managers’ perceived reference points and his or her
decision making process, insofar as it relates to choosing an internationalization
strategy?

The additional questions derived from this main question are:

1. How do entrepreneurs perceive their company’s reference point relative to their
   industry?
2. How do entrepreneurs perceive the issue of risk, innovativeness and proactivity?
3. How do entrepreneurs perceive the process of choosing the foreign markets in
   which to internationalize?
4. How do entrepreneurs perceive the change in the pace of penetration into these
   markets over time?
5. How do entrepreneurs perceive the issue of risk management by their company?
6. How do entrepreneurs perceive the issue of adapting their product and strategy
to foreign markets?
7. How do entrepreneurs perceive the joint learning process with their partners in
   the foreign markets?
8. How do entrepreneurs perceive their network?
9. How do entrepreneurs perceive their resources?

10. How do entrepreneurs perceive their competitive strategy?

11. How do entrepreneurs perceive their institutional strategy?

12. How do entrepreneurs perceive the issue of knowledge transfer and reputation?

1.1 Background

1.1.1 The BG phenomenon

BG companies play a significant role in the economic development and growth of countries, given that countries have traditionally relied on export by international companies (The Economic Forum, 2010). Nonetheless, as a result of geopolitical changes, the removal of trade barriers between states and technological developments (The Economic Forum, 2010), small businesses can avoid these obstacles to internationalization and thereby improve a state’s trade balance. In addition, BG companies leverage their unique technological resources in order to internationalize and they are, therefore, an important factor in the diffusion of technology among markets and countries (Oviatt and McDougall 2005).

Oviatt and McDougall, who first described the BG phenomenon, proposed to define the phenomenon thus: “INV as a business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries”. This definition was adopted by researchers in the field and we also use it in our research. As already mentioned, the focus in the definition of BG companies is on how old the company is when it internationalizes and not how large it is (Freeman et al. 2006). Nonetheless, different researchers have suggested different lengths of time between when companies are established until when they
internationalize in order to be classified as BG companies. MacKinsey (1993) asserted that only companies that internationalize no more than two years after being founded can be considered BG companies. Knight and Cavusgil (2004) proposed a period of three years and McDougall and Oviatt (2005) suggested eight years. For the purposes of this research, we adopted the stricter definition of MacKinsey that asserts two years. In addition, we adopted the European Community’s definition of small businesses (up to 50 employees), since this definition is relevant to our study and is in line with size of technological start-ups.

1.1.2 Israel – A Research Laboratory for Examining the BG Phenomenon

Chetty (2003) asserts that markets lacking big local markets are BG company incubators since these companies do not have any choice but to internationalize. Also, markets that were isolated and underwent a process of liberalization and rapid opening at a single point in time are an excellent laboratory for investigating the phenomenon due to the rapid dichotomy between the two states (Chetty and Campbell-Hunt 2004; Freeman et al. 2006).

Consequently, most research on the BG phenomenon comes from small markets that lack a developed local market such as Australia, New Zealand, Finland and Singapore. Israel, also, fits the above two parameters: the Israeli market is a small market in terms of consumer scope (a population of 7.6 million people), and more importantly, the market itself was isolated geopolitically starting from 1948, when the state was founded, up until the mid-1990s. Following the signing of the peace accords and removal of the Arab embargo, the country quickly opened up during the mid-1990s and many international companies as well as many investors began investing in Israel. In parallel, the market underwent a rapid process of deregulation and privatization.
Regulatory barriers were removed, shifting the Israeli market from an isolated market into a competitive market, chiefly inclined to export.

In addition to the two above parameters, Israel is a country of immigrants. Through the six decades of its existence Israel has absorbed over three million immigrants from 51 different countries. According to many studies (Dimitratos et al. 2003; Chetty and Campbell-Hunt 2004; Freeman et al. 2006; McDougall and Oviatt 1994), immigration is an important factor in evaluating a country’s level of entrepreneurship. The vast range of people of different nationalities facilitates investigation of the phenomena and the possibility of generalizing it more easily than had the research used another country.

On the IMD World Competitiveness Rankings, Israel was and is in 17th place out of 59 states for both 2010 and 2011 and outranks larger countries than it, such as the UK (20), France (29), Japan (26), Italy (40) and others.

From the data presented by the IMD, the dichotomic gap between the minuteness of the Israeli market in terms of consumer ability and its relatively low infrastructure level for a developing country (Israel is ranked 49th in Internet bandwidth speed and 47th in infrastructure level), and level of scientific research and public expenditure on education – positions 1 and 2, respectively, are evident. Two additional important statistics are investments in R&D as a percentage of GDP – Israel is in first place in the world – and the level of managerial entrepreneurship – again, Israel is in first place. These figures explain the creation of over 3000 technological companies (in second place after the U.S.), with over 50% of Israel’s technological exports coming from these companies, which are classifiable as BG companies. The level of technological diversity and the range of industries in which the Israeli economy invests mean that Israel is the ideal place to investigate this phenomenon. (for more comprehensive overview, see chapter 2).
TABLE 1.1: IMD WORLD COMPETITIVENESS RANKINGS – ISRAEL
(Out of 59 countries)

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</tr>
<tr>
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<td>5</td>
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<tr>
<td>Economy durability in times of crisis</td>
<td>9</td>
<td>1</td>
</tr>
<tr>
<td>Education</td>
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<td>54</td>
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<tr>
<td>Overall ranking</td>
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1.2 Research Problem and Questions

In order to clarify the contribution of this study to the cumulative knowledge and how it is based on a literature survey of the field, we point out that despite the great focus and research in the IB field, and particularly on BG companies, the existing literature has a number of gaps and shortcomings. These weaknesses include: The IB field has been largely dominated for the past three decades by two theories describing the internationalization process of global companies. The first theory is derived from Transaction cost analysis (Buckley and Casson 1976). The second approach toward internationalization is the theory of stages (Johanson and Vahlne 1977), according to this approach managers decisions are dominated by limited information and risk aversion, which leads to a staged approach to market entry ((Buckley 2002, 2007), despite the clear differences between the two approaches (for more details please see...
section 3.1), they both draw on the tradition of neoclassical economics that champions risk aversion and rationalism (Fan and Phan 2007). The two approaches have limitations and strong biases (Buckley 2002, 2007), with many empirical researchers opposing the theory of stages (Fan and Phan 2007). These researchers criticize the theory because they believe that companies do not behave in line with the theory regarding the incremental way companies go about internationalizing and skip many stages in the process (Oviatt and McDougall 1994) and do not increase the pace of internationalization (Oviatt and McDougall 1994; Zahra et al. 2004) as they learn more about the market they have entered, and that many companies do not relate at all to the element of cultural or psychological distance (Chetty and Campbell-Hunt 2004; Freeman et al. 2006; Oviatt and McDougall 1994), which is a key factor in this theory (for more details please see section 3.5.1). However, despite this, this approach still dominates the literature.

In the last decade, a third approach of a new type of companies dubbed BG or INV companies has been created. These companies are run contrary to the prevailing theories in the research literature and internationalize at an accelerated pace from the moment they are established, the majority even before they begin local activities in their home market. Nor are the incremental and risk averse nature of the leading theories adequate to explain the risk seeking behaviour that BG firms adopt for accelerated Internationalization (Autio 2005; Shrader, Oviatt and McDougall 2000). Oviatt and McDougall claim that entrepreneurs operate differently than other managers, especially in the way they evaluate risk and risk-return relations. The study by Busenitz and Barney (1997) supports this observation and describes BG company managers as risk-takers, innovators and proactive. In contrast, other studies (Chetty and Campbell-Hunt 2004; Freeman and Cavusgil 2007; Freeman et al. 2006) in the field speak of BG
company managers who are not risk-takers, innovators or proactive; rather, the
behaviour of these managers is characteristically risk-averse, conservative and reactive – similar to the theory of stages that applies to “conventional” companies. In other words, despite the impression received from the literature of a dichotomy arising from a new type of company, the empirical research shows that some traditional companies as well as BG companies are managed by risk-seekers and others are run by risk-avoiders.

Today there is no theory that can explain why and when companies (regardless of their designation as an established or BG Company) will be risk-avoiders and when they will risk-seekers.

The research literature in the BG field is limited and has yet to reach maturity (Zahra 2005). Generally, it concentrates on describing entrepreneurial firms that internationalized rapidly from the moment they were born and even before they had established themselves in their local market. Yet the literature does not provide a theory for this phenomenon. Furthermore, aside from the first insight about the rapid internationalization of these companies, the literature does not present any discussion about the behaviour of these companies over time. Does the pace of their internationalization remain the same over time? Or perhaps it becomes even more rapid? (Indeed, according to the theory of stages, the pace of internationalization increases with time; thus, one may conclude that even though start-up companies begin internationalizing more rapidly than traditional companies, with time they will get to know their markets, and in line with the theory of stages, their pace of internationalization will increase even more.) Or perhaps after their initial desire to exploit market opportunities and technological resources that give their companies a strategic edge in international markets (Crick and Spence 2005), start-up companies will grow and develop an orderly organizational structure, similar to that characteristic of
more traditional companies, and as a result, will adopt the management style of traditional companies – that is, a slow pace of internationalization over time? As mentioned above, the research literature in this field does not provide answers to these questions.

The research literature in the BG field that deals with strategies used by companies that are internationalizing generally uses one or more central theories taken from research. The two central theories in the BG literature that explain internationalization and market selection are the network theory (Chetty and Campbell-Hunt 2004; Zahra 2005) and the RBV approach (Freeman and Cavusgil 2007). A small number of studies use additional theories such as the institutional theory and the theory of industrial economics (Peng et al. 2008). Nevertheless, no one theory combines a number of internationalization strategies and tries to explain under what conditions senior managers will choose a specific strategy, as well as the link between strategic decisions and financial results.

Also among the studies (Malhotra 2003) that concentrate on one theory (network, RBV and others), the researchers focus on describing the theory’s strategy or tools adopted by the managers but do not explain the conditions under which managers will adopt these or those tools offered by the strategy. For example, in the RBV approach, studies note that the elements senior managers will use when internationalizing (tangible and intangible assets, types of strategic abilities) but do not explain when and why companies choose one strategic ability over another (and this shortcoming is also true for the network theory, industrial economics and institutional theory).

In addition, there is no conceptual framework (Malhotra 2003) that explains, through the eyes of managers, when and why they prefer using one strategy over another (e.g., RBV or institutional), or a combination of a number of strategies.
IB research centers on the country/industry and the company as unit of analysis (Buckley and Lessard 2005), and to the best of our knowledge there is almost no literature (Freeman and Cavusgil 2007) which focuses on the individual as an analytic unit, even though each decision, even if made by a team, in the end is made by an individual decision maker more dominant than the others (Pfeffer, 2001) no matter how many management stations or echelons traversed in the decision making process. Furthermore, the literature in the BG field is limited both in terms of scope and methodology, with the majority of studies based on a small number of cases (Chetty and Campbell-Hunt 2004; Zahra 2005), and in addition, most of the sampled companies having internationalized through direct export, which adds to the homogeneity of the cases and the difficulty in generalizing beyond these cases. Moreover, most research focused on developing countries and a limited number of states, mainly Australia, New Zealand, Singapore, England and the U.S.

Zahra (2005), in a survey of a decade of research on BG companies, claims that research in the field has been unsuccessful in harnessing the established theories from the IB field to this new field and suggests that theories from other disciplines be brought in in order to explain the BG phenomenon. Buckley (2002,2007), as well, in a paper that surveyed three decades of research in the IB field came out with a call to import theories and ideas from other disciplines in order to add crucial WHAT to the research in this field.

The leading theories in the IB literature regarding internationalization were developed by economists educated at the feet of neoclassical economists (Fan and Phan 2007) and who assert that internationalization is based on rational considerations and risk avoidance (Ellis 2008). The IB field has not taken full account of new developments in the field of economics, especially the developing stream of inquiry into behavioural
economics developed by Kahneman and Tversky (1976). Behavioural economics takes into consideration irrational behaviour (Kahneman and Tversky 1976), and therefore, may be more appropriate for the study of BG companies. Researchers such as Oviatt and McDougall (2000) claim that entrepreneurs behave differently than other managers, particularly in the way in which they evaluate risks and risk-return relations. Busenitz and Barney’s study (1997) supports this observation and describes managers of BG companies as risk-takers, innovators and proactive. Prospect Theory (Kahneman and Tversky 1976) is in line with the findings of these researchers and asserts that individuals use ‘reference points’ eg when looking to evaluate potential (when reference points are defined as any variable that highlights a particular objective, seems capable of establishing a reference point, and as a result, creates a framework for organizational/individual decision making,(Fiegenbaum, 1996). , accepting or rejecting risk, depending on their perception of themselves as being below or above their reference point (Kahneman and Tversky,1976). Companies that perceive themselves above their reference point will be risk-averse, but companies that perceive themselves below their reference point will be risk-takers. These latter companies will prefer risky projects with low predicted returns (Fiegenbaum, 1996).The present research constitutes a contribution to the body of knowledge in that it draws on the behavioural economic approach, especially Prospect Theory (Kahneman and Tversky 1979), in order to elucidate the way BG companies internationalize. According to Fiegenbaum (1996), the behavioural economic approach and Prospect Theory are able to explain why the senior managers of certain companies will be risk-seekers, innovators and proactive, while other companies will be risk-averse, conservative and reactive. In this way, we provide a conceptual framework that explains the behaviour of BG companies that are internationalizing.
In light of the above discussion, it is clear that there are gaps in the research that focuses on the internationalization of BG companies. The present study will contribute to the existing body of knowledge by filling in the gaps that were highlighted and that are linked to internationalization of BG companies and in choosing a market entry mode.

From the above discussion, this research will now proceed to answer the following main question: When making the decision to internationalize and then selecting the strategy that will help implement this decision, what impact does a senior manager’s perceived position vis-à-vis his (or her) industry reference points have on his (or her) choice of strategy? In order to answer this question, we must first resolve the following issues:

1. How do entrepreneurs perceive the issue of risk, innovativeness and proactivity?
2. How do entrepreneurs perceive the process of choosing the foreign markets in which to internationalize?
3. How do entrepreneurs perceive the change in the pace of penetration into these markets over time?
4. How do entrepreneurs perceive the issue of risk management by their company?
5. How do entrepreneurs perceive the issue of adapting their product and strategy to foreign markets?
6. How do entrepreneurs perceive the joint learning process with their partners in the foreign markets?
7. How do the entrepreneurs perceive their network?
8. How do entrepreneurs perceive their resources?
9. How do entrepreneurs perceive their competitive strategy?
10. How do entrepreneurs perceive their institutional strategy?
11. How do entrepreneurs perceive the issue of knowledge transfer and reputation?

In order to resolve these questions, we present a series of objectives.

1.3 Research Aim and Objectives

The main aim of this research is to develop a theoretical framework that can explain the decision making of managers internationalization process, and to study and analyse why managers select different entry modes and when they prefer to use certain market strategies and not others.

In contrast to other studies in the IB field, which use companies or an industry as a unit of analysis, this research chose to use entrepreneurs/managers as the unit of analysis.

Furthermore, this investigation chose to focus on the field of behavioural economics as a starting point, in opposition to leading paradigms in the IB field that concentrate on the neoclassical economic theory. This research uses an interdisciplinary approach that combines the behavioural economics approach and theories drawn from the field of entrepreneurship, IB, market relations, industrial organization, RBV and institutional theory, from the understanding that the BG company research field has adopted theories from the traditional IB research field, which prevented advances in understanding the phenomenon (Oviatt and McDougall 1994; Zahra et al. 2004). In addition, the use of an integrated approach bridges the gap between the different theories in the field, each of which offers a different perspective about the internationalization process (Dunning 2001; Malhotra 2003). We do this because it is clear that the internationalization process is a complex process in which many factors must be taken into consideration, and therefore, a comprehensive theoretical framework is required that can explain from the senior manager’s perspective when and why s/he chooses certain variables and not others.
From the above discussion, we can derive the following research objectives

1. To examine how management choice of reference points influences their strategic choice behaviour regarding accepting risks, adopting innovation and being proactive.

2. To examine how management choice of reference points influences their behaviour in relation to the rate of entry into foreign markets and the process of choosing markets.

3. To examine how management choice of reference points influences the decision making processes in relation to choosing a market entry mode.

4. To develop a theoretical framework that can help explain the relationship between senior management choice of reference points as a factor affecting their decision making process in relation to choosing a strategy for foreign markets.

1.4 The Significance of the Research

The main contribution of this study is what it contributes to existing knowledge in the IB field, and chiefly to the stream of inquiry focusing on BG companies, regarding understanding the process of choosing foreign markets and pace of internationalization over time set by BG companies, and the manner in which they select their market entry modes. The above mentioned elements clarify the importance of the study, which is:

- There is no research in the field that integrates the field of behavioural economics and Prospect Theory, based on the perception that entrepreneurs are not rational in their perceptions of reality (Oviatt and McDougall 1994; Zahra et al. 2004), and therefore, a study that uses Prospect Theory may explain better the process of internationalization by BG companies.
• This is one of the only studies that uses the manager as the unit of analysis and not the company/industry, despite the extreme importance of the entrepreneur/manager in the decision making process.

• There is no theory in this field, despite the great accumulation of research, which indicates that companies, regardless of whether they are traditional or BG, behave both as risk-seekers and as risk-avoiders. This is the first study that attempts to explain this issue.

• There are no studies in this field that describe the changes over time in the pace of internationalization of BG companies.

• Most research explains the internationalization process through the eyes of the leading theory. Not many studies exist that try to build a comprehensive theoretical framework that attempts to explain when and why companies use one theory over another or a combination of several theories.

• There are no studies that explain under what conditions managers will adopt these or other tools offered by the theory selected for the specific study. The research in the field is satisfied with just describing the elements used by the companies.

• The amount of research in this field is relatively small and limited to a few countries. Furthermore, most of the sampled cases are based on internationalization through direct export to markets. The present research uses 32 cases, of which 19 used various strategies to internationalize (licensing, opening a subsidiary and joint venture). Moreover, the research was done in the Israeli market, which is the second largest incubator (after the U.S.) for technological start-ups, with the objective of enriching and diversifying the database in this field.

• The phenomenon of BG companies is essential for the diffusion of innovation among countries and is a growth engine for the global economy and the flattening of
technological gaps among states, and hence the present research contributes to understanding the way in which decisions to internationalize are made, and as an extension, helps streamline managers’ decisions and increase the percentages of success of companies entering new markets.

1.4.2 Significance to Researchers
The present research is an original attempt, based on gaps in the literature review, to establish a conceptual model that describes the way managers/entrepreneurs make decisions about internationalizing. It also tries to explain under what conditions managers will be risk-seekers and under what conditions they will be risk-averse, and as a result, which groups of strategies and tools they will choose to use when internationalizing. This is also an original attempt to import a new discipline from the field of behavioral economics into the IB field, which is deeply mired in neoclassical economics, and integrate it into the existing strategies in the field in order to create a conceptual model that may be able to bridge the research in the traditional IB field and the stream of inquiry in the BG field, which stands at the intersection between the IB field and the field of entrepreneurship. Additionally, given that the theory in the BG field is still in its infancy, the present research may be perceived as a stage in the building of a theory in the BG field.

1.4.3 Significance to Practitioners
The findings of the present research may be able to help managers, entrepreneurs and venture capital managers with the process of entering foreign markets. Understanding the erroneous perceptions and biases of managers involved in internationalizing may facilitate choosing a wiser course of action for how to internationalize and which strategies to choose. Furthermore, since changing a manager’s perception is likely to
also change his or her strategic behaviour, the model may undergo fine-tuning and calibration that will, in the future, allow it to be used as a managerial tool during internationalization.

1.5 Structure of the Thesis

*Chapter 1*: Introduction and Research Review. This chapter outlines the research structure by presenting the background and motivation for the research and posing the research problem and research questions stemming from it. Moreover, this chapter discusses the research objectives and the contribution to the body of knowledge and the importance of the research both to researchers and individuals involved in management.

*Chapter 2*: The Entrepreneurial Industry in Israel. This chapter describes the development of the technological entrepreneurial industry over time and its structure, according to industry. This chapter provides background to and an explanation about the importance of the entrepreneurial phenomenon in the context of the internationalization of start-up companies, given that the Israeli market is a micro cosmos characterized by the growth of 3000 technological companies each year (second only to the U.S.), and in light of the fact that since Israel is a tiny market, most companies choose to internationalize. Most high tech small companies do not even consider developing a local presence. This state of affairs provides fertile ground for studying the phenomenon and helping understand it and position it in the correct context.

*Chapter 3*: IB and BG – Definitions and Literature Review. This chapter provides a deep review of the development of the field of international commerce, from its beginning up till today. The survey describes the evolution of theories in the field, looking at its important approaches, while simultaneously analyzing the limitations and strengths of different paradigms in the field and all the theories encompassed by each
paradigm. In view of the fact that the present research is positioned at the intersection of a number of disciplines, the survey is not limited to the IB and BG fields but also focuses on the field of behavioural economics and Prospect Theory.

Chapter 4: Research Methodology. This chapter discusses and validates the research philosophy, and accordingly, also the methodology that was chosen, in order to answer the research questions. The methodology was based on case studies and the building of a grounded theory. The chapter presents each stage of the fieldwork including the actual data gathering and the analysis method that was used.

Chapter 5: Findings. This chapter presents findings that were collected during our fieldwork in 32 start-up companies that responded to our research definition of ‘Born Global’. It describes the analysis stages, step by step, beginning with the initial coding stage up to the creation of the Grounded Theory.

Chapter 6: Discussion of the Findings. In this chapter we interpret the research findings using the literature in the field.

Chapter 7: Conclusions. This objective of this chapter is to outline the research’s contribution to the cumulative knowledge in the field as well as its theoretical and managerial implications, the research limitations and suggestions for future research.
Chapter 2

Israel the High Tech Industry and The Born Global Phenomenon: An Overview

2.0 Introduction

This chapter presents a review of the entrepreneurship high tech industry in Israel. Our aim is to provide insights into the entrepreneurship high tech industry in Israel as the focus of this research. The researcher argues that Israel has the highest density of start-ups in the world (a total of 3800 start-ups, which signifies one firm for every 1840 Israelis). Israeli start-ups exported more than $18 billion in 2008. Once we have a grasp of the situation on the ground, we will investigate the factors that have “turned Israel into the greatest concentration of innovation and entrepreneurship in the world today.” (Economist, 2008).

More Israeli companies than European companies are listed on the NASDAQ stock exchange. After the U.S., Israel has more companies listed on NASDAQ than any other country in the world, including India and China. The combined market value of the Israeli companies listed on NASDAQ in 2008 was more than $70 billion. Per capita investment in Israel was 30 times greater than in Europe and 2.5 times greater than in the United States. In absolute numbers Israel attracted close to $2.1 billion in venture capital—as much as Germany and France combined or as the UK alone.

According to the OECD, 45% of Israelis are university educated—one of the highest percentages in the world, Israel has more scientists and engineers per capita than any other country and produces 109 scientific papers per 10,000 people—more than any other country.
Although there are many models of entrepreneurship in the literature, Israel is unique in that it specializes in technological entrepreneurship start-ups. The importance of this distinction lies in the fact that the literature defines Born Global companies as companies that are entrepreneurial firms with innovative technology or processes or that have a business model with added value in the market (Mckinsey, 1993). The common characteristic of such companies is that they enter global markets quickly by turning into a lead market or a global niche market, often while ignoring their local market (Bell, 1995; Coviello, 1994; Knight and Cavusgil, 1996). This definition fits the Israel high tech industry for two reasons: 1. because the domestic market is very small, and in a lot of cases non-existent, so Israeli start-ups have to think globally from inception. 2. The industry is based on technological innovation with added value in the market.

2.1 Israel and the High Tech Industry: An Overview

2.1.1 International Trade

Israel maintains a close trade relationship with the U.S., which is advanced by their mutual free trade agreement (FTA). In 2006, exports to the U.S. were $12 billion, while imports were $5.3 billion. European countries have traditionally been strong trading partners with Israel. Israel also benefits from an FTA with the European Union. In 2006, exports to Europe (including the European Union, Western Europe countries and the EFTA) were $10.4 billion, and imports totaled $18.4 billion. In 2006 Israel exported about 18% ($5.9 billion) to Asian and Pacific countries and imported 16% ($5.6B). Israel has FTAs with Turkey, the Czech Republic, the Slovak Republic, Hungary, Poland, Slovenia, Romania and Bulgaria. Additionally, Israel is a partner to EFTA agreements with Iceland, Liechtenstein, Norway and Switzerland, has separate FTAs
with all NAFTA countries (USA, Canada and Mexico), and is negotiating FTAs with several South American countries.

2.1.2 Economic Overview

Israel has a technologically advanced market economy with significant government participation (Economist, 2008). It depends on imports of crude oil, grains, raw materials, and military equipment (Economist, 2008). Despite limited natural resources, Israel has intensively developed its agricultural and industrial sectors over the past 30 years. Israel imports significant quantities of grain but is largely self-sufficient in other agricultural products. Cut diamonds, high technology products, and agricultural products (fruits and vegetables) are the leading exports (Economist, 2008). Israel usually posts sizable current account deficits, which are covered by large transfer payments from abroad and by foreign loans. Roughly half of the government's external debt is owed to the U.S., which is its major source of economic and military aid.

Once a traditional economy based mainly on agriculture, light industry and labour-intensive production, Israel has become a knowledge-based economy, with internationally competitive telecom, IT, electronics, and life science industries.

Throughout the 1990s, immigration from the former Soviet Union, liberalization and proactive economic policies initiated a period of innovation and growth. The Israeli economy became increasingly open to competition from within and without, driven by the private sector. Intense entrepreneurial activity became the hallmark of the business environment, attracting the attention of global as well as local firms and investors.

The year 2000 was very significant in Israel's economic history. Inflation was successfully contained, in line with western norms, falling to 0%. Early 1990s legislation ensured annual targets for the budget deficit, a percentage growth of the
Gross Domestic Product, and responsible government spending. Accordingly, the
country's debt-to-GDP ratio has decreased.

Overall, the standard of living in Israel as measured by per capita GDP is higher than in
some EU member states, such as Portugal and Greece, and is significantly higher than
that of some OECD member states.

Israel has not been immune to global developments and events since September 2001.
Combined with the local war against terrorism, these events have had obvious
psychological impacts on economic developments. However, while industrial
productivity and turnover in the commercial and services sectors have fallen from
record highs in 2000, the overall impact of these factors has been relatively mild,
compared with their world-wide image.

Be this as it may, the investment climate, as a product of perceived instability, resulted
in a decrease in Foreign Direct Investment (FDI). Nonetheless, FDI to Israel is still high
when compared to investment in other industrial nations. Average inflow of non-EU
FDI to the EU (as a percentage of GDP), for example, is lower than that for Israel. 2002
figures indicated a sharp decline in FDI inflow, but by early 2003 foreign investors were
already expressing optimism, and foreign investors’ share in TASE-traded stocks rose
to over $1 billion by the end of the year. Also on the rise are foreign interest in the
private equity markets and venture capital activity.

In the global arena, one can point to measures taken by Israel’s government to maintain
open channels for reciprocal cross-border investment and capital flows, such as
adherence to the Declaration on International Investment and Multinational Enterprises,
agreements to avoid double taxation and bilateral treaties for the promotion and
protection of foreign investments.
As the Bank of Israel lowered the key monetary lending rate from 9.1% in December 2002 to 4.1% in April 2004, the Israel government committed to restraining budget expenditure and implementing structural changes. Though painful, measures such as budget cuts allowed Israel to attain a deficit target lower than 4% of its GDP in 2004, compared to a 5.6% deficit in 2003.

### 2.2 The Israeli High Tech Industry

Starting in the 1980s and continuing in an escalated rate in the 1990s, the Israeli high tech industry grew quickly, whereas the traditional and mixed industries and agriculture lost ground. By 1988 59% of Israel’s industrial exports were high tech products, and by 1998 over 71% of Israel’s industrial exports were high tech. These numbers reached an all-time high in the early 2000s (at almost 80%); when they fell along with the world high tech sector depreciation in 2003, levels dropped to about 70%.

The export-driven high tech sectors are affected primarily by world demand, and tend to be less sensitive to geo-political events. Israel’s information and communication technology 2003 exports, at $1.087 billion, represent 52% of Israel’s industrial exports (excluding diamonds), or 40% of the overall exports. In 2000, software and other high tech exports reached $1.35 billion record.
The industry sales and export figures, broken down by sectors, are shown in Chart 2.1, followed by detailed analyses of key sectors.

**Chart 2.1: Israeli High Tech Sales and Exports ($M)**

Source: Israel Association of Electronics & Information Industries

**Chart 2.2: Sales by Industry Group 2003 ($13,170M)**

Source: Israel Association of Electronics & Information

- Defense Systems 19.4%
- Civilian Communication & Telecomm 20.1%
- Medical Systems 7.3%
- Industrial Equipment 11.9%
- Components 14.7%
- Software 26.6%
2.3 The Israeli High Tech Environment: Why Israel?

2.3.1 Environmental Factors
The Israeli high tech success story is perhaps a little far-fetched, given that it is set in a small country with very little natural resources, and with the boundless threats to its security that Israel has to tackle. However, these limitations have created a unique environment that seems to naturally generate ideas, as it is constantly challenged and accustomed to facing difficulties and limitations.

A lack of natural resources is met by targeting and enhancing other, more abundant resources: human resources and knowledge. Limited financial resources are fully exhausted with the aid of numerous government aid programs. Limited water and land resources lead to agricultural innovations. Constant security risks are translated into a flow of new ideas and creative solutions, in the form of sophisticated defence systems, communication devices, weapons and security applications. All these – when channelled into a natural entrepreneurial culture – explains the Israeli high tech phenomena.
2.3.2 Specialized Workforce

The Israeli workforce is considered to be one of the most important factors in the success of Israeli high tech, if not the most important one. The key characteristics of this workforce are its high average level of education, a large immigrant population that affects the knowledge base, and injects new energies into the industry, and a high level of dedication.

Traditionally, the Israeli workforce was tightly unionized; however, over the past 15 years work relation issues have undergone a revolution, and today the greater part of the workforce in the high tech sector's is not highly unionized. Additionally, though the average salary is high in Israeli terms, it is still much lower than the average salaries of Silicon Valley workers, as shown by data of the average salaries of software and systems engineers, presented in Chart 2.4

CHART 2.4: AVERAGE SALARY OF SOFTWARE AND SYSTEMS ENGINEERS (US$ 2001 DATA) SILICON VALLEY VS. ISRAEL

<table>
<thead>
<tr>
<th>Avg. Salary for Software and Systems Engineers</th>
<th>US$</th>
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<tbody>
<tr>
<td>Silicon Valley</td>
<td>71,940</td>
</tr>
<tr>
<td>Israel</td>
<td>51,600</td>
</tr>
</tbody>
</table>

Source: The Economist Global Salary Survey, 2001

2.3.3 Education

Israel has one of the most educated workforces in the world. It is one of the world’s biggest spenders on education, with a national expenditure of over 7% of GDP,
compared with 5% in the United States, less than 5% of the average expenditures of OECD countries, and less than 4% in Japan.

Higher education is culturally emphasized, based on a time-aged Jewish affinity towards scholarly achievements. Not surprisingly, 22% of the Israeli population holds academic degrees (30% of the workforce, and 35% of adults aged 25-64). Of these, 13.4% (18.1) have an undergraduate education (BA, BSc or similar), 7.5% (10.1) have graduate degrees (MA, MSc, etc.), and 1% (1.3) of the entire population has a doctoral degree (PhD, MD etc.). 1.35% of the workforce holds an engineering degree (undergraduate and graduate degrees).

**CHART 2.5: PERCENTAGE OF ICT EMPLOYMENT OF TOTAL BUSINESS SECTOR EMPLOYEES (2001)**

Though in absolute terms high tech sector's do not offer a large number of jobs, Israel still has one of the world’s largest high tech workforces in relative terms. For example, more than 6% of business sector workers are employed by the IT and telecommunication sectors, compared to 5.6% in Finland and 3.9% in the U.S.
Israeli high tech workers are highly educated, even compared to other sectors in Israel. More than 40% of high tech employees have a technology oriented education. Of these, more than 60% are scientists and engineers, and the rest are technicians, among employees without a technologically oriented education, a larger portion than other academic degrees (roughly 35%).

As the Academic Excellence section will show, the Israeli educational system has specifically adapted to training more and more students in technology related majors, and the technological base of the workforce continues to grow.
2.3.4 Immigration

Since the early 1990s, Israel has been absorbing waves of mainly Jewish immigrants, coming from the former Soviet Union countries, and from several others (mainly France, the U.S., and Argentina). Roughly 1,000,000 people immigrated into Israel in the 1990s and early 2000s.

Of these who immigrated, over 40% held academic degrees (more than 50% of the Russian and Ukrainian populations). Moreover, of those holding a university degree, more than 50% have tech-related diplomas (scientists, engineers and medical doctors).

2.4 Academic Excellence

Israel has 8 universities, 10 technological schools, 24 colleges and several independent or government held research institutes such as the Israel Bio-Medical Research Institute. All academic institutions receive government support in various ways, including direct funding.

Academic institutions, apart from training the next generation of scholars, act as sources of professional networks.
In addition to this, for decades a significant number of Israelis have been going to the U.S. to earn technology-related MSc and PhD degrees. Many have remained to work in the U.S. technology industry, for multinationals or at academic institutions.

### 2.4.1 Academic Research

Some Israel universities such as the Technion which has one of the world largest computer science programs – with 1500 undergraduate students currently enrolled, and dozens of graduate and PhD students – and is the world leader in artificial intelligence (AI) research.

Israeli universities are ranked among the best in the world in areas such as agro tech R&D, genetics and bio-informatics, AI, physics, electrical engineering, medicine and more.

**CHART 2.8: PUBLICATION IN LEADING LIFE SCIENCE JOURNALS PER 1,000 INHABITANTS (1999)**

![Bar chart showing publication rates per 1,000 inhabitants](chart)

*Source: Ministry of Industry and Trade*

Israeli scientists are among the world’s most prolific in terms of publication output. 1999 data on publications in leading life science journals are a good example of this, as Israeli published research output was second only to that of the U.S. In many academic disciplines the picture is the same, and in total, Israel ranks second behind Switzerland in academic papers per capita and third behind Switzerland and Sweden in citations per capita.
2.4.2 Student Training Programs

Israeli colleges and universities offer numerous technological training programs that range from pure research emphasis tracks to strong practical emphasis tracks. Programs are available even as early as primary school, for students interested in science and technology, and many high schools offer SAT-level technological programs in computer science, biology, agriculture, and practical engineering (electrical, electronic and mechanical engineering programs). Some high schools even offer 13th and 14th year programs for technician and practical engineering diplomas.

The number of students in high tech related fields has been rising steadily since the mid-1990s, as the high tech sector’s demands for employees mounted, and as the sector’s appeal to young men and women peaked in the late 1990s and early 2000s. As a result, new engineering and computer science programs were opened in universities and colleges, and existing programs increased their capacity.
2.4.3 Technology Transfer Companies

Most Israeli universities and institutes have established technology transfer companies (TTCs). These companies promote commercial exploitation of the institution's research, and provide consultancy services to industry. TTCs protect, promote and commercialize the institution’s intellectual property and match the knowledge and skill accumulated in the universities with the requirements of local industry.

TTCs operate by identifying applicable research within the institution, maintaining patents or other protection schemes for commercially promising research findings, promoting and marketing suitable projects. They set up new start-up companies and other joint ventures with business partners, overseeing contract research and other services carried out at the institution for external organizations, as well as following up on post-contractual arrangements.

2.5 Government Support

The Israeli government offers several levels of support to R&D companies, new start-ups, investors, and foreign multinationals wishing to enter Israel.

2.5.1 Government R&D Policy and Incentives

Office of the Chief Scientist in the ministry of trade operates with a yearly budget of about $300 million; the OCS provides a variety of support programs based on the company’s stage of development. Over the last few years, the OCS has given priority to R&D programs that present some form of bi-national/international cooperation. Several programs are specifically directed at such cases.

The support is in the form of a conditional grant amounting to 20%, 30%, 40% or 50% of the approved R&D budget.
A conditional grant also stipulates pre-determined (income based) royalty payments. Any income deriving from an R&D program that has enjoyed government support must pay royalties to the OCS. The royalty payments are based upon a percentage of sales (usually, 3-5% of yearly sales), up to the repayment of the grant.

2.5.1.1 Pre Seed Programs

Technological Incubators: The incubators provide framework and support for nascent companies to develop their innovative technological ideas and form new business ventures that can attract private investors. The R&D grant provides 85% of the approved R&D expenditures with the remainder to be raised by the entrepreneur. Israel currently has 24 active incubators spread around the country. Seven of these incubators are fully owned by the government, whereas others are private.

An innovative approach that has been implemented recently is an experimental program to privatize some of the incubators. In this program a private licensee assumes the operating expenses of the incubator and the entrepreneurs enjoy an increased grant.

Another program establishes incubators involved solely in biotechnology—a result of government policy for increased activity in this area.

The total budget allocated to the incubator programs is about $30 million a year.

Tnufa: This support program is intended for individual inventors, entrepreneurs and start-up companies during the initial phase toward realization of their ideas. The fund will contribute toward getting inventions patented, construction of a prototype to verify the viability of the idea, preparation of a business plan and mobilization of initial capital.

A grant for this program is 85% of approved costs, up to a maximum of approximately $47,000.
Noffar: This program supports applied academic research – mainly in the area of biotechnology – that has aroused business interest but is not yet directed at a specific product. The objective is to promote technological transfer. Grants are awarded for up to 90% of the approved expenses. No royalty payments are required under this program. The total budget allocated to the Noffar programs is about $10 million a year.

2.5.1.2 Seed Programs

Heznek Program - The Government Seed Fund: The slowdown of the world economy has caused a decrease in the level of investments in start-up companies, and consequently, a lessening in the number of start-ups being formed.

In order to encourage investments and increase the number of new companies, the Ministry of Industry and Trade established a new and separate vehicle to provide a positive signal to investors and create further inducements for mobilizing investments for the establishment of start-up companies.

The program is based on the government matching an investment in a start-up company, proportional to the investment of an investing entity, in return for shares of the company and on giving an option to the investor to purchase the government shares in the start-up company at the initial price plus linkage and interest.

2.5.1.3 Competitive R&D Programs

R&D Fund: This fund supports over 1000 industrial competitive R&D projects a year, submitted by more than 500 companies. Grants are on a sliding scale of 20-50% of the approved R&D budget. Royalty payments are 3-5% a year of actual product sales. The budget allocated for the R&D Fund is the OCS’s largest, reaching approximately $300 million a year.
2.5.1.4 Generic R&D Programs

*MAGNET*: This program involves pre-competitive R&D within a consortium that includes a number of commercial companies together with research personnel from at least one academic or research institution. R&D focus is on new generic technologies that will lead to new-generation advanced products.

The industrial partners enjoy a grant amounting to 66% of approved R&D costs, whereas the academic partner receives 80% of said costs. No royalty payments are required. A foreign company may be included in the consortium if it can bring a unique contribution to the relationship.

The budget allocated to MAGNET programs is about $60 million a year.

*Mini-MAGNET (Magneton)*: This program is to further support an already existing relationship between industry and an academic institution, promoting technology transfer from academia to industry.

The grant amounts to 66% of the approved R&D costs, with no royalties required.

2.5.2 Bi-national/ International Cooperation Programs

Technological and scientific cooperation between Israeli and foreign companies is believed to be mutually beneficial far beyond that of the specific development involved. Consequently, much of the OCS’s budget has been diverted to bi-national and international programs that support joint R&D efforts of an Israeli partner and one or more foreign partners.

2.5.2.1 Bi-National Funds

These are funds with an individual pre-allocated budget set by Israel and a foreign government, by means of an agreement between a foreign country and Israel wherein each country contributes the principle funding for a given period of time.
The fund encourages joint industrial R&D between two companies, one from each country. All funds award 50% of the approved budget. There are several such funds:

<table>
<thead>
<tr>
<th>Fund</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>BIRD-F</td>
<td>USA-Israel Fund</td>
</tr>
<tr>
<td>BRITech</td>
<td>UK-Israel Fund</td>
</tr>
<tr>
<td>KORIL</td>
<td>Korea-Israel Fund</td>
</tr>
<tr>
<td>CIIRD-F</td>
<td>Canada-Israel Fund</td>
</tr>
<tr>
<td>SIIRD</td>
<td>Singapore-Israel Fund</td>
</tr>
</tbody>
</table>

**2.5.2.2 Bi-Lateral R&D Programs**

**EUREKA**: This is a network uniting 31 European countries for the purpose of encouraging cooperation between industry and research institutes. Partners determine the nature of the projects. In place of financial grants, the participants receive a quality stamp that facilitates the mobilization of investment funds.

Israel enjoys full membership in EUREKA and participating Israeli companies are eligible for OCS grants for their part of the R&D.

**Europe R&D Framework Agreement**: The countries of the European Union have established a program, renewable every four years, for cooperation in industrial R&D. This program also enables Israeli companies and research institutes to propose R&D projects in accordance with the “calls for proposals” issued by the program authority. Grants are based on a companies’ share of an R&D project, and no royalties are required.

**Parallel Funding Agreements**: This type of agreement has been signed with numerous foreign countries and enables an Israeli company to enter into a cooperative R&D project with a foreign company. Unlike bi-national funds, neither country’s OCS (or equivalent) pre-allocates a budget. Grants come from available from current R&D budgets.
2.6 Military Service

The Israeli Defence Forces (IDF) has a large part in defining Israeli culture, and in understanding the Israeli cultural and technological environment. First, the service in itself provides an opportunity to create social and professional networks. Second, the country’s unique military needs make the army a **incubator** of new technologies.

### 2.6.1 Social and Professional Networks

Most Israelis go through several years of military service at a formative stage in their lives (normally between 18 and 21). Their relationships and bonds with army friends function much as university connections in the U.S. and rest of the world; thus, it is common for high tech start-up founders to recruit a team from old army friends. Army background also helps employers and investors make selection decisions: information on a person’s unit and performance in the army is easily available, and these provide a great deal of information as to a person’s ability and work habits. So, know how is readily available.

### 2.6.2 Technological Influence

The military also plays a key role in directing youths into computing and engineering, and training the technological elite. Several key units and programs take the truly brightest high school graduates, train them in intensive science and engineering programs and disperse them in key military areas.

Military research in Israel is acknowledged to be at the forefront in certain areas of communications, networks, and data security. To the extent that these areas are related in some technological sense to useful products (existing or potential) in the internet communications technology (ICT) industry, Israel has an advantage. Products inspired by some of the military technologies are developed and commercialized. Specific
engineering techniques and methodologies learned in army units are directly useful to firms in related commercial areas.

2.7 Israel's Venture Capital Industry

2.7.1 Historical Development

In contrast to venture capital markets elsewhere, Israel’s venture capital market was created as a result of the initiative and direct involvement of the government. Prior to 1990 only two formal venture capital companies existed in Israel: the Athena fund ($29M, founded in 1985) and Star Ventures (founded in 1989).

Following the Law for the Encouragement of Industrial R&D of 1984, a public committee recommended various ways of encouraging venture capital in order to boost economic growth in general, and the high tech industry in particular (Securities Authority, 1989). The committee stressed that government support for the venture capital industry should have two aims: to make it easier to obtain finance for venture capital investment, and to create the conditions for the development of a venture capital market, specializing primarily in managing investment and encouraging the participation of specialized financial entities.

Accordingly, the government decided in 1991 to support the establishment of venture capital funds that would undertake and manage investments in R&D. This was achieved by providing government guarantees for the purchase of shares in funds via the “Inbal” government insurance company.

“Inbal” undertook to buy the shares of any investor in an approved venture capital fund should he or she wish to sell them, at an agreed date and at a price equal to a given percentage of the purchase price. In this framework, three venture capital funds were founded in 1991-1993, whose investments were guaranteed by the state. The funds
guaranteed by “Inbal” were Teuza, Marathon, and Poraz. In return for government support,

At the next stage, in 1992, at the initiative of the Ministry of Commerce and Industry, the “Yozma” government venture capital fund was set up in order to establish venture capital funds in cooperation with private foreign investors. It was allocated equity of $100 million. Until its dissolution, the fund, which was set up for a limited period of seven years, supported the establishment of ten private venture capital management funds (Polaris, Star, Concord, Jerusalem Venture Partners, Gemini, Vertex, Walden, Inventech, Medica, Eurofund. The capital of these management funds was invested via some 24 venture capital funds).

After implementation of Yozma in 1993, the venture capital industry grew rapidly both in terms of capital raised and in terms of number of funds active in the industry. The government involvement in the venture capital market in Israel led to the rapid development of a large market, which is today composed entirely of private entities.

2.8 High Tech Industry in figures

2.8.1 Capital Raised by Companies

Since 1999, Israeli high tech companies have raised $15 billion from venture capital funds and investment companies (local and foreign). Over the years the Israeli venture capital funds share has remained stable, about 40% of the total amount raised.

In 2000, Israel had twice as many “entrepreneurial events” per capita as the United States (two Israeli college graduates forming a start-up for every one college graduate forming a start-up in the US). Moreover, many of these firms received their initial funding from the VC market, which represented one of the largest in the world—both on a per capita basis and in absolute terms.
2.8.2 Capital Raised by Sectors

The communications sector (comprising data communication, optical communication, wireless communication, telecommunication and other communication) has dominated the Israeli high tech industry since year 2000, attracting $6.1 billion since 1999, 38% of the total amount raised. The massive amount of $1.2 billion, raised by Israeli communication companies in 2000, accounted for 40%. By the year 2006 the amount raised decreased by 73% but the communication sector remained the largest sector, 33% of the total amount raised.

The Internet sector (comprising Internet infrastructure, e-Commerce, Internet application, content and other Internet) was the largest sector in 1999 ($330 million, 33% of the total), remained second in 2000 (with $927 million, 30%), and fell sharply after the bubble burst (attracting only 4%, $41 million in 2002 and 2003).

Other sectors did not dramatically change in recent years (the software sector, which comprises enterprise application, enterprise infrastructure, design and development tools and miscellaneous software; the life sciences sector, which comprises pharmaceuticals/therapeutics, bioinformatics, medical devices, telemedicine/healthcare IT, diagnostics and other life sciences).

2.8.3 Capital Raised by Stage

High tech companies in the Israeli high tech industry are divided by IVC Research Center into four categories: Seed, Early Stage/R&D, Mid Stage/Initial Revenue, and Late Stage/Revenue Growth.

In 2000, Israeli seed companies raised a record amount of $300 million, 10% of the total in that year. Since 2000 the share of seed companies decreased to a low point in 2002, when only 2% was invested in seed companies ($23M). In 2003 seed companies tripled
their share of capital to 6% of the total, and together with late stage companies showed a change in their decreased investments trend.

**TABLE 2.1: AMOUNTS RAISED BY ISRAELI HIGH TECH COMPANIES ($M)**

<table>
<thead>
<tr>
<th>Stage</th>
<th>Amount Raised by Israeli High Tech Companies ($M)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1999</td>
</tr>
<tr>
<td>Seed</td>
<td>63</td>
</tr>
<tr>
<td>Early Stage/R&amp;D</td>
<td>415</td>
</tr>
<tr>
<td>Mid Stage/Initial Revenue</td>
<td>278</td>
</tr>
<tr>
<td>Late Stage/Revenue Growth</td>
<td>256</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1012</td>
</tr>
</tbody>
</table>

Source: IVC Research Center

The amount raised by early and mid-stage companies was on average 74% of the total investments in Israeli high tech companies since 1999.

**CHART 2.10: AMOUNT RAISED BY ISRAELI COMPANIES BY STAGE (%)**
2.9 Israeli Venture Capital Funds: Overview

The structure of the VC funds’ activity in Israel is very similar to that in the U.S.. The Israeli funds are set up for a limited period of up to 10 years, at the end of which they are liquidated. During this period they invest in firms in order to bring them to a stage where they can realize their investment (exit strategy). Because the lifetime of each fund is limited, the management funds tend to open a new one every three to five years. The funds are set up as limited partnerships so that the capitalists (limited partners) are not involved in the current activity of the fund.

2.9.1 Capital Raised by Israeli Venture Capital Funds

Since the early 1990s, $15 billion has been raised by Israeli venture capital funds. The growth characterizing Israel’s venture industry throughout the past decade reached its peak in 2000 when $3.3 billion were raised by Israeli venture capital funds. The years 2000-2003 showed a decree in activity due to global economy recession, 2003 marked the beginning of new fund raising activity. Between 2003 and 2007 Israeli venture capital funds raised between $1.5 billion and $2 billion annually.

| TABLE 2.2: VENTURE CAPITAL RAISED 1995-2003 ($M) |
|---------------------|-----|-----|-----|-----|-----|-----|-----|-----|
| Venture Capital Funds|
| Returns             | 135  | 309  | 620  | 594  | 1552 | 3682 | 1304 | 76   | 118  | 8,390 |
| Net Venture Capital  | 135  | 309  | 620  | 594  | 1552 | 3682 | 1304 | (221)| (90) | (311) |
| Fund                | 135  | 309  | 620  | 594  | 1552 | 3682 | 1304 | (145)| 28   | 8,079 |
| Public Funds        | 0    | 0    | 29   | 8    | 44   | 185  | 6    | 86   | 0    | 358   |
| Total Funds         | 135  | 309  | 649  | 602  | 1,596| 3,867| 1,310| -59  | 28   | 8,437 |

Source: IVC Research Center

$1.15 billion available for investment: According to IVC Research Center’s estimations, capital availability in Israel’s VC industry is $1.15 billion. IVC estimates reflect the $5.2 billion was raised in the years 2000-2003, excluding investments made, returns and management fees.
Largest funds dominate capital raising: Since 1992, the 20 largest Israeli VC funds raised approximately $6.4 billion, which was exclusively allocated to investments in Israeli technology companies. Of this amount, approximately $4.2 billion had been raised between 2000 and 2003 (representing 87% of capital raised by all Israeli VC funds in this period).

Specialized Funds: In recent years, there has been a greater specialization among Israeli VC funds. Whereas the first wave of VC funds invested in multiple industries, several now focus on a particular industry and advertise their expertise and connections in that domain (such as life sciences, materials).

Private equity expands: In 2003, several funds other than traditional VC funds were set up. Such Private Equity funds include Secondary Funds (Vintage Ventures Partners, Harvest I & II), Buyout funds (Markstone, Galil Capital), Fund of Funds (Green Venture Capital), Mezzanine Funds (FIMI), Turnaround Funds (Momentum, Fortissimo), and Venture Lending Funds (Plenus).
2.10 International Comparisons

Capital Raised by High Tech Companies — Israel vs. U.S., Europe and Asia-Pacific

In 2000, the Israeli high tech companies raised a high of $3.1 billion in capital. Since this record year, the ups and downs of the Israeli high tech industry have been in close correlation with the NASDAQ Composite Index. A comparison with world trends in high tech companies raising venture capital between 1999 and 2003 indicates that the Israeli slump was more moderate – 62%, compared with the U.S. and Europe, which, according to a VentureOne survey, both declined 80% in the same period. A comparison with European countries indicates that the amount of capital raised by Israeli high tech companies ranked second after the UK’s $1.258 billion. The Asian Pacific market trends in high tech companies raising venture capital are slightly different (according to Asian Venture Capital Journal-AVCJ Estimates). The numbers reflect a more moderate decrease of 41% between 2000 and 2003. The peak in the Asian Pacific region occurred in 2001 and was followed by a positive increase in 2003.

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Israel $M</td>
<td>1,012</td>
<td>3,092</td>
<td>1,985</td>
<td>1,138</td>
<td>1,011</td>
</tr>
<tr>
<td>U.S. $M</td>
<td>49,428</td>
<td>94,252</td>
<td>35,997</td>
<td>21,452</td>
<td>17,755</td>
</tr>
<tr>
<td>Europe €M</td>
<td>N/A</td>
<td>19,691</td>
<td>9,877</td>
<td>4,514</td>
<td>3,470</td>
</tr>
<tr>
<td>Asia Pacific $M</td>
<td>1,384</td>
<td>2,730</td>
<td>3,495</td>
<td>1,011</td>
<td>1,610*</td>
</tr>
</tbody>
</table>

*Estimated

Sources: Israel - IVC, U.S./Europe - VentureOne, Asia - Asian Venture Capital Journal
CHART 2.12: CAPITAL RAISED BY ISRAELI HIGH-TECH COMPANIES VS. THE NASDAQ COMPOSITE INDEX

Source: IVC Research Center/NASDAQ

CHART 2.13: CAPITAL RAISED BY HIGH TECH COMPANIES (ISRAEL VS. EUROPE)

Source: IVC Research Center, VentureOne
2.11 Exit Review

2.11.1 Public Offerings
Until the late 1980s, only a small number of Israeli companies undertook an IPO on NASDAQ (or in other markets). By 2007, Israeli (and Israeli-related) high tech companies traded in the U.S. were the second largest group only behind the U.S. itself. Moreover, the number of Israeli (or Israeli-related) companies, which are traded on the London-based AIM stock market, is the second largest after UK companies. Most of these companies are technology start-ups. Other prominent European stock exchanges on which Israeli companies are traded are in Frankfurt, Paris and Switzerland. One main reason Israeli companies prefer to go public abroad is to be closer to their potential markets and achieve higher valuation by the finance markets. The United States had the largest high tech market and American capital markets were perceived to be most attractive for high tech companies, which led increasingly to a U.S. orientation among Israeli entrepreneurs and VCs from 1993 to 1997. Indeed, the exit of choice for the vast majority of firms was a listing on the NASDAQ exchange.
### TABLE 2.4: CAPITAL RAISED IN U.S. PUBLIC OFFERINGS OF ISRAELI COMPANIES
#### 1995-2003

<table>
<thead>
<tr>
<th>Year</th>
<th>All Offerings</th>
<th>Venture Backed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of Offerings</td>
<td>Capital raised ($M)</td>
</tr>
<tr>
<td>1995</td>
<td>13</td>
<td>713</td>
</tr>
<tr>
<td>1996</td>
<td>27</td>
<td>915</td>
</tr>
<tr>
<td>1997</td>
<td>20</td>
<td>770</td>
</tr>
<tr>
<td>1998</td>
<td>14</td>
<td>871</td>
</tr>
<tr>
<td>1999</td>
<td>20</td>
<td>3,375</td>
</tr>
<tr>
<td>2000</td>
<td>33</td>
<td>4,649</td>
</tr>
<tr>
<td>2001</td>
<td>5</td>
<td>1,141</td>
</tr>
<tr>
<td>2002</td>
<td>2</td>
<td>522</td>
</tr>
<tr>
<td>2003</td>
<td>5</td>
<td>1,143</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>139</strong></td>
<td><strong>14,099</strong></td>
</tr>
</tbody>
</table>

Source: IVC Research Center

### TABLE 2.5: CAPITAL RAISED IN EUROPEAN PUBLIC OFFERINGS OF ISRAELI COMPANIES
#### 1995-2003

<table>
<thead>
<tr>
<th>Year</th>
<th>All Offerings</th>
<th>Venture Backed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of Offerings</td>
<td>Capital raised ($M)</td>
</tr>
<tr>
<td>1995</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>1996</td>
<td>5</td>
<td>44</td>
</tr>
<tr>
<td>1997</td>
<td>3</td>
<td>28</td>
</tr>
<tr>
<td>1998</td>
<td>5</td>
<td>122</td>
</tr>
<tr>
<td>1999</td>
<td>12</td>
<td>446</td>
</tr>
<tr>
<td>2000</td>
<td>7</td>
<td>352</td>
</tr>
<tr>
<td>2001</td>
<td>1</td>
<td>118</td>
</tr>
<tr>
<td>2002</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2003</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>34</strong></td>
<td><strong>1,116</strong></td>
</tr>
</tbody>
</table>

Source: IVC Research Center
2.12 Foreign Investors Activity in the Israeli Market

In recent years, the number of foreign investors investing directly in Israeli funds and high tech companies has grown significantly.

Corporate investor (CVC) Intel tops the list, having made 35 investments during 2000-2003. Intel Capital is the largest CVC in the world and has investment representatives in Israel who oversee local investments. JP Morgan, Goldman Sachs, Shamrock Holdings and Deutsche Bank trailed Intel with 16, 15, 12 and 10 investments, respectively.

In addition to Intel, leading foreign corporations that maintain local investment representation include Applied Materials, Johnson & Johnson, Motorola, Nokia and Philips. Active corporations without local representation include Siemens, Samsung and Nortel Networks among others.

IBM’s activity in Israel is remarkable. IBM has invested in several Israeli VC funds and high tech companies,

Benchmark and Sequoia (U.S. based funds) operate direct investment funds in Israel, and Alice Ventures and Partech (European based funds) have representative offices in Israel.

Co-investments with Israeli VC funds: Foreign investors prefer to invest together with Israeli VC funds or join a financing round in Israeli venture-backed companies. This is due to the need to have an investor who knows the local market better and is familiar with the high tech company management and environment.
2.13 Conclusions

Chetty (2003) asserts that countries lacking big domestic markets are BG company ideal incubators since these companies do not have any choice but to internationalize. Consequently, most research on the BG phenomenon comes from small markets that lack a developed domestic market such as Australia, New Zealand, Finland and Singapore. In addition to that, Israel is a country of immigrants (as Australia and New Zealand). Through the six decades of its existence Israel has absorbed over three million immigrants from 51 different countries. According to many studies (Dimitratos et al. 2003; Chetty and Campbell-Hunt 2004; Freeman et al. 2006; McDougall and Oviatt 1994), immigration is an important factor in evaluating a country’s level of entrepreneurship. The vast range of people of different nationalities facilitates investigation of the phenomena and the possibility of generalizing it. In addition to the two above parameters, Israel is ranked no. 1 and 2 in the world (IMD World Competitiveness Ranking 2011) in the level of scientific research and public expenditure on education (similar to Finland and Singapore), also, similar to Australia and south Korea, Israel is an isolated market that underwent through a process of liberalization and rapid opening at a single point in time, that might serve as an excellent laboratory for investigating the phenomenon due to the rapid dichotomy between the two states (Chetty and Campbell-Hunt 2004; Freeman et al. 2006). Two additional important factors are investments in R&D as a percentage of GDP – Israel is in first place in the world – and the level of managerial entrepreneurship – again, Israel is in first place. These figures explain the creation of over 3000 technological companies (in second place after the U.S.), with over 50% of Israel’s technological exports coming from these companies, which are classifiable as BG companies. The level of technological diversity and the range of industries in which the Israeli economy invests mean that Israel is the
ideal place to investigate this phenomenon. The next section provides a deep review of the development of the field of international Business; The survey describes the evolution of theories in the field, looking at its important approaches, while simultaneously analyzing the limitations and strengths of different paradigms in the field and all the theories encompassed by each paradigm. In view of the fact that the present research is positioned at the intersection of a number of disciplines, the survey is not limited to the IB and BG fields but also focuses on the field of behavioural economics and Prospect Theory.
Chapter 3

Internationalization process revisited: A traditional versus a "Born-Global" Approach

3.0 Introduction

This chapter surveys relevant literature from a number of research fields, including international business, international entrepreneurship, and behavioural economics and decision making.

The first part of this chapter examines salient aspects of international business (IB) literature. This section also explores the two leading schools of thought, which developed in parallel, in the area of international business: 1) transaction cost theory (TCA) / the internationalization of the multinational firm and 2) stage theory. Subsequently, we examine the concept of Born Global (BG) firms and the different theories explaining the ways how companies internationalize. In the last section of this chapter we will examine the literature now developing in the area of behavioural economics, including Prospect Theory. Our goal is to link insights from the discipline of behavioural economics into the area of international business to create a conceptual model, which will mediate between the traditional research streams of international business and the newer BG research stream.

3.1 The Internationalization Process of the Firm

When reviewing the sources and the evolutionary development of international business, a number of research streams that developed over a period of time emerge, principally:
The first research stream, which unites different trade theories, began with the studies by David Ricardo and John Stuart Mill (19th century) and reached its climax in the 1960s. The main emphasis in this period was on international trade between countries, and research focused on the questions of ‘how’ and ‘why’ capital flows between states, termed foreign direct investment (FDI). The prevailing explanation for international trade and the existence of international companies had, up to this point, been international differences in interest rates.

This approach explains that international companies existed by virtue of the differences in currency rates changed in 1960 with the publication of Hymer’s studies (1960; 1976). These heralded the beginning of a second research stream, which shifted the focus in IB research from the level of the state to the level of international companies.

Hymer’s studies were the opening salvo of a new stream of research in which the unit of analysis was the industry and the company, and not the state. Following their publication, the IB literature developed and researchers from other disciplines (such as strategy and organizational behaviour) entered the field.

The mid-1970s and the 1980s were the highpoint of the third and fourth research streams i.e ... This period is considered by many researchers (Buckley 2002; Buckley and Casson 2001; Buckley et al. 2007; Dunning 2001) to be the ‘golden age’ of IB research. During this period the predominant theories of IB field were created.
We can differentiate the research in the third period, i.e., according to two main ideological groups: the first faction espouses TCA/International Theory of multinational entities (MNEs) and was developed by Buckley, Hennart and Rugman who were inspired by the research done by Williamson (1975). This model was derived from neoclassical economics that argues decision makers seek to acquire near-perfect information about the market to inform their decisions. This information is provided by comparing investment returns among alternative investments.

The second faction is headed by Dunning (1988, 2001). In 1988, in response to the criticism of TCA Theory that it is static in character and cannot take into account complex situations and considerations in which companies can combine more than one way of internationalizing, Dunning developed Eclectic Theory (please see section 3.4.2). Eclectic Theory integrates three theories: TCA, Resource Advantage Theory (RA) and International Trade Theory.

The commonality among all these models is the assumption of rational optimization in decision making when businesses internationalize. In other words, they provide an economic framework of internationalization by allocation of optimal resources.

The fourth research stream was developed by a group of Scandinavian researchers (Johanson and Vahlne 1977) and it assumes that risk aversion is the factor determining the internationalization process of companies. This approach (developed in parallel in the U.S. by Cavusgil (1980) became known as Stage Theory. This asserts that companies, when internationalizing, move incrementally – first to the countries culturally closest to their country of origin and only afterwards to countries more culturally distant from them. This approach is also rooted in the tradition of neoclassical economics and rational decision making (Ellis 2008) – i.e., that organizations are risk averse and will take risks only if they anticipate high returns.
These first four streams described above shaped the evolutionary development of the theory of multinational organizations. In contrast, the fifth stream of research describes the phenomenon that is called Born Global (BG) (Oviatt and McDougall 1994, 2005).

The origins of this approach can be traced to the paper by (Oviatt and McDougall 1994, 2005), which attempts to describe and explain the new phenomenon arising from the technological developments of the two decades preceding the paper’s publication. These developments led to the growth of international trade and reduction of trade barriers (please see section 1.1.1), which then enabled smaller companies (technological companies and small and medium-sized companies) to internationalize at very early stages in the company’s lifespan. and was characterised as a rapid process of international expansion from firm inception, using a range of market entry modes in multiple markets(Oviatt and McDougall 2000). These companies have been dubbed Born Global and the phenomenon has increasing significance in international trade.

The internationalization of these Born Global companies as described in the literature begins to challenges the established theories and neo-classical economic thought, upon which Stage Theory and TCA Theory rest.

In the following sections we will first review the historical development and the evolution of IB more extensively with focus on main theories that explain the internationalization process. We will consider the resources and disciplines from which these models have derived with emphasis on their advantages and disadvantages and their position within the general mosaics of IB.

We will then survey the new stream of research literature which focuses on the intersection between entrepreneurship and IB whereby the keystone of this field can be found in the studies of McDougall and Oviatt (1994) who were the first to describe the BG phenomenon.
Finally we will examine the behavioral economics discipline established by Kahneman and Tversky in 1977 which served as a revolution when it introduced psychology into economics.

3.2 Trade theories

Several theories that discuss overseas expansion and international commerce assume that the theoretical foundation for understanding the process of internationalism of companies and their penetration strategy for foreign markets began with mercantilism, which was an economic practice common in Europe from the 16th to 18th century. This system maintained that a country must have a positive balance between imports and exports and led to colonial conquests to supply raw materials for countries. Absolute advantage – Economist Adam Smith in his book *The Wealth of Nations* (1776) claimed that nations are distinguished by their efficiency in producing products and therefore all nations must concentrate on producing products for which they have an absolute advantage and then trade them for products from other countries.

Relative advantage – David Ricardo and John Stuart Mill developed the theory of relative cost. According to Ricardo, nations need to focus on producing products for which they are relatively efficient and purchase those which they can produce less efficiently, even if they are capable of producing them more efficiently than the country from which they purchase them. Therefore, in free international commerce consumption is increased, the global production power grows and nations will concentrate on producing products in which they have a relative advantage and purchase other products from other countries. Criticism of this model is based on the fact that it does not relate to the cost of transporting merchandise, the cost of different resources in each nation, differences in exchange rates and the mobility of capital and labor between states.
In their theory, researchers Hecksher and Ohlin (1953) claim that nations are distinguished from each other by the quantity of resources at their disposal, which explains their different production costs. The more common a resource, the lower its price will be. In their opinion, this state will export those products for which it has a plentiful supply of the resources necessary for their production and import those which are produced from rare resources.

3.3 Industrial organization theories

3.3.1 Market Imperfection Theory

Most scholars ascribe the first attempt to explain the internationalization process of MNEs to Stephen Hymer. Before Hymer introduced his theory (1960), the general accepted view held by economists was that the existence of MNEs could be explained by international differences in the interest rate. On the other hand, Hymer (1976) developed the Market Imperfection Theory which focused on how a company with limited knowledge about the conditions in a local market can successfully compete there. This theory maintains that the company entering a foreign market has an added disadvantage because of the high cost of learning required to penetrate a market. Therefore, it needs to take advantage of "imperfect" markets by using its preferable marketing skills, product placement, technologies, cost leadership, managerial abilities, etc. The theory suggests that the existence of imperfect markets and the MNEs unique competitive advantage are catalysts for FDI. In addition, this theory brought the focus from the country to the firm.

The weakness of this theory is that the different forms of penetrating a market in addition to FDI have not been taken into consideration. For instance there is no reference to penetration through cooperation or other strategies. Namely, a company
will utilize FDI only to exploit market imperfection, which will guarantee entrance into the market with at a high level of control.

3.3.2 The International Product Life Cycle theory (IPLC)
IPLC was developed by Raymond Vernon in 1966. In contrast to Hymer's approach, Vernon's theory (1966) was more macro and trade oriented. IPLC enumerates four stages in the cycle of international commerce for most products. During the first stage, when the demand curve in the United States is rising, demand for the product in industrialized countries will be limited to affluent classes and, therefore, the product will be imported from the United States. When demand increases in industrialized states and it becomes worthwhile for local producers to manufacture the product, it will also make be worthwhile for American companies to establish factories in countries where there is a high demand. Production in those countries will limit the exports from the United States. When the growth product becomes standard and competition is based on price, production is moved to countries where the cost of labour is low. This means that the United States first exports new products until the price drops. Then production is transferred to countries with cheaper labour so exports from the United States decreases and its imports of the product increases. Other researchers proposed reducing the number of stages to three (Toyne and Walters, 1993): 1) the new products stage 2) the maturity stage and 3) the standardization stage. The international product lifecycle (IPLC) theory examines the stages of placing a product and penetrating it into a new market while other theories examine the motivation for production and Foreign Direct Investment (FDI) (Onkvisit and Shaw, 1980). In my opinion, the principal criticism of this theory is that technological improvements, especially in the fields of communications, have antiquated it. Today, Korean companies maintain research and design centres in the United States and American companies outsource services, R&D
and engineering to India and other countries so that the product lifecycle is now multidirectional.

Nonetheless, the main weakness of this model is that it is time dependent and deterministic by nature (Toyne and Walters, 1993). The main forms of penetration described in this theory are export and foreign production. It does not refer to other forms of penetration such as joint ventures, licensing or strategic alliances. Companies cannot adapt to changes or make strategic decisions that go beyond the model and the theory is less suitable for small companies with fewer resources or for service companies.

3.3.3 Strategic Behaviour Theory

Hymer's theory has triggered a stream of research focusing on follow the leader behaviour. Researchers (Dunning 2000; Casson 1987), concentrating on the strategic behaviour of MNEs have discovered that oligopolistic firms imitate the internationalization patterns of their rivals. Graham (1978) and Casson (1987) claimed that companies in oligopolistic markets tend to minimize risks and will, therefore, imitate the strategic behaviour and competitive moves of their rivals in order to maintain the stability of the market. For example, when the Goodyear tire company opened manufacturing facilities in Europe, the European company, Michelin, followed suit and opened production facilities in the United States.

Specifically companies use FDI as a strategy to protect their local market by transferring their competitive centre to the competitive market in order to cause their competitors to become defensive and to nullify their competitive advantages (i.e., low production costs, experienced manpower, inexpensive credit, or government subsidy).

The limitations of this theory include perceiving international competition in the narrow oligopolistic sense, whereby reference to competition is like zero sum game without
relating to models of cooperative competition while stating that evidently this theory is not relevant for small companies with limited resources (Dunning 2000; Casson 1987).

3.3.4 Resource Advantage (RA) Theory and Organizational Resource (OR) Theory

The RA and OR theories are based on the assumption that there are differences between the resources and the abilities of different companies which bestow organizations their competitive advantage (Aadersen, 1997). When deciding how to penetrate the global market a company should take advantage of its unique resources and relative advantages (Hunt, 2002; Hamel, 1990; Aadersen, 1997). That is to say, if the company's competitive advantage stems from technology or preferred products then the appropriate penetration of the market would be through local agents who know the market. Nonetheless, if the advantage is derived from non-transferable knowledge (tacit knowledge) or preferred marketing abilities internalization would be more beneficial, whereas if the company lacks the knowhow or the resources necessary to penetrate the foreign market it would be preferable to find a partner with capabilities that complement the company.

The advantage of the RA and OR theories over strategic behaviour and market imperfection is their consideration of cooperative forms of penetration by means of partnerships, joint ventures or licensing. However, these theories cannot explain nor predict the type of cooperative strategy the company will adopt and RA, like TCA, cannot be predicted a priori (Aadersen, 1997).

3.3.5 Institutional Theory

Institutional Theory explains the behaviour of organizations by focusing on their relationships with all the stakeholders in their organizational field, with stakeholders being defined as suppliers, customers, financial sources, legislative institutions, political
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pressure groups, competitors and more (DiMaggio 1982). The creation of 'organizational fields' such as these in different areas of operation is done through an institutional process or the building of the area (DiMaggio and Powell 1983). The result of the formation of an organizational field is the creation of forces that push the companies into imitating each other (DiMaggio and Powell 1983). This process is called isomorphism. The term relates to a process that forces one unit within a population to model itself on other units operating within a similar environment (Schuman 1995). In other words, it means the tendency of decision makers to learn from the actions of decision makers in other organizations in order to co-opt them for their organization (DiMaggio and Powell 1983). Organizations tend to adopt isomorphic processes due to conformist pressures and the need to abide by laws, regulations or expectations of environmental factors from which they are hoping to receive legitimisation (Schuman 1995; Hannan and Freeman 1977).

What are institutions actually? North (1990:3) defines organizations as “the humanly devised constraints that structure human interaction”. Scott (1995:33) defines institutions as ‘regulative, normative and cognitive structures and activities that provide stability and meaning to social behaviour.”

In the IB literature there is growing recognition of the importance of the institutional approach as one that shapes organizational strategy on an international level (Peng 2006; Ricart et. al 2004). According to McMillan (2007), the literature in the field of international business has ignored the institutional area, since the research has mostly been conducted about organizations from the American market (Meyer 2004; Kogut 2003; Peng 2006) and given that in developed markets institutions work smoothly and are, therefore, invisible (McMillan 2007), the institutional approach is less expressed. However, as a result of the development over the past two decades of research on
developing markets, the institutional approach has begun to garner recognition as a factor shaping organizational strategy (London and Hart 2004; Meyer 2004; Ramamurti 2004; Ricart et al. 2004). Peng (2004) claims that an institutional perspective is one of three important legs in shaping organizations’ international strategy, in addition to RBV and Industry based view. Institutional theory is viewed by Hoskisson(2000) as one of the three most insightful theories when internationalizing (the other two are RBV and TCA), strategy of Institution based view focuses on the interaction between organizations and institutions, and strategic choices are the outcomes of such interactions (Peng 2003; 2006), strategic choices of Institution based view are a reflection of the formal and informal limitations of a particular institutional framework that mangers interact with (Carney 2005;Hill 2007;Ring et al. 2005;Teegen et al. 2004)

Nevertheless, despite this acknowledgement, many studies on the subject fall short in their attempts to attack the basic questions in international business research regarding motives for choosing a certain strategy for internationalizing, and consequently, for understanding the performance resulting from the choice (Peng et al. 2008).

3.3.6 The Competitive Advantage of Nations
Positioning Theory is one of the most widespread strategies found in the international business literature (Peng et al. 2008). It is based on Porter’s Five Forces Model and Generic Strategies (1980). Porter described three main strategies that are applicable to all industries: cost leadership, product differentiation, and Niche. Later on Porter divided the Niche strategy into two: cost leadership (within this Niche) and product differentiation (within this Niche). That an organization will use in reaction to competitive pressures from its environment. According to Porter, these strategies are applicable to any and every type of industry (Porter 1980).
In 1991 Porter published his book, The Competitive Advantage of Nations, in which he adapted the Five Forces Model that analyses industries and presented a model that analyses the competitive advantage of nations (the Diamond Model). Porter’s theory aspires to explain why different states succeed in international trade in different industries. According to him, four components explain the environment in which companies operate in the local market and impact on the firm’s relative competitive advantage. These components are resources, the demands of the local market, the presence of supporting industries in the market or related to the market and the strategy, structure and competitiveness of the company in the market. In his opinion, a combination of these four factors together with government policy will affect the competitive advantage of a company involved in international activities, with the government being able to influence either positively or negatively each factor in the Diamond Model (Porter 1991).

The literature in the BG area emphasizes the role of international generic strategy when internationalizing (Chetty and Campbell-Hunt 2004; Freeman et al. 2006), given that the focus and pace of internationalization is determined by the intention to exploit a leading position in a global niche, economy of scale or a developing market (Porter 1991; MacKinsey 1993).

### 3.4 Transaction Cost Analysis/Internalization (TCA) Theories

The TCA theory attempts to determine when international companies organize international transactions independently and when the transaction is managed by the market (Buckley and Casson, 1976). The origin of this theory is attributed to
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Williamson (1975) but it was developed and adapted to IB by Buckley and Casson (1976) and Hennart (1977, 1982).

According to the TCA theory companies excel when they are the most efficient to organize the transaction. Similarly international companies prosper when they are the more efficient than markets and contracts in organizing transactions between agents located in different countries. For example: Company A is interested in penetrating a certain country though there is a distributor in that country that is acquainted with the products of Company A and the target market and would be able to sell the products of the company in the most efficient and profitable manner for both companies, this transaction may not take place since both parties must be aware of the benefit that will be gained from cooperation and they need to agree on the principles of the cooperation, the margins each party will receive from the cooperation, etc.

However, since economic agents are opportunists with cognitive limitations, organizing the cooperation will incur certain costs (negotiation costs, time, etc.). These costs are termed transaction costs. Costs for organizing the transaction vary according to the organization method chosen. There are two basic methods for organizing a transaction. One is by means of the market and the other is by means of the company. When there are a multitude of buyers and sellers in the market and complete information, and it is easy to perform the transaction, the transaction will be managed by the market. In contrast, if there is partial information, few buyers and sellers and it is difficult to estimate the output, the transaction will be managed hierarchically, i.e. from work with agents to employing workers and working through the company.

3.4.1 Applications of TCA to the MNEs

An international company will internationalize when it is able to organize a more efficient transaction from the market and when the cost of the transaction is lower than
the benefit, i.e. the cost-benefit is high. The literature in this field has identified several factors which will inspire a company to internationalize, such as knowhow, reputation, raw material and components, marketing and distribution.

Buckley and Casson (1976) extended the theory to the field of knowledge. In order to allow the transfer of knowledge between buyers and sellers there has to be symmetry of knowledge. That is, the buyers must know for what they are paying. Nevertheless there is a problem of asymmetry since the sellers cannot reveal the information to the buyers which they need to make their decision so that the information is not stolen. This has led to a patent system (protecting proprietary rights) which provides the seller the monopoly over his proprietary rights and offers an enforcement system when needed so that the seller is able to reveal the information to potential buyers without the risk of losing his proprietary rights. (Buckley and Casson, 1976; Magee, 1977; Rugman, 1981; Cantwell, 1989).

When there are advanced systems for the protection of proprietary rights in the country including enforcement systems, the transaction between the sellers and the buyers will be arranged through licensing. However, when advanced systems are lacking, the company will refrain from providing information to potential buyers and a transaction within the company will be preferable in order to avoid patent stealing (this is also true for tacit knowledge which is difficult to transfer to another company and to protect) (Davies, 1977). Consequently, when advanced systems do not exist a company wishing to internationalize will do so by hiring employees, establishing a company in the target country, acquisition or joint Venture.

Similar to knowledge, reputation can be transferred between countries. A transaction based on the transfer of reputation should be done by franchise contracts, i.e. through the market, when the contract is able to detail the quality the concessioner must
maintain in order to preserve the company’s reputation, enforcement and supervision of the contract terms is possible and company costs incurred for management and supervision of employees or a branch of the franchise are high. Under any other circumstances when it is difficult to oversee the preservation of the quality on the part of the concessioner and consequently the reputation, to legally enforce it or when cost benefit of managing and supervising employees or a branch is low the transaction will be done within the company (by opening a company or acquiring an existing company in the target country).

Organizing a transaction due to raw materials and components is warranted when different stages of the production chain are located in different countries and are performed by different agents. For example, when raw material is located on one country and the assembly factory is in another country, in situations with many buyers and sellers, the markets are sophisticated and the transaction will be organized by the market. Nevertheless, when the conveying costs, custom costs are high and particularly unique assets are involved that require investment by one of the parties of the transaction may place the investing party in a somewhat hostage situation. This is due to the fact that the other party can "open" the contract and try to change the terms (Buckley and Casson 1976). This situation is denoted the "holdup problem". In situations involving holdup problems the company should organize the transaction within the company.

Similarly, for marketing and distribution, in a small niche market, preferably the company should enter a market by means of internalization of the company since an advantage of an economy of scale will not be created in this case.

Integration between the manufacturer and the distributor is beneficial in cases in which the investment needed (in marketing, services, proprietary rights, etc.) to sell the
product is high, the market is unpredictable and the product is unique to the manufacturer.

In contrast, when the market is predictable, the cost to sell the product is low and the product is not unique, the preferable transaction would be through a distribution agreement (obviously an enforceable one).

In principle, any entity that supports international marketing efficiency such as a sophisticated legal system, a system to enforce the protection of proprietary rights, removal of commercial trade barriers, etc. strengthens the power of international markets and reduces the power of international companies. In contrast, any technological change in business which lowers the costs of establishing and managing it strengthens the power of international companies.

The limitations of the TCA theory are: first and foremost it is difficult to measure a priori; furthermore companies make decisions about internationalization and the type of entry mode not only on the basis of the cost of the transaction but also on the basis of other factors such as global integration and the market force (Anderson, 1997; Dunning, 2000). The theory does not take into account strategic considerations like opening subsidiaries to the markets in order to gather market research from the market or utilization of R&D is preferable. In addition, TCA is static in nature and does not take into consideration possibilities of entering the market by means of more than one strategy simultaneously, i.e. cooperation and also establishment of a subsidiary at the same time (Dunning, 1995, 2000). Likewise, other considerations not taken into account are those such as tacit knowledge and intangible assets, which are considered in RA and RBV theories.
Additional criticism voiced about TCA is that it is passive in nature, i.e. by using the model we adapt to the conditions of the environment instead of creating convenient conditions for the organization.

3.4.2 Eclectic Paradigm

Despite the centrality of the TCA theory, Dunning (1995) claimed that this theory cannot completely explain when it would be better to prefer the FDI over export or licensing, or explain the decision concerning where to situate the FDI. As a solution to the limitations of TCA Dunning proposed the Eclectic Paradigm also designated as an OLI model. The theory is comprised of three theories: the TCA theory, the RA (resource advantage) and the International Trade Theory. According to this theory the decision to internationalize must include three factors: the advantage of the location, the advantage of the ownership and the advantage of internalization. Furthermore Dunning proposed to extend the three theories comprising the paradigm, i.e. extending the concept of the advantage of ownership relates to the tangible advantages of relating to intangible advantages by organizing intangible assets. The concept of location advantages must emphasize the role of trade barriers and must take under consideration other variables when making decisions about the location of the market, such as innovation, technological advantages, and more. Similarly, the concept of the internalization advantages must extend the considerations beyond the cost of the transaction and include other goals such as strategic asset seeking and efficiency seeking investment.

The Eclectic theory compares the country’s resources (location advantages) to the company’s resources (ownership advantages) in order to form a matrix outlining the suitable course of action (FDI versus export). This matrix is similar in its considerations
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to the Diamond model of the competitive advantage of the country proposed by Porter (Porter, 1991).

The weakness of the Eclectic Paradigm is the multivariable, which at times overlap and at other times contradict one another. For instance, the idea of ownership advantages may overlap with internalization and consequently the use of all criteria for decision making may cause the decision of entering a market to be complicated and challenging (Andersen, 1997). Furthermore, the theory is more suitable for use by international companies from 'old' industrial branches or services and less for small technological companies from the high-tech sector. The Eclectic theory is also based on the neo-classic economic school, and the unit of analysis is either the company or the State.

3.5 Internationalization Theory

The International Theory, an evolutionary, time-dependent, incremental model (Oviatt and McDougall, 2000), maintains that companies enter a foreign market gradually and evolve while transferring increasing quantity of resources in the direction of global markets. The fundamental assumption of this model is that organizations are, first and foremost, established in local markets before going abroad (Johanson and Vahlne, 1977). According to this theory each organization enters overseas markets through a series of developments: first, indirect export followed by direct export, afterward agents and then by developing a local subsidiary until local production takes place. The source of this theory is the research conducted by Johanson and Vahlne (1977; 1990). According to their theory, when organizations learn about foreign markets they become more committed to them. Other researchers (Andersen, 1993; Turnbull, 1987) claim there is a lack of empirical knowledge and contradictions with findings from the field, which
testify to difficulty in determining boundaries between the developmental stages of firms and their entrance into overseas markets.

Thus the premise of the model is that the main obstacle of internationalization is lack of knowledge stemming from lack of experience in penetrating international markets. Experience and knowledge of a company is acquired by company activities so that any increase of knowledge about the market leads to an increase in commitment to the market which in turn results in further knowledge about the market (Ellis 2008).

In the beginning the researchers limited the focus of the theory to expanding company activities within the existing market (as described above). Nevertheless in their later studies they extended their theory to new markets. The model presumes that companies internationalize first to neighbouring countries (from a cultural perspective) and then as they accumulate experience the company will internationalize to markets of more distant cultures. The concept soon became the logic prevailing in research of internationalization, Nordstrom and Vahlne(1994;42)asserted that 'the tendency to start the internationalization process in markets close- in terms of psychic distance – to the home market….no doubt makes sense' while others, such as Stottinger and Schlegelmilch ,(2000) encouraged psychic distance research on " the assumption that managers are less likely to initiate and/or pursue business relations with countries perceived to be dissimilar."

However, though the theory soon became logic prevailing in IB research, empirical research conducted throughout the years found a weak link in the best case between "psychic distance" and company internationalization. Benito and Gripsrud (1992) checked 201 investments made by 93 Norwegian companies in Norway and did not find any connection between psychic distance and the investment plan. Engwall and Wallenstal (1988), who checked the history of internationalization of three Swedish
banks was also unable to find a connection between psychic distance and internationalization plans. In contrast, other studies have been able to establish a connection (Dow, 2000; Johanson and Wiedersheim-Paul, 1975).

One of the reasons the psychic distance is an unsuccessful indicator of internationalization of companies, stems from the fact that internationalization is an activity which is accompanied by great risk and the failure of a company can be fatal for the company, thus companies invest many resources into penetrating foreign markets. With so many risks involved, the costs required of a company to overcome the psychic distance are marginal in comparison to other costs thus they do not constitute a fundamental consideration in the decision making process of the strategy to be applied for internationalization (Ellis, 2008). This perhaps explains why with low risk investments like export, a direct correlation was found between the variables in companies that mainly applied low risk export entry mode (Dow, 2000) and no correlation was found in relation to the decision of high risk investments (Benito and Gripsrud, 1992; Engwall and Wallenstal, 1988).

It is still difficult even to establish the connection between psychic distance and the manner of internationalization of export companies only. This is due to the fact that factors external to the company (brokers, buyers) on the whole are those that initiate the connection with the exporter so that in actuality they serve a more significant role than the exporter (Bilkey, 1978; Ellis, 2000, 2008). Furthermore, the psychic distance measures the distance between the seller and the country and the obvious conclusion is that the studies have not been measuring the correct variable (Ellis, 2000). In the following section we review and summarize the research on the psychic distance and cultural distance domain.
3.5.1 Cultural Distance and Psychic Distance research

Psychic distance and cultural distance are two of the more widely used and studied concepts in the research literature. However, their use in literature is confusing, even though each concept has a different meaning and diverse applications for managers and researchers. According to the researcher, cultural distance is a concept that distinguishes between cultural groups and populations while psychic distance, by contrast, distinguishes between individuals (Sousa 2006).

Cultural distance has been dealt with extensively in the literature (Borkema, 1996; Kogut and Singh, 1988; Shenkar, 2001) but the most comprehensive research on this subject was conducted by (Hofstede, 1980, 1997, 2001), as an organizational psychologist of multinationals. He gathered information regarding the approaches, values and norms of 100,000 workers in 40 countries as the basis for a very broad comparative study regarding cultural differences between different nations. The variables he studied included: the individual versus the group, power distance, machismo, love of versus hatred of risks. These variables helped him clarify the placement of different societies on a scale that determined the degree of stratification in different cultures, the level of individualism versus collectivism, etc.

The findings show that the developed Western countries received high grades in individualism and have a low power difference, in comparison to South American and Asian countries which emphasize collectivism and have larger power differences. These findings explain, to a certain degree, the emphasis that Asian companies place on teamwork and the ability to build cumulative, intangible assets for longer periods of time than Western companies, in comparison to the West's dynamism, larger professional mobility and greater creativity which leads to the growth of new industries.
Kogut and Singh (1988) were the first to integrate Hofstede's findings into a framework for measuring cultural distance between countries. Both psychic differences and cultural differences can be used to explain many phenomena covered by the field of international marketing research, for example the degree of adaptation of marketing strategies (Leonidou, 1996), penetration strategies (Agarwal, 1994), and control of export channels (Bello, 1997), etc.

The concept of psychic distance was developed by Johanson and Vahlne (1990, 1997) (Uppsala model) to explain the incremental penetration into foreign markets and is defined as differences in language, culture, values and business practice that disrupt the transmission of information between the company and the market. The greater the psychic distance, the more disrupted the transmission of information will be. While studying a market, a company can overcome the psychic distance, so that the more intense the study, the less the psychic difference. Hence, this theory maintains that companies begin internationalizing in markets that are at a minimal psychic distance from them and gradually move into markets at a greater psychic distance. Since then research on psychic distance has become one of the most popular streams of research in IB (Malhotra 2003)

According to Bell (1995) and Arenius (2005), psychic distance is not the only a consideration that born global companies use when choosing their penetration methods. They also consider their managers' experience and connections in the markets. In their opinion, this provides a better explanation for the way that target markets are chosen. However, is it not possible to assert that the managers' experience and connections were created by learning the market, thereby causing a decrease in psychic distance?
3.6 Born Global Firms

In the research literature, it is possible to find a distinction between two main types of organizations: traditional SME organizations and the companies that are called "born global." Bell has (2006) added an additional category, "born-again global firms," organizations that contradict Johanson's evolutionary stages.

Born global companies are entrepreneurial firms with innovative technology or processes or which have a business model with added value in the market (Mckinsey, 1993). The common characteristic of these companies is that they enter global markets quickly by turning into a lead market or a global niche market, often while ignoring their local market (Knight and Cavusgil, 1996; Bell, 1995; Coviello, 1994).

In contrast, traditional companies tend to adopt a more opportunistic model for internationalism, focusing on penetrating markets with less psychic distance. Unlike the born global companies that choose niche markets, traditional companies turn to lag markets and are generally pushed into foreign markets because of cash flow difficulties, a need to dispose of excess production ability or imitating competitors (Bell, 2006).

The third category described in the literature is that of born-again global companies, which are actually traditional companies that adopt a born global approach following a change in management that brings experience and foreign connections or acquisition of a company that has ability and experience abroad.

There are a broad range of empirical definitions for BGF. Mckinsey defines BGF as a company internationalizing within two years of its incorporation. Knight and Cavusgil (2004) define BGFs as companies that internationalize within three years of their establishment, while McDougal and Oviatt (1994) uses a wider definition of eight years. Other studies specified time periods of six years, so that the studies in this field define a
broad period extending from two years to eight years of the BGFs entrance into the markets abroad after their foundation.

Studies show that BGFs tend to be established in small countries with open economies, advanced technologies that have undergone expedited globalization processes, opening of markets to global competition and deregulation of markets (Chetty and Campbell-Hunt, 2004). Furthermore, these countries are characterized by a limited local demand for products, which forces the BGFs to adopt a global perception from the time of their establishment (Knight and Cavusgil, 2004). Among the markets surveyed which were found to be fertile ground for the establishment of many BGFs we can include Israel, Finland, Sweden, Denmark, Australia, New Zealand and Taiwan (Gabrielsson and Kirpalani, 2004).

Today there is no coherent theory that explains the reasons and the way in which BGFs internationalize (Knight and Cavusgil, 1996, 2004; Oviatt and McDougall, 2005). Specifically, an explanation of the acceleration process of internationalization is lacking (Shrader, Oviatt, and McDougall, 2000). The theories existing in IB research do not explain these processes and this is especially true of the stage theory which is incremental and deterministic by nature (Knight and Cavusgil, 2004). One of the main directions of research relates to the character of the managers/entrepreneurs and describes them as having a global orientation, innovative, risks taker and is proactive by nature especially in reference to international outlook (Blood-good, Sapienza and Almeida, 1996; Etemad, 2004). The entrepreneurs were depicted with high tolerance for psychic distance in complete contrast to traditional IB literature.

The same three factors also appear in the definition of the social entrepreneurship organizations, i.e. risk takers, innovative and proactive, but how mangers/entrepreneurs in BGFs uses these factors is not clear (Knight and Cavusgil, 2004)
Since the common theories of IB research do not explain the processes and reasons for the manner of management of BGFs and since the unit of analysis in IB research is country/industry or company and almost no study is at the individual level (Freeman and Cavusgil 2007), which in the case of BGFs plays a very significant role in the decision making process (Freeman and Cavusgil 2007). This caused the researchers to adopt theories from other management disciplines and despite these researchers in this field still claim that an integrative and holistic theory that acknowledges the unique traits of BGF as innovative, risk takers and proactive is warranted (McDougal and Oviatt, 2000).

Two theories that lead in explaining the internationalization of BGFS are the Resource-Based View (RBV) (Autio, 2005) and the Network theories (Oviatt and McDougall, 2005).

3.6.1 The Resource-Based View (RBV)

The resource-based view (RBV) was developed by Wernerfelt (1984) and Barney (1991). Barney (2001) criticised two accepted assumptions of micro-economics. The first assumption asserts the homogeneity of organizations in the same branch of industry, with the basis of this assumption rooted in the principle that organizational resources are identical and the difference between organizations rests in their size. The second assumption is that organizational resources are mobile, and therefore, if they are missing they can be purchased on the factors of production market.

According to RBV Theory, the objective of every organization is to develop and leverage its resources in order to create a strategic advantage. As stated by (Amit and Schoemaker 1993), resources are the accumulation of accessible factors controlled or owned by a firm. According to (Grant 1991), resources are inputs that are transferred to the firm’s production process such as capital, personal skills of individuals in the
organization, patents and finances. What this means is that the combination of several resources in order to create a strategic ability can give the firm a sustainable advantage.

Some organizational resources are tangible. Tangible assets are defined as organizational assets that can be measured, and for the most part, can be bought in competitive markets. Hence they are tradable; they do not give the organization a long term competitive advantage (Hall 1991). In contrast to these, companies also possess intangible resources refer to a broad range of assets such as intellectual property (IP), and organizational culture and reputation. An intangible resource is every organizational aspect that intersects different organizational activities and connects its different parts (Hall 1991).

The assumption is that strategic abilities and not resources on their own give the organization a sustainable competitive edge. Strategic abilities are defined as the organization’s ability to unite resources through organizational processes with the objective of creating end products.

In contrast to purchasable resources, strategic capabilities are usually impossible to buy, and consequently, the organization must develop them on its own. Given that they cannot be purchased on the market and that they take a great deal of time to develop, these abilities are very valuable, unique, rare and hard to replicate (Barney 2001; Aaker 1989).

As noted, strategic capabilities develop as a result of mutual relations between the organization’s tangible and intangible abilities, and therefore, the organization’s knowledge base embraces and reflects its abilities and it is a key source for the development of a sustainable competitive advantage (Prahalad and Hamel 1990). Research in the area mapped five main strategic capabilities: the ability to adopt a strategic approach, the ability to innovate, the ability to take risks, the ability to make
and implement changes and the ability for organizational learning (Barney 2001; March and Levitt 1999; Prahalad and Hamel 1990). RBV Theory is considered, within the IB and BG literature, to be one of the main strategies used by managers when internationalizing (Autio, 2005; Young, Dimitras and Dana, 2003). Oviatt and McDougall (1994) defined BG companies as: "a business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sales of outputs in multiple countries". In order to succeed in international markets, companies must possess the appropriate resources (Busenitz and Barney 1997), with valuable resources leveraged effectively for success (Hitt et al 2000). According to (March and Levitt 1999; Lane and Lubatkin 1998), intangible resources such as knowledge contribute to the success of internationalizing companies. According to (March and Levitt 1999), developing marketing companies will try to absorb organizational knowledge and intangible resources when they cooperating with partners in foreign markets. According to researchers (Oviatt and McDougall's 1994; Zahra et al. 2004), BG companies use advanced technology in order to overcome obstacles to rapid internationalization and entry into foreign markets. Consequently, RBV Theory is one of the two main theories (alongside Network Theory) that explain the BG phenomenon. Despite the centrality and importance of RBV Theory in explaining the internationalization process of companies, the theory still only focuses on and explains the organization’s internal factors. It does not relate to external factors, and therefore, its explanation only partially elucidates the phenomenon. Furthermore, researchers in the area have focused on describing the strategy or tools managers draw from the theory but there are no studies that explain, as part of a coherent theory, under what conditions managers adopt certain tools or strategies as opposed to others. For example, in RBV Theory, studies have noted the factors that managers use when internationalizing
(tangible and intangible assets, different types of strategic abilities) but the research has not explained when and why companies choose one type of strategic ability over another when internationalizing.

3.6.2 Network Theory

A networked organization is an organizational structure that enables several members to join together with the common bond being a business objective and not a rigid legal contract. The main purpose of a networked organization is to facilitate inter- and intra-organizational actions. This type of linkage has special significance in a world more and more characterized by strategic pacts, partnerships and other forms of horizontal relationships within and outside of firms.

According to the researchers (Dyer and Singh, 1998; Rockart and Short 1991), organizational networks are a form of mutual relations within a firm and between firms designed to enable them to conduct work. An organization that develops the right strategic network, in addition to its strategy, is liable to be more successful than companies lacking such organizational networks (Dyer and Singh, 1998).

Organizations are networking as a result of the intensive competitive pressures characterizing markets over the past decades (Dyer and Singh, 1998). These pressures are: increased pressure to globalize, the shortened lifespan of products, increased efforts to manage risks, global financial crises, the attempt to provide services, and international level quality and efficiency (Quinn and Anderson 1996).

Broad empirical research of international markets and the purchasing of industrial products (the IMP project) conducted by European countries at the end of the 1970s and through the 1980s demonstrated the importance of close and continual business relations between suppliers and customers for business success (Ford 1997; Hakansson 1982; Turnbull & Valla 1986). Leek, Naude and Turnbull (2003) claim that following the
increase in demand for technological innovation and the rise in economic efficiency, the complexity of relations between organizations also increased and organizations cannot be satisfied with simple customer-supplier relations. To be precise, companies must maintain relationships among multiple partners within a network and continuously manage them in order to succeed.

Coviello and Munro (1995, 1997) undertook an empirical study of the internationalization of small software companies and found that network relations impact on the choice of the foreign market to be entered, as well as the entry mode. Other researchers examined networks in the context of internationalization (Knight, 2000, Bell, 2003, Murray, 2002), the place of FDI (Chen & Chen 1998), the internationalization of companies in developing markets (Elango & Pattnaik 2007) and rapid internationalization (Loane & Bell 2006).

One factor impacting on the performance of BG companies is the speed of internationalization (Crick and Spence, 2005). However, BG companies lack resources and knowledge, which constrains them during a rapid process of internationalization (Welch and Luostarinen, 1988), and in addition, small companies seemingly lack the time to integrate prior knowledge and develop an international strategy before they assimilate it (Johanson & Vahlne, 1977).

Uebasaran (2002) claims that internationalizing is a risky process and managers of small companies are generally unable to manage uncertainty in contrast to large, established companies. A number of studies (Chetty and Campbell-Hunt 2004; Johanson & Vahlne, 2009) assert that in the absence of knowledge and economic resources, BG companies must rely on networks in order to succeed when internationalizing, and therefore, these companies must create and exploit quick opportunities while maximizing the marginal resources at their disposal so as to survive in the dynamic
environment in which they operate (2004). Consequently, a central factor that has been identified as contributing to the success of internationalizing BG companies is having an international network (Johanson & Vahlne, 2009). Several researchers (Chetty and Campbell-Hunt 2004; Freeman and Cavusgil 2007; Freeman et al. 2006) listed a number of key strategies that BG companies use in order to overcome barriers to internationalization (Personal Network, Use of Advanced Technology, Client Followership, Collaborative Partnership and Multiple Modes of Entry).

Despite its centrality and importance in explaining the internationalization of companies, Network Theory still primarily focuses on and elucidates extra-organizational factors and relates less to intra-organizational factors, and therefore, offers only a partial explanation for the phenomenon of internationalization. Furthermore, researchers in the area have focused on describing the strategy or tools managers draw from the theory but there are no studies that explain, as part of a coherent theory, under what conditions managers adopt certain tools or strategies as opposed to others. For example, in their discussions of Network Theory, researchers note several strategies managers use when internationalizing (see the above list) but do not explain when or why these companies choose one strategy over another.

Johanson & Vahlne (2009) defines a firm that is well established in a relevant network as an "insider", however they argue that "insidership is a necessary but insufficient condition for successful business development", Additionally, Johanson and Mattsson (1988) developed a network model for the internationalization of BG companies in which they stress the importance of networks outside of the company’s existing business networks. However, according to (Johanson & Vahlne, 2009), BG companies, because they lack resources and experience, may have difficulty in penetrating new networks. And hence are focus in their existing networks.
3.7 The Prospect Theory and Strategic Reference Points: Their Influence on Risk Taking

In this literature review, we examine the claim that correct selection of reference points influences the amount of risk that an organisation will take. Furthermore, the conceptual map put into practise after selecting the appropriate reference point will also influence the organisation’s desire to take risks. This thesis is presented through a literature review dealing with the levels of risk those organisations to take upon themselves and the potential profit connected to different risk levels.

Extensive research on risk and return has been conducted in the fields of economics and management (Bowman, 1980; Mintzberg, 1998), where the economists’ accepted assumption is that decision-makers are risk-averse by nature and they will choose a risky investment only if it brings with it potential for a high return, meaning that economists expect to find a positive connection between the level of risk and the expectation of profit for the organisation.

A change in this concept followed the work of Kahnman and Tversky (1979), which developed the prospect theory. Their principal claim is that decision-makers are risk-adverse only when the options they face are identified with profitability but if the decisions are identified with potential losses, decision-makers become risk seekers. Later research (Fiegenbaum and Thomas, 1991), applied this theory on both the individual and organisational levels: organisations in a state of loss will exhibit risk-seeking behaviour while profitable organisations behave in a risk-averse manner.

Bauman (1980) was the first to report a negative correlation between an organisation’s profit levels and the degree of risk in its performance, a phenomenon that was considered paradoxical because it contradicted the accepted concept of a positive correlation, which was based on the assumption that organisations are risk-averse.
Bettis (1985) researched the correlation between diversification strategies and organisational performance and came to the conclusion that organisations adopting a connected diversification strategy will achieve superior performance in terms of large profit for a low risk, meaning that the correlation between risk and return is negative, in this case.

Fiegenbaum and Thomas examined the ramifications of industry and time period on the correlation between risk and return and found a correlation between the economic nature of the time period they studied (1969-1979) and the correlation between risk and return. In stable years, they identified a positive connection but the connection was negative in turbulent years.

The reality of both positive correlations between risk and return (the prior opinion) and negative correlations were the motivation for adopting the prospect theory, which explains the existence of both types of correlations on the basis of the company’s situation: a positive correlation if the company is profitable relative to its reference point but a negative correlation if the company is at a loss, relative to its reference point. Fiegenbaum and Thomas applied this theory to examine the correlation between risk and return for 2322 organisations in 42 industries over a period of 20 years (Fiegenbaum and Thomas, 1991). The finding from their research showed a negative correlation between risk and return for organisations whose performance was beneath the average profit in their branch and a positive correlation for organisations with above average performance. These findings support the assumptions of prospect theory that organisations are risk-seeking when they are beneath their industry average and risk-averse when they are above the industry average.

In conclusion, recent findings show that the points of reference influence levels of return and risk and open an important window for strategic management because they
point out the possibility that selecting the correct reference points can have a positive effect on an organisation’s business results.

### TABLE 3.1: STRATEGIC CHOICE BEHAVIOR PROPOSITIONS

<table>
<thead>
<tr>
<th>Current situation</th>
<th>Above reference point</th>
<th>Below reference point</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perception of new issues (Jackson and Dutton, 1988)</td>
<td>Satisfied ‘Sitting on top of the world’</td>
<td>Dissatisfied ‘At the bottom looking up’</td>
</tr>
<tr>
<td>Organizational processes (Staw et al. 1981; Dutton and Jackson, 1987)</td>
<td>Constricted Rigid Centralized</td>
<td>Open Flexible Decentralized</td>
</tr>
<tr>
<td>Nature of response or behavior (Kahneman and Tversky, 1979)</td>
<td>Risk – averse Conservative Defensive</td>
<td>Risk - taking Daring Offensive</td>
</tr>
</tbody>
</table>

Adopted from A. Fiegenbaum et al., 1996

### 3.7.1 Previous use of Reference Points and related theoretical perspectives

The concept of ‘reference points’ originated in perceptual psychology (Kahneman and Tversky, 1986), as an outgrowth of the claim that the individual’s perception when weighing up alternatives is subjective and not objective (Festinger, 1954). Consequently, no formal theory has developed around the idea of reference points (Fiegenbaum, 1996; Kahneman and Tversky 1979).

In laboratory studies of Prospect Theory, researchers (Kahneman and Tversky, 1986) defined reference points in monetary terms. Other studies attempted to test the theory in “real life” situations. Puto (1987) used messages of loss or gain in sales letters to buyers, in the aim of influencing their reference point. Fiegenbaum and Thomas (1988)
and Fiegenbaum (1988) used the return on equity (ROE) of the industry’s median point, as a reference point for companies.

These studies indicate that any variable that highlights a particular objective, seems capable of establishing a reference point, and as a result, creates a framework for organizational/individual decision making (Fiegenbaum, 1996).

In fact, a number of central theoretical perspectives from the field of economics, and psychology as well as organizational theory attempted to identify a reference point (inside of or external to the organization), in order to detect deficiencies vis-à-vis industry competitors, and by positioning themselves relative to their competitors, to improve the organization’s capabilities and aspirations (March and Simon, 1958). Nevertheless, each perspective theories focus on other elements and content in order to establish a reference point (Fiegenbaum, 1999).

Table 1 provides an overview of all the main perspective theories and examples of earlier research that used reference points.

Industrial organizational economics (Porter, 1980, 1985), resource dependence (Pfeffer and Salancik, 1978) and institutional theory (Meyer, Scott and Deal, 1983) each emphasize the importance of an external reference point in making strategic decisions.

In contrast, RBV (Barney, 1991; Wernerfelt, 1984) and motivation theory (Latham and Yuki, 1975) stress the importance of internal reference points for organizational behaviour and strategic decisions.

In addition, the literature in the area of corporate identity (Dutton and Dukerich, 1991) and strategic intent (Hamel and Prahalad, 1989) stresses, among others, the dimension of time in organizational behaviour (Fiegenbaum, 1996, 1999).

All the literature perspectives described hereinafter select a reference point against which they gauge the organization’s strategic decisions; however, each perspective
deals with a different type of content – that is, different reference points, and therefore, the points of comparison are different (Fiegenbaum, 1996, 1999).

For example, Industrial organization economics is “competition” based and this functions as its primary reference point. RBV is focused on assets and organizational capabilities, and these serve as its main reference points, whereas institutional theory and resource dependence relate to, among others, external reference points such as suppliers, customers and other stakeholders.

The various perspectives offer a broad spectrum of potential reference points, with each perspective containing “a part of the puzzle” (Fiegenbaum, 1999), which delineates a private decision making framework.

**TABLE 3.2: RELATED THEORETICAL PERSPECTIVES: A SUMMARY**

<table>
<thead>
<tr>
<th>Theoretical perspective</th>
<th>Reference point emphasized</th>
<th>Fundamental prescription</th>
<th>Citation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Individuals</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Groups</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Firm–wide resources</td>
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<td></td>
</tr>
<tr>
<td></td>
<td>• Capabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Industry</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Key competitors</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Suppliers</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Customers</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Stakeholders</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Interdependencies</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Past traditions</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Philosophy</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Long term purpose</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Mission</td>
<td></td>
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</tr>
</tbody>
</table>
3.8 Literature Gaps

Since the development of BG, the focus has been on addressing how traditional companies are internationalize and a substantial body of empirical work has been developed put in ref, In the past few years researchers (Chetty and Campbell-Hunt 2004; Freeman and Cavusgil 2007; Freeman et al. 2006) have tended to combining theories from other disciplines such as RBV (Busenitz and Barney 1997), Network Theory (Chetty and Campbell-Hunt 2004; Freeman and Cavusgil 2007; Freeman et al. 2006) and System Theory (Buckley 2007). For example, Johanssen and Vahlne (2008) attempted to integrate Network Theory into Stage Theory - Buckley and Casson (2007) also tried to adapt TCA Theory by incorporating a system approach in it. Nonetheless, whilst these provided new insights into understanding internationalisation, they are still founded on the original theories........ Buckley himself (2002) criticised such attempts...Wilkins (1997) claims that if IB research remains an interdisciplinary collage of different approaches without any identifiable unifying theory, it is liable to turn into “no field at all” (p. 180).

In light of the above discussion, we point out that despite the research in the IB field, and particularly on BG companies, the existing literature has a number shortcomings. These include:

- The two theories that have been in the forefront of the research literature for the past four decades: Buckley and Casson’s TCA Theory and Johanssen’s Theory of Stages. These theories were developed in an era when the pace of internationalization was slow and unidirectional: geopolitically, the world was bipolar and mired in a Cold War. Many of the developing markets were blocked (the Communist Bloc including the USSR, Eastern Europe, China and other countries in Asia) and the remaining countries demanded high import tariffs in order to protect their local products.
Technological development was slow, localized and protected by the country in which it had been developed.

Today, this is no longer the case. Technological development, especially developments in the field of communication, the Internet and media, has changed the matters. Some of the previous obstacles to internationalization have been removed and small companies are now able to leapfrog over remaining obstacles. Speed of tech change and communication with the internet following the gigantic global changes both in geopolitical and technological terms, empirical studies (Benito and Gripsrud 1992; Dow 2000; Engwall and Wallenstal 1988) have been done which challenge the basic assumptions of the theory of stages regarding the incremental way companies internationalize. These studies showed that companies skip stages (Benito and Gripsrud 1992). Companies do not take cultural differences into consideration as a the main factor when entering a market (Dow 2000) and do not increase the pace of internationalization (Engwall and Wallenstal 1988) as they learn more about the market they have entered, as predicted by the theory.

- The limitations of the TCA theory are: first and foremost it is difficult to measure a priori (Dunning, 2000); furthermore companies make decisions about internationalization and the type of entry mode not only on the basis of the cost of the transaction but also on the basis of other factors such as global integration and the market force (Anderson, 1997; Dunning, 2000). The theory does not take into account strategic considerations like opening subsidiaries to the markets in order to gather market research from the market or utilization of R&D is preferable (Anderson, 1997; Dunning, 2000). In addition, TCA is static in nature and does not take into consideration possibilities of entering the market by means of more than one strategy simultaneously, i.e. cooperation and also establishment of a subsidiary.
at the same time (Dunning, 1995, 2000). Likewise, other considerations not taken into account are those such as tacit knowledge and intangible assets, which is considered in RBV (Busenitz and Barney 1997). Additional criticism voiced about TCA is that it is passive in nature, i.e. by using the model we adapt to the conditions of the environment instead of creating convenient conditions for the organization (Dunning, 2000).

- The leading theories in the IB literature regarding internationalization were developed by economists educated at the feet of neoclassical economists and who assert that internationalization is based on rational considerations and risk avoidance (Ellis 2008). The IB field has ignored new developments in the field of economics, especially the developing stream of inquiry into behavioural economics developed by Kahneman and Tversky (1976). Behavioural economics takes into consideration irrational or emotive behaviour, and therefore, may be more appropriate for the study of BG companies. Researchers such as Oviatt and McDougall (1995) claim that entrepreneurs behave differently than other managers, particularly in the way in which they evaluate risks and risk-return relations. Busenitz and Barney’s study (1997) supports this observation and describes managers of BG companies as risk-takers, innovators and proactive. Prospect Theory (Kahneman and Tversky 1976) is in line with the findings of these researchers and asserts that individuals use ‘reference points’ when looking to predict potential, accepting or rejecting risk, depending on their perception of themselves as being below or above their reference point (Kahneman and Tversky 1976). Companies that perceive themselves above their reference point will be risk-haters, but companies that perceive themselves below their reference point will be risk-lovers. These latter companies will prefer risky projects with low predicted returns (Fiegenbaum, 1996).
Despite much evidence in the literature that established companies may also behave as risk-seekers, which contradicts the theory of stages, and that on the other hand, BG companies behave both like risk-seekers, innovators and proactively as well as risk-averts and reactively, today there is no theory that can explain why and when companies (regardless of their designation as an established or BG company) will be risk-avoiders and when they will risk-seekers.

BG is under researched, both in terms of scope and methodology, with the majority of studies based on a small number of cases (Chetty and Campbell-Hunt 2004; Zahra 2005), and in addition, most of the sampled companies having internationalized through direct export, which adds to the homogeneity of the cases and the difficulty in generalizing beyond these cases. Moreover, most research focused on developing countries and a limited number of states, mainly Australia, New Zealand, Singapore, England and the U.S.

IB research centers on the country/industry and the company as unit of analysis, and to the best of our knowledge there is almost no literature which focuses on the individual as an analytic unit, even though each decision, even if made by a team, in the end is made by an individual decision maker more dominant than the others (Pfeffer, 2001) no matter how many management stations or echelons traversed in the decision making process, especially in SMEs, where the owner-manager will have the final say.

The research literature in the BG field describes entrepreneurial firms that internationalized rapidly from the moment they were born and even before they had established themselves in their local market. Yet the literature does not provide a theory for this phenomenon. Furthermore, aside from the first insight about the rapid internationalization of these companies, the literature does not present any discussion
about the behaviour of these companies over time. Does the pace of their internationalization remain the same over time? Or perhaps it becomes even more rapid? (Indeed, according to the theory of stages, the pace of internationalization increases with time; thus, one may conclude that even though start-up companies begin internationalizing more rapidly than traditional companies, with time they will get to know their markets, and in line with the theory of stages, their pace of internationalization will increase even more.) Or perhaps after their initial desire to exploit market opportunities and technological resources that give their companies a strategic edge in international markets (Crick and Spence 2005), start-up companies will grow and develop an orderly organizational structure, similar to that characteristic of more traditional companies, and as a result, will adopt the management style of traditional companies – that is, a slow pace of internationalization over time? As mentioned above, the research literature in this field does not provide answers to these questions.

- The research literature in the BG field that deals with strategies used by companies that are internationalizing generally uses one or more central theories taken from research. The two central theories in the BG literature that explain internationalization and market selection are the network theory and the RBV approach (Chetty and Campbell-Hunt 2004; Freeman and Cavusgil 2007; Freeman et al. 2006; Zahra 2005). A small number of studies use additional theories such as the institutional theory and the theory of industrial economics (Peng et al. 2008). Nevertheless, no one theory combines a number of internationalization strategies and tries to explain under what conditions managers will choose a specific strategy, as well as the link between strategic decisions and financial results.
Also, among the studies that concentrate on one theory (such as network, RBV and others), the researchers focus on describing the theory’s strategy or tools adopted by the managers but do not explain the conditions under which managers will adopt these or those tools offered by the strategy. For example, in the RBV approach, studies (Chetty and Campbell-Hunt 2004; Freeman and Cavusgil 2007) note that the elements managers will use when internationalizing (tangible and intangible assets, types of strategic abilities) but do not explain when and why companies choose one strategic ability over another (and this shortcoming is also true for the network theory, industrial economics and institutional theory).

Buckley and Casson (1998) reviewed the research development of TCA theory over four decades. In this paper, they related the suitability of TCA theory to BG companies and claimed that BG companies behave as predicted by TCA theory. They concluded with a call for more research in the field. Today, we do not know of any study that tried to use TCA theory to explain internationalization behaviour patterns of BG companies. The present research attempts to integrate TCA theory and to examine the conditions under which BG companies operate according to this theory.

In light of the above discussion, it is clear that there are gaps in understanding of the internationalization of BG companies. The present research will contribute to the existing body of knowledge by addressing theses, in particular to linking the internationalization of BG companies and in choosing a market entry mode.

### 3.9 Summary

This chapter presents the theoretical background to the research. It provides a comprehensive review of the relevant literature in different contexts related to
international business, Born Global companies and behavioural economics. The
literature survey is intended to guide the researcher in shaping his study.

The primary objective in preparing the review is to investigate, analyse and develop
broader understanding of the different research disciplines related to studies in the fields
noted above and which were published between 1976 and 2011. This survey establishes
a bank of publications in the fields of interest, which aids in detecting various gaps in
the literature, and as a result, helps channel and shape the research in the area.

The literature review yielded 283 studies, which are organized according to research
area, methodology, research strategy, markets that were studied, research sample,
journal, and year of publication, among others. By conducting this review, gaps and
holes in the IB and BG literature were revealed:

- No study in the IB area combines the field of behavioural economics and Prospect
  Theory, from the perspective that asserts that entrepreneurs are not rational in their
  perception of reality (Freeman and Cavusgil 2007); therefore, Prospect Theory may
  help better explain the internationalization process of BG companies.

- Most studies focus on the manager as the unit of analysis and not the
  company/industry, despite the enormous significance of the entrepreneur/manager in
  the decision making process.

- There is no theory in the area, even though many studies have indicated that
  companies, regardless of whether they are traditional or BG, behave both as risk-
  seekers and risk-avoiders.

- There are no theories in the area that describe the change over time of the rate of
  internationalization of BG companies.

- Most studies explain the internationalization process through the perspective of a
  leading theory. Not many theories try to build a comprehensive theory that can
explain when and why companies use one theory and not another or a combination of a number of theories.

- There is no research that explains under what conditions managers will adopt these or other tools from the theory they have chosen. Studies in the area make do with describing the factors that companies use.

- There are a relatively small number of case studies in the area and these are limited to a few countries. In addition, most cases that were investigated are based on direct import market entry (Ellis 2008).

The need to fill in the research gaps constitutes the basis for our research, as well as shapes and channels it. This research takes the first step and attempt to introduce a new discipline from the field of behavioural economics into the IB field, which is entrenched in the tradition of neo-classical economics, and to combine it with existing strategies in the area in order to create a conceptual model that can link research in the traditional IB field and the BG research stream.
Chapter 4

Methodology

4.0 Introduction

In this chapter we will survey the existing research methodology and choose the appropriate research methodology for our work. In order to determine the most suitable research methodology we review the commonly used research traditions. We will review four different terminology groups and from each group we will select the method that we deem appropriate for helping us resolve our research questions.

The first group of terms concerns the research approach or paradigm, which is based on “a system of beliefs and insights regarding the world and how it should be understood and studied” (Denzin and Lincoln 2000). The research approach reflects the researcher’s hypotheses and relates to ontological, epistemological and methodological issues (Guba and Lincoln 1998).

The second area we discuss relates to the research strategy. This group of terms touches on the operative design and structure of the research—for example, a case study or an action research in the qualitative approach.

Next, we address the research methods primarily used for gathering and analyzing data. There are research methods that suit the qualitative approach such as observations, in-depth interviews or focus groups, or ones that are appropriate for the positivist approach such as questionnaires or structured interviews.

The fourth section concerns selection of the research’s summary report; for example, a case description, a phenomenological description using a qualitative approach or quantitative-statistical descriptions using a positivist approach.
4.1 The Research Approach

Qualitative-interpretive research and quantitative-positivist research are each based on a different, and to some degree contradictory, scientific paradigm. Each paradigm views reality differently. That is, each has a different ontology and perceives the ways to recognize phenomena differently, i.e., different epistemologically.

The term ‘paradigm’ as proposed by Kuhn (1962) denotes the tradition of “normative” science, science whose theoretical assumptions and methods are accepted by those working within its framework.

Today, it is difficult to define well delineated social science paradigms. The positivist paradigm is no longer as dominant as in the past. In the first edition of the Handbook to Qualitative Research in 1994, Denizen and Lincoln listed six paradigms including positivism. Six years later they added a seventh paradigm.

In the literature there is a blurring of the lines between the different non-positivist approaches, though, there are several common differentiations. Delineation is made between the positivist and interpretive approaches, with the latter approach referring to all non-positivist approaches that have a clear subjective component. Whereas in the interpretive paradigm, the constructivist approach to criticism is commonly distinguished from post structuralism. Each paradigm has its own different perception of reality and a different way to recognize it. As a rule, interpretive paradigms present different methodologies from positivist ones, but in and among the various methodologies the differences are minimal.

The differences in the paradigmatic approaches are also evident in research reporting: firstly, in content. This is to say the difference appears in the stated theoretical position and the type of finding it presents. Further, it is also seen in the structure and style. We
will present four central paradigms, which in our opinion are the most widespread in social research today: positivism, constructualism, critical theory and post structuralism.

**4.1.1 Positivism**

Positivism as defined by Auguste Comte in the middle of the 19th century is the implementation in philosophy of scientific empiricism and it expresses the spirit of modern enlightenment. The positivist approach as regards ontology sees reality, including social reality, as a real situation that exists on its own, independent of whoever observes it. In the same way that there are molecules, atoms and planets, there are government institutions, norms and social roles that people fill. According to this approach, social phenomena are not arbitrary, just like natural phenomena, and their behaviour is governed by laws.

From the epistemological perspective, the positivist approach asserts that people are able, through their logical intelligence and through using scientific research instruments, to understand this reality. One can learn about sources and the reason for phenomena and can even formulate general rules about their behaviour, that is, predict how people will react in these or those situations.

Concerning methodology, according to this approach, the researcher must be objective in order to reach these insights about reality, must exclude all ethical attitudes or interests in relation to the research object and rigorously maintain the formal rules of trustworthiness and validity of research management. The research is proven through hypotheses and deduction, that is, by formulating hypotheses first, on the basis of existing theoretical knowledge, and then attempting to prove/disprove them empirically, through observation and experiments. The knowledge generated by the research, which is added to the existing scientific knowledge, leads to better understanding of the behaviour of people and enables the enhancement and streamlining of their activities for
the benefit of all and the advancement of mankind. According to this approach, the cumulative knowledge is the real description of and the correct explanation for the phenomena, as long as it has not been proven otherwise.

**4.1.2 Constructivism**

Constructivism rests on the philosophical phenomenological and hermeneutic perceptions that developed at the end of the 19th century. The phenomenological philosophy developed by Husserl sees in our consciousness the one phenomenon in whose existence we can trust. Our experiences in this world are established in and through our consciousness. Schutz (1967) implemented this philosophy in sociology when he asserted that the people’s consciousness construct the social reality through which they perceive the reoccurring characteristics of phenomena of daily life and transform them into a self-evident social order.

Hermeneutics (Maykut and Morehouse 1994), which means interpretation, emphasizes the interpretive component and the imparting of significance to phenomena and texts, which is basically subjective—in contrast to positivism that focuses on environmental—logical explanations for phenomena.

Regarding ontology, the social reality according to the constructivist paradigm is not a given objective fact, which advances and mediates the actions of humans, but rather is a product of social building. In other words, it is a joint creation of people, which occurs through the interactions they conduct among themselves. These interactions, mediated by a common language, allow humans to reach a mutual understanding and give joint significance to the phenomena they recognize. For instance, our reaction to the other is dependent on the cultural world in which we live and a gesture or statement is liable to be given different significance or interpretation by a person from our social group than
by someone from outside our culture. Our reaction is, accordingly, a consequence of the significance that we attribute to the actions of others.

The term ‘social construction’ (Maykut and Morehouse 1994) denotes that the social order is not a fixed and stable structure but rather a dynamic situation that exists through the unceasing contact between people. Social phenomena are simply the delineations of the situation, agreed-upon understandings between people that are dynamic and context related.

Regarding epistemology, constructivism asserts that reality is perceived subjectively, according to the agent’s set of concepts, values and culture because he is the person observing and experiencing this world. The phenomena can, thus, be known to people only by a subjective perception. These perceptions define the reality and are the basis for their social understanding.

According to this paradigm, the borders between ontology and epistemology blur and reality is shaped to a great degree by the way in which we perceive it, interpret it and react to it.

From this it is evident – as far as concerns methodology – that objectivity in research is an unreliable matter, given that the investigation runs according to his or her existing social constructs in his or her subjective world, and therefore, there is no way to guarantee the researcher’ objectivity.

The object of research carried out according to this approach is not an institution or society as simplified constructs and it cannot predict behaviour or uncover their laws of action as is the case in positivist research. The relational object is the interactions between group members. Research that rests on the constructivist paradigm is interested in the social events occurring in specific situations. It does not explicitly want to
generalize from these and predict the actions of the social networks; rather it seeks to interpret the event or phenomenon.

### 4.1.3 The Critical Paradigm

This paradigm has its roots in the Marxist worldview and has made significant contributions to the literature through the writings of the Frankfurt school. Postmodernist thought also influenced this paradigm. As in the constructivist approach, the critical paradigm also views reality as a social construct. Nonetheless, it perceives reality as being shaped through negotiations between autonomous subjects and not as relativistic. Reality, according to the critical paradigm, is shaped by the hegemony of a social group over the society. According to Gramsci (2004), this hegemony is not exercised through arbitrary and violent power but rather through gaining citizens’ agreement and loyalty by persuading them to recognize the justice and necessity of the existing social and economic order. This persuasion is done by intellectuals operating through educational, religious and media systems that nurture the loyalty to the existing order.

The role of the researcher, according to the critical approach, is to expose these ruling hegemonies, and facilitate citizens’ understanding of their situation and their ability to criticize and oppose these orders.

Epistemologically, using research based on the perception of reality presented above, the critical paradigm seeks to re-examine orderings, methods of action, and ways of understanding in the context of a given historical-political context. It does not accept these arrangements as obvious, but rather continuously tests them and sees how they are created and institutionalized. This exposure and testing is meant to advance social development (Kincheloe and McLaren, 2000).
4.1.4 The Post Structuralism Paradigm

Post structuralism, whose best known proponents are Derrida, Foucault, Lyotard, Lacan and Barth, emerged from the French structuralism of the mid-1900s. Nevertheless, its promoters very quickly became opposed to it and attacked its scientific pretension. In the spirit of modernism, structuralism seeks to create a stable scientific basis for the study of culture and to formulate universal contextual rules of human thinking and behaviour. This approach expressed the basic philosophical viewpoint that asserts the possibility of the existence of a stable foundation to knowledge of the truth, a basis founded on rationalism.

Post structuralism rejects the theory of enlightened knowledge and proposed, according to Lamert (1994), a political opposition to all traditional and modern societal forms including philosophy, in which the structures serve to constrain social freedom. Opposition to the enlightened knowledge point of view is also expressed in the shifting of the subject away from the center, and neglecting the perception of world enlightenment premised on subject versus object in which the subject (the person) shapes the object through the power of his/her intellect. This also has significance for the status of texts. Text as an object does not need to be accepted as a stable declaration and must not be explicated by relating to the writer’s intentions. It must be deconstructed and examined through relating to other texts, to the reality which has impacted on it and which it affects and to the significance its readers find within it (Lamert, 1994).

In opposition to the structuralist approach that exposes the extra circumstantial structures, post structuralism stresses the position of the situational and historical context in human activities, which create different significances for phenomena (Derrida, 2003). Similarly to the critical approach, it recognizes the role of social power...
relationships but differently to it, it does not believe that it is the province of a specific group.

Text that is written in the spirit of post structuralism presents a multi-faceted reality, not necessarily unambiguous. Even if humans act purposefully, they are not always consistent in their actions and speech. Furthermore, circumstances change frequently, forcing them to change.

Despite the elusive character of reality, social constructs, known as “interpretive fields”, shaped through dialogue are created. Consequently, social research operates on two levels. On one level, it is a tool for deconstructing disclosures made in discourse and creating knowledge about the way in which humans establish social constructs and power relations. On the second level, the text created by research constitutes intervention in the social reality by giving a voice to individuals or groups, and thereby it may reinforce or destabilize an existing order.

4.1.5 Summary

All the paradigms reviewed seek to expand knowledge through research and writing. Nonetheless, each paradigm perceives this knowledge differently and attributes different functions to it.

Positivism aims to explain the phenomena of reality through objectivity, to find the reasons in order to improve the functioning of the phenomena under investigation for the benefit of man. Constructivism seeks to reach understanding of the significance that humans ascribe to phenomena and through which they understand reality and change it. The critical approach sees social reality as power relationships between social groups and aspires to create relationships based on social equality and justice. Post structuralism endeavours to disassemble phenomena into their components and examine how these become a self-evident reality and does not accept any situation as a given.
Table 1 presents a comparison of the different paradigms according to a number of characteristics, which were elaborated upon in this chapter.

**TABLE 4.1: SUMMARY OF DIFFERENT RESEARCH PARADIGMS**

<table>
<thead>
<tr>
<th></th>
<th>Positivism</th>
<th>Constructivism</th>
<th>Critical</th>
<th>Post Structuralism</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ontology</strong></td>
<td>Reality is an actual entity that can be known</td>
<td>Reality is created by relations between subjects according to the significances that the participants attribute to the phenomena</td>
<td>Reality is structured and reproduced by participants on the basis of class power relations</td>
<td>Reality is based on power relations established through discourse and changes frequently</td>
</tr>
<tr>
<td><strong>Epistemology</strong></td>
<td>Understanding and senses allow us to recognize and explain reality; findings are discovered through research</td>
<td>Understanding of reality is subjective and relativistic; research and writing produce findings</td>
<td>Reality is explicated by understanding the power relations that shape human awareness; findings are mediated by values</td>
<td>Knowledge of reality is based on power and on contextual understanding of differences; findings are tentative</td>
</tr>
<tr>
<td><strong>Methodological</strong></td>
<td>Strengthening and disproving of theories didactically; testing the relations between individual variables</td>
<td>Findings are produced through induction, focusing on processes occurring in complete social units</td>
<td>Research of the historical conditions that are produced in the local context of the class structure</td>
<td>Research of the discourse in a given historical and political context and their historical progression</td>
</tr>
<tr>
<td><strong>Research objectives</strong></td>
<td>Discovering the sources of phenomena and the reasons for them; predicting behaviour</td>
<td>Understanding phenomena; giving them significance</td>
<td>Exposing the power structures and the control methods at their foundation</td>
<td>Understanding the way in which humans are established as subjects</td>
</tr>
<tr>
<td><strong>Researcher’s position</strong></td>
<td>The researcher holds the knowledge and observes phenomena from the outside</td>
<td>The researcher interprets the phenomena from the inside; he or she is close to the events and may even participate in them</td>
<td>The researcher is a social critic</td>
<td>The researcher has mutual relations with the research subjects while reflexively examining his or her position</td>
</tr>
<tr>
<td><strong>Subject’s position</strong></td>
<td>Provides data anonymously and has no voice of its own</td>
<td>Presented and even sometimes participates in the writing; gets a voice</td>
<td>A subject of criticism; gets a voice</td>
<td>Presented as an agent; reality is presented from its point of view</td>
</tr>
</tbody>
</table>
4.1.6 Selecting the social constructivist research approach

The value of paradigmatic assumptions lies in the fact that they provide a basis upon which research can be built. Paradigmatic assumptions shape the way in which we approach problems, the methods which we use to gather and analysis data, and the type of issues themselves that we choose to study.

We can summarize our choice of the appropriate paradigm through the answers we provide to two fundamental, inter-related questions. The answer to the first question, no matter how we answer it, necessarily delimits the way in which we are able to answer the second question, or any other question (Guba and Lincoln, 1998).

**Fundamental question 1**: What are the characteristics of reality?

The attitude of positivism advocates in regard to this ontological question is expressed by their claim that there is an objective reality and thus the goal is to describe the objective reality as precisely as possible. The adherents of positivism believe that its assumptions enable presentation of the phenomenon under study through its deconstruction into different and separate parts/variables. In contrast, qualitative-constructivist research is characterized by a holistic approach to phenomena (Stake, 1995).

Qualitative-constructivist researchers aspire to understand phenomena and situations as complete entities (Henwoodd 1996; Lincoln and Guba 2000; Rist 1982). The constructivist approach views the world as complex and replete with mutual relations so that research that adopts its assumptions must preserve the complexity of the phenomenon under study (Maykut and Morehouse 1994). The typical holistic position of constructivist assumptions presumes that understanding the context is essential for understanding the reality (Patton, 1980).
The constructivist ontology tends to ascribe great importance to the historical and social conditions in which events and situations occur. According to this approach, it is impossible to understand parts outside of the context and time from which they emerge (Eisner 1979; Huberman and Miles 1994).

Within this context, the aim of our research is to study the internationalization of companies in foreign markets. We will do this through the use of theories from the field of behavioral economics, and primarily, by using Kahneman and Tversky’s Prospect Theory (1976). Studies that have been done in this field and that examined the strategic management of organizations found a strong link between organizational strategic behaviour and the economic/political situation (Fiegenbaum 1996), as well as between organizational strategic behaviour and a company’s life cycle or periods of organizational change (Fiegenbaum 1996). In other words, organizations adopt different strategies in response to perceiving a different external or internal reality touching upon the organization.

According to many research studies (Malhotra 2003; Knight and Cavusgil 2004), the internationalization of a company in foreign markets is one of the most significant and dangerous events in an organization’s life. It is an event in which numerous parameters come into play (economic, political, cultural, etc.), and accordingly, this makes decision making highly complicated – which fact underscores the great importance we will place on understanding the context in which these decisions are made.

**Fundamental question 2**: What are the relationships between the one who knows and the object that is known?

The positivist paradigm asserts that one can have an objective view toward the object being studied (Lincoln and Guba 2000).
Methodology

The supporters of the constructivist paradigm, in contrast, claim that it is impossible to separate the researcher from the object being researched and adopt an attitude of objectivity toward the phenomenon (Guba and Lincoln 1998). The constructivist position views the individual and his world as dependent upon each other, with the observer being part of what is observed and not removed from it. What the observer sees shapes what he will define measure and analyse (Charmaz 2000). According to constructivism, the ‘reality’, which we ascribe to the ‘worlds’ in which we live, is created via the construction (Bruner 1996) of qualitative-constructivist researchers who want to understand the phenomena under study as they are built by the individuals who participate in them.

Within this context, our research uses Kahneman and Tversky’s Prospect Theory and Feigenbaum’s reference point model. The latter theory asserts that decision making is done according to the way in which we perceive ourselves vis-à-vis the surroundings to which we compare ourselves. That is to say, if we perceive ourselves as preferable to our reference group – we are risk-adverse. However, if we were to perceive ourselves as inferior to our reference group, our decision making would be risk-seeking. Studies done in this field showed that our perceptions of our reference group changes in accordance to changes in our basic beliefs or in line with different indicators presented to us. In addition, research showed that different managers perceive the ‘reality’ presented to them differently, in keeping with their basic beliefs, their managerial ideas, etc.

Based on the above discussion, if we would assume the existence of a scientific ontology and an objective epistemology, it would be logical to adopt the positivist paradigm. However, based on the problem that the research attempts to resolve and the research question that we hope to answer consequently, we presuppose the existence of
a relative ontology and an interactive epistemology, which leads us to use the constructivist paradigm that is so much more appropriate for this case.

4.1.7 Qualitative Research

The third paradigmatic research question is: how can knowledge be found? This question is a methodological question. Methodology is a more practical branch of the philosophy of science that deals with methods, systems and rules for conducting research (Guba and Lincoln, 1984). As mentioned in the previous section, if we stipulate the existence of a relative ontology and an interactive epistemology, then the use of a qualitative research methodology is more appropriate. A qualitative research methodology appears more suitable given that our research is an exploratory study positioned at the crossroads of three research fields: IB, entrepreneurship and behavioural economics. The qualitative researcher chooses to use himself and other people as the main information gathering tools (Guba and Lincoln, 1985).

Qualitative research assumes that the best way to understand people is to observe them and join them in their natural environment. The qualitative researcher does not try to influence these or any other variables; nor does he or she try to control or limit them. S/He accepts the complexity of the phenomenon as one whole. His/her strategic mandate is to be holistic and neutral – meaning s/he attempts to get close to the phenomenon under study (Patton, 1980). This is in opposition to behavioural studies and interactions in the artificial conditions of a laboratory, wherein the positivist researcher tries to intentionally control and influence the environment. Qualitative research aspires to learn about people in their natural surroundings and in their normal routines and the research design is naturalistic from the very fact that the researcher does not try to influence the research environment and the object being studied.
Quantitative research is inductive due to the fact that researchers try to understand the situation by paying attention to all the data and without in advance forcing existing knowledge onto the research conditions. The categories to be analysed are derived from open interviews and observations and researchers learn to understand the patterns that exist in the world being empirically studied and not via predetermined research hypotheses.

Carson (2001) proposed three reasons for why qualitative research methodologies are valuable in market research: (1) They focus on acquiring a deep understanding of the phenomenon; (2) They examine the phenomenon without the requiring researcher to have any preconceived opinion; and (3) They concentrate on the “how” and “why”, in addition to “what”, when they try to understand the phenomenon.

For this reason, in order to secure a more in-depth, comprehensive understanding of the internationalization process of Born Global firms through the lens of behavioural economics, the current research is exploratory, and because of the contextual nature of IB, a qualitative research approach appeared to be the most appropriate way forward.

4.2 Alternative Research Strategies Considered

After choosing the constructivist paradigm and establishing why qualitative research is preferable, we now explain how we selected the appropriate research strategy (sometimes called research tradition or research genre). The term research strategy denotes the operative design and research structure. Here each term represents a different and unique research strategy. The general term research strategy refers to specific lines of research such as case study, multiple-case study, active study, anthropology, ethnography, biography, phenomenology, field-based theory and others.

Common to all these terms is that they represent research strategies with a
constructivist-qualitative slant, even though some of them (e.g., case studies) may also use a positivist-qualitative approach.

Croswell (1998) distinguished among five qualitative research strategies according to the degree to which they use a priori theories to guide the research. He placed them at different points along a continuum representing the degree to which the theory plays a part in the research, either before the researchers ask questions and gather data, or after they have gathered the data and asked their questions. For instance, he positioned phenomenology and ethnography as research strategies that use the theory before asking questions and gathering data. Usually phenomenology makes a priori theoretical decisions when examining the significance of people’s experiences. Phenomenologist begin their research within a readymade philosophic framework that provides guidelines for their research. Ethnographists view their research through a strong cultural lens, even though this lens shapes their preliminary findings and questions. Its influence can be restrained and its character changed in the course of field work. According to Croswell, in case study and in field-based theory research strategies, researchers relate to the theory at a much later stage, after posing the questions and gathering the data.

Croswell suggests that researchers must relate to five factors when selecting a research strategy: (1) Research focus – on what is the research strategy meant to focus; (2) The target audience of the research – what are the most widely used research strategies in the area; (3) Researcher’s background – what is the researcher’s specialty and what kind of training has he had; (4) Research literature in the area – what research strategy will make the most significant contribution to the field; and (5) Researcher’s personal inclination – does the researcher feel more comfortable with a more structured approach or a less structured approach.
Whereas all qualitative research strategies work according to the same fundamental assumptions and basic principles for data gathering, there are certain differences in data gathering methods as well as in analysis methods and in the way the final report is written. The typical data gathering process for different qualitative strategies will essentially differ in the weight given to certain techniques versus the weight given to others (e.g., more or less emphasis on observations or on interviews), the degree of reliance on data from a single source versus more than one source (e.g., relying primarily on interviews or combining interviews and archival material), as well as in the type of data gathered.

Of the five strategies outlined by Crosswell, the biographic strategy was disqualified immediately given that its focus is not suitable for the research objectives. Ethnography was rejected for similar reasons. Ethnography is a process of cultural description and interpretation. One chooses ethnography when the objective is to learn about the behaviour of a group with a common culture (Crosswell 1998). Ethnography is a research of culture or of a cultural group as a whole (or of an individual within the group) based primarily on observations and an extended stay by the researcher in the field. The ethnographer listens and records the informative voices in an attempt to create a profile of the culture (Creswell 1989). Ethnographers assume that what unites the human race is the influence of culture on the lives of people and the most important difference between groups of people is their culture (Creswell 1989). Given that the research objective is to examine the decision making in internationalization of companies using principles from behavioural economics discipline, using the ethnography genre would certainly not be suitable. An additional point is that the analysis unit in our research is the manager and not the group.
The sources of the term phenomenology are found in Edmund Husserl’s (Willis 1991) philosophical ideas. Phenomenology proposes a transcendental search for the essence of the human experience (or the central fundamental significance of the experience). The ‘phenomenon’ is an object of inquiry for phenomenologists. They use the term ‘phenomenon’ as a general term in order to describe the real understanding that someone has of real things and events that exist in the world. The ‘phenomenon’ is the event in as much as it is experienced by the subjects who experience it. When one begins to describe a ‘phenomenon’, one starts to convey areas such as outlooks, memories, images, cognitions and more (Crosswell, 1998).

Phenomenologist study the structure of awareness in the human experience (Gall et al. 1996). The phenomenological approach focuses on understanding the significance that events have for the people who participate in them. Accordingly, the phenomenologist tends to limit the informative experience to a central significance or to the ‘essence’ of the experience (Moustakas 1994). Basic concepts in research are defined phenomenologically – that is, in terms of the significance that ideas and actions have for people in a certain situation (Jorgensen 1989). In phenomenological studies, researchers concentrate on understanding the significance of the research objects and the processes on the participants themselves (Maykut and Morehouse 1994).

The phenomenological position sees the individual and his/her world as understood together. The individual is seen as having no separate existence from the world, and the world has no existence when separated from man (Fetterman 1989). According to the phenomenological supposition – without awareness and direction, nothing can be done. It is impossible to achieve anything without being aware of it. Sometimes we do things by chance but we do not know about this until we are aware of it. Consequently, the researcher does not look for the empirical objective existence of the object. Rather he
searches for the phenomenological presence of this object. The reality of the object is perceived only through the significance of the individual’s experience.

According to Crosswell, both phenomenology and ethnography are research strategies that use theory before asking questions and gathering data. Usually, phenomenologists make a priori theoretical decisions when they are examining the significance of people’s experiences. Phenomenological researchers begin their study in a readymade philosophical framework that provides them with guidelines.

Since our research is an exploratory study, drawing its data from three different research fields, each of which is in its own right a young field, we are starting our research only with a conceptual perceptive and not with a formalized theory. Accordingly, we cannot use a phenomenology research strategy that is, as noted above, directed and narrow by nature.

The kind of theorization that develops specific phenomena through research based on the informant’s viewpoint. This type of theory strongly emphasizes listening to the explanations of the participants themselves (Giorgy 1985). What the informants say and their explanations for why they do what they do constitute the building blocks of the theory construction. This is what is known as grounded theory, given that it is composed of the building blocks taken from the field of the phenomenon under investigation. The underlying premise for this type of process is that people do indeed have theories but these theories are not necessarily cohesive and may not have internal continuity. In many cases the informants are unaware of their theories and these theories are based more on the hidden rather than overt knowledge of the informants (Giorgy 1985). During the interview, the researcher attempts to assist the informants in transforming the unknown into the known. The process of turning covert knowledge into overt knowledge is intrinsic to theory building.
Glaser and Strauss (1978) developed the idea of grounded theory, which was given this name because of its emphasis on creating a theory from the data collected from the research participants. In order to build a theory from the data, they developed an analysis model which directs the conceptual coding of an empirical data system. Data constitute the actual information in the same manner as behavioural actions and events described in words by interviewees. The methodology of grounded theory is intended to direct researchers to produce a theory that is dense in terms of concept – that is, replete with conceptual relations. These relations are grounded in a rich context of theory and conceptual writing (Glaser and Strauss 1978).

Strauss and Corbin (1990,1994) pointed out several process of qualitative interpretation that run along a continuum that starts with “do not get in the way of the interviewee’s talking” through to analysis of the topics, clarification of patterns, creating theoretical frameworks or models, and up to a theory formulated at varying levels of abstraction. This scale not only distinguishes between descriptive qualitative analysis and theoretical qualitative analysis, but also between various levels of theoretical analysis. Shermaz (2000) distinguished between two types of grounded theories: One, grounded theory that is objectivist by nature (positivist) and the second, constructivist. Shermaz claimed, moreover, that the traditional methodology of grounded theory as it was developed by Strauss, Corbin and Glaser assumes the existence of an external reality that researchers are able to find and document, an assumption that is more suited to traditional scientific positivist principles. In contrast, the constructivist approach to grounded theory encourages the development of qualitative traditions through study of the experience from the viewpoint of those who live it (Strauss and Corbin 1994). Grounded constructivist theory is characterized by less conceptual density than the theory created through the positivist process of grounded theory.
The theoretical analysis that we are proposing in this research adopts the grounded constructivist theory approach (Strauss and Corbin 1994). The theory that we are attempting to construct from the data is a theory that is applicable to only specific situations. This theory develops, through research, a phenomenon that is situated in the unique locus of people, time and place (Strauss and Corbin 1994), with the objective not of reducing the complexity by dividing it up into variables but rather to increase the complexity by generalizing the context (Strauss and Corbin 1994). In the study we are proposing a four-stage analysis model, which will be discussed in the next section.

Several researchers view the case study method as a methodology that combines different approaches related to how best to investigate the social world in contrast to other approaches (Strauss and Corbin 1994). The advantage of a case study is that it is comprehensive and involves the researcher in describing and analysing all the richness and variety of the organization under study. A case is more than a story that is told well; it carries within it the same virtues, relevance and realism but it goes far beyond illustration alone. It is a scientific, methodical collection of data whose concern is the interaction between factors and events (Yin 1984; Dey 1993).

Case studies are suitable for studying processes that are emergent and non sequential, without clear endings or beginnings. From the firm perspective, case studies enable researchers to understand practice. Understanding how management decision making is used in daily activities provides a rich and detailed study of the decision making of the internationalization process. Yin (1984) argued that findings from survey methods only provide a superficial view of the management decision making process and it follows, therefore, that case studies are suitable for the type of research required for the present study.
Making the decision to internationalize is a complex and context-dependent process. The decisions that are made develop and rely on a great number of factors both in institutional as well as organizational contexts. In the real world these factors are impossible to separate and they are inter-dependent. Moreover, case studies can be combined with other methods (Strauss and Corbin 1994), and build on the strengths of each method. Additionally, according to Crosswell, when using a strategy of case study and grounded theory, the researcher relates to the theory at a much later stage, after positing the questions and gathering data.

4.3 Conceptual Perspective, Research Questions and Research Design

4.3.1 Theoretical assumptions and conceptual perspective
Theories provide viewpoints that are intended to facilitate understanding of the phenomena under investigation. Glaser (1978) claimed that a good theory has appropriate categories for the data and can be used to explain, predict and interpret what is happening. According to Day (1993), theory can provide the necessary direction and organizational framework through which the different concepts that the researcher uses during the study are linked. Theory explains a phenomenon, indicates the concepts that characterize the relevant phenomena, explains links between concepts and provides a framework for possible predictions (Glaser 1978).

Strauss and Corbin (1994) defined theory as possible relations between concepts and conceptual systems. According to Jørgensen (1989), a theory can be defined as a system of concepts and generalizations. Theory provides perspective, through observation or interpretation aimed at understanding the specific phenomenon. Peterman (1989) spoke of theory as a practical guideline. There is no research, ethnography or anything else
that can occur without a model or theory at its foundation, whether it is a clear
ethnographic theory or a personal implied model that elucidates the way in which things
happen. The researcher’s theoretical approach helps him or her define the problem and
the ways in which to deal with it.

Qualitative research, in the opinion of many of its critics, often seems to be missing
theoretical components. Many qualitative research studies have been criticized for being
only theoretical and limited to questions of “why” without relating to “how” issues.
Nevertheless, the theoretical nature of constructivist-qualitative research does not
prevent it from being based on theoretical assumptions. The qualitative researcher does
not begin his work with empty hands nor is he a tabula rasa. Researchers always
approach a study with pre-existing assumptions. Inescapably, researchers interpret their
findings within a certain theoretical framework. These theoretical assumptions are
rooted in the researcher’s earlier personal and professional experiences (Strauss and
Glaser 1967). The theoretical perception that guides researchers is called the
“conceptual perspective”.

Strauss and Glaser (1967) argued against forcing phenomena being investigated into
existing theoretical patterns, patterns developed in other contexts. This argument does
not counter the claim that researchers always come to their studies equipped with
theories. Some of the theoretical viewpoints of researchers are apparent but many are
covert. Even informants themselves have theories, albeit not always consistent and
clear. Consequently, it is not enough to prevent inclusion of an external theory in the
research as Strauss and Glaser (1967) caution. It is essential to check whether we as
researchers are unconsciously introducing our hidden theories into the phenomenon
being studied.
The question that is being asked is not: Are researchers being guided by the theory, prior to raising questions and collecting data, or are they using theory only after completion of these stages? As described above, all researchers, whether aware or unaware, introduce into the research field their theoretical viewpoints. Therefore, the question is: Can the conceptual and theoretical structure which we are using be changed in light of the findings and the insight we have arrived at during the course of the research? In qualitative research, all conceptual perspectives must be accessible and flexible and they are never fully formulated. By nature they require infinite processing and upgrading (Strauss and Glaser 1967). These perspectives enable researchers to decide whether to retain information that has been collected and analyze it deeply or to designate it as irrelevant and abandon it. Researchers begin a study with a certain direction and focus in their heads but they must be prepared to undergo changes forced upon them by new data that is collected (Strauss and Corbin, 1994).

4.3.2 Sources of problems in research

The challenge for the researcher lies in designing good research questions that will adequately orient the observation and thinking. The design of any research mandates conceptual organization, ideas that express the required understanding, conceptual bridges to what is already known cognitive structures to direct data collection and outlines for presenting interpretations to others (Bruner 1985). In constructivist-qualitative research, the research problem generally comes from the real world. Problems grow out of field observations, from real life questions. Research problems are not presented as hypotheses derived from theory such as in positivist research, albeit the researcher may use concepts developed by earlier researchers and formulate the problems similarly to what was done in past research (Bruner 1985 1996). Stake (1995) claimed that the best research questions develop during the course of the research.
The primary focus of qualitative research is not just on relating to specific issues but also on identifying in what place or among which population this issue is expressed (Strauss and Glaser 1967). Qualitative research questions do not concentrate on discovering and finding new elements as in positivist research; rather, they focus on increasing awareness and clarifying understanding of known phenomena and experiences (Strauss and Corbin, 1994).

4.3.3 The research questions and conceptual perspective

As noted earlier, we require a research question that will guide us during the research but will also at the same time facilitate the necessary flexibility to study phenomena deeply. Hence our initial questions will be defined broadly, and as the research process progresses, their definition will narrow and become more focused. Also as mentioned above, there should be a link between the literature review and the delineation of the research questions. However, in qualitative research, in contrast to positivist research, the relationship between the literature and the research questions is more dynamic and less linear. Accordingly, as the research questions are honed, the relevant literature review is also adapted and clarified (Jorgensen 1989). Constructivist-qualitative research questions do not comprise statements of linkage between dependent and non-dependent variables, as is the case in quantitative research, given that we are not examining hypotheses of this kind. According to Strauss and Corbin (1990), the research question in a qualitative study is a declaration that identifies the phenomenon being investigated. It says on what exactly the researcher intends to focus and what he wants to learn about this subject.

4.3.4 An exploratory study as a preliminary research stage

When researchers lack knowledge and data in order to plan the functional part of the research, when they are not sure about the research’s real focus and when they have
difficulties in formulating good research questions, an exploratory (pilot) study is an important tool that helps researchers plan their study. Running a pilot study allows researchers to cope with some of the practical aspects of data collection. An exploratory research enables researchers to examine the different foundations of the techniques of interview and observation, and helps them determine which is more suitable for the research purpose and which is problematic and requires re-examination. A pilot study may help the researcher decide who to interview and what to observe, why, how, when and where (Seidman 1991). There are various ways to conduct a pilot study. If we are dealing with research that is meant to focus on one participant or a small number of participants, one participant can be chosen and interviewed in depth, and if necessary, an observation can also be conducted. If we are dealing with a study with many participants, as in the present study, the most efficient way would be to approach three to five participants (about ten percent of the sample). The data gathering stage of a pilot study must be similar to the data collection process of the entire research, even if it is more limited in scope. The information received from an exploratory study constitutes the basis for deciding how many interviews are needed so that the study’s contribution is guaranteed and so that the effectiveness of the research process will be maintained.

The process of data analysis in qualitative research is complex and exact, covering a number of stages and requiring diligence. The purpose for which the exploratory research was conducted enables us to limit ourselves in the analysis process to a reflective analysis only. A reflective analysis is similar in its principles to an initial analysis, which will be described later in this section. This type of analysis is based on absorbing general impressions, without going into narrow distinctions. Through this process we are able to get an idea of the overall research potential and elucidate the
planned research focus. During the full research we can re-analyze the data collected in
the exploratory research in accordance with the research’s complete analysis processes.

4.3.5 Selecting the research sample
The main way qualitative researchers investigate every phenomenon, organization or
process is through the experience of a single person who constitutes part of the
organization or participates in the phenomenon or process. This claim is also true when
the research involves many participants: Each one is a special ‘case’ (Stake 1995). The
quantitative research method uses a random sample of participants. Randomness is a
statistical concept that depends on having a large number of participants. In qualitative
research, even if it studies many participants, it cannot be expected to deal with the
amounts that quantitative research does. Accordingly, a random, statistical sample has
no significance. Instead of selecting a random sample, we prefer a ‘focused sample’
composed of the informants who best represent the population from which they have
been selected and from whom we can learn about the phenomenon under investigation
(Mason 1996).

Our focused sample was selected from the information Bank of IVC (Israel Venture
Capital) Research Center is Israel's leading research center specializing in analyzing and
monitoring Israel's high-tech industry. IVC's publications provide insights on venture
capital, private equity and high-tech companies. They are used by business leaders,
major financial entities and government organizations in the United States, Europe, Asia
and Israel. These include venture capital and private equity funds, investment
companies, entrepreneurs, academic institutions, and government entities such as the
office of the Prime Minister of Israel and the Bank of Israel. The IVC database includes
over 6,500 Israeli high-tech companies, venture capital and private equity funds,
investment companies, professional service providers, foreign investors and
technological incubators, and over 30,000 key executives. The stricter BG definitions of MacKinsey (see section 1.1.1) guided us in our selection of firms; Accurate segmentation was performed based on those criteria, this segmentation yielded 127 BG firms, invitation emails were sent to the 127 firms, follow ups were made using emails and phone calls to the BG owners, as a result of this follow up 32 senior managers (all owners, 31 males and 1 female) agreed to participate in the research through an interview. The focused sample that we required for our study had to have a number of specific characteristics. Some participants were selected because they know how to express themselves well and are highly sensitive – the characteristics normally required of informants (Fetterman 1989). In addition, however, in terms of our research, the informants also had to be prepared to devote the time required to carry out the research. This point was critical given that the target population comprised CEOs who are owners/entrepreneurs of start-up companies, whose time is always limited and with whom is it always difficult to make an appointment under the best of conditions. A qualitative study, as other research approaches, aspires for its results to have significance beyond the individual cases that are investigated. This ambition is especially noticeable when, as we have here, the study involves multiple participants (our study had 32 participants). This implies that the researchers hope to generalize the findings to broad populations, and in order to validate the generalization for a specific population (entrepreneurs and start-up companies in our case), the informants that are chosen must represent a wide range of people and attitudes of the selected population. Together with this, it should be stressed that the number of participants in a qualitative study will always be too small enough to allow its investigators to generalize from the research sample to the general population. Even a study with 32 or more participants is still not large enough to be representative of a larger population and as emphasized
above, they were not selected statistically-randomly, and therefore, we can only talk about the unique characteristics of generalization that are suitable for qualitative research.

Table 4.2 summarize the profile of average participant by reference point perception of the manager (see section 5.1), while table 4.3-4.4 presents the distribution of the BG firms by industry and by position.

**TABLE 4.2: PROFILE OF AVERAGE PARTICIPANT BY REFERENCE POINT**

<table>
<thead>
<tr>
<th></th>
<th>Group 1</th>
<th>Group 2</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Management Perception</strong></td>
<td>Below R.P.</td>
<td>Above R.P.</td>
</tr>
<tr>
<td><strong>Average Age</strong></td>
<td>42.8</td>
<td>44.25</td>
</tr>
<tr>
<td><strong>Seniority as Managers (years)</strong></td>
<td>16.4</td>
<td>15.3</td>
</tr>
<tr>
<td><strong>International Experience (years)</strong></td>
<td>13.8</td>
<td>14.2</td>
</tr>
<tr>
<td><strong>Numbers of Markets managers were exposed to</strong></td>
<td>9.8</td>
<td>4.75</td>
</tr>
<tr>
<td><strong>Number of Companies managed in the past</strong></td>
<td>2.9</td>
<td>2.2</td>
</tr>
<tr>
<td><strong>Internationalization time to first market</strong></td>
<td>3 – 6 months</td>
<td>18 months</td>
</tr>
<tr>
<td><strong>Internationalization time currently</strong></td>
<td>9 – 12 months</td>
<td>24 – 30 months</td>
</tr>
</tbody>
</table>
TABLE 4.3: DISTRIBUTION OF THE BG FIRMS BY INDUSTRY

<table>
<thead>
<tr>
<th>Industry</th>
<th>Number of Companies</th>
<th>Total</th>
<th>Managers above R.P.</th>
<th>Managers below R.P.</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT</td>
<td>3</td>
<td>3</td>
<td>0</td>
<td>3</td>
</tr>
<tr>
<td>Medical equipment</td>
<td>3</td>
<td>3</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Internet</td>
<td>4</td>
<td>4</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Homeland Security</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Software</td>
<td>5</td>
<td>5</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Clean tech</td>
<td>2</td>
<td>2</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Mobile</td>
<td>4</td>
<td>4</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Bio tech</td>
<td>4</td>
<td>4</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Communication</td>
<td>3</td>
<td>3</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Hardware</td>
<td>3</td>
<td>3</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>32</td>
<td>32</td>
<td>8</td>
<td>24</td>
</tr>
</tbody>
</table>

TABLE 4.4: DISTRIBUTION OF THE BG PARTICIPANTS BY POSITION

<table>
<thead>
<tr>
<th>Position</th>
<th>Managers above R.P.</th>
<th>Managers below R.P.</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Manager</td>
<td>20</td>
<td>7</td>
</tr>
<tr>
<td>V.P. Marketing</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>V.P. Business Development</td>
<td>2</td>
<td>0</td>
</tr>
</tbody>
</table>

4.4 Data Collection Method

4.4.1 In-depth interview

The term interview includes a broad range of techniques. At one end of the spectrum there are highly structured interviews that are used for research surveys. These are the interviews with standard and generally closed questions. This type of formal interview is often essential in order to ensure the uniformity of the interview’s topics. On the other end of the spectrum are open interviews. This type of in-depth interview is more akin to a conversation than a structured and formal interview. In an open interview researchers focus on a number of general subjects in order to assist the informants to reveal their story and uncover its significance, their attitudes and opinions. In this type of interview, interviewers respect the manner in which participants understand and compose their
answers and do not intervene by guiding them (Mason 1996; Seidman 1991; Marshal and Roseman 1989).

The ability of informants to understand narratives is a consideration in assessing the interview’s quality. If our informants have relatively poor verbal skills, we will find ourselves filling in the narrative gap intuitively with our information. In this way two narratives are created – that of the researcher and that of the interviewee (Gudmundsdottir 1996).

### 4.4.2 Basic principles for conducting an in-depth interview

In a positivist-quantitative study the researchers typically adopt the terminology of the field under investigation, and formulate their questions in terms drawn from the research language or as close as possible to this language. Qualitative research, in contrast, is dependent on the language of informants and conducts the interview in their language. Each interview is the product of interaction between the researcher and the interviewee. In-depth interviews are conversations in which both the researcher and the interviewee develop a common significance. In the course of the interview researchers carefully guide the informants, and when necessary, offer new perspectives in order to help the informants develop the narrative.

**Duration of the interview:** According to Strauss and Corbin, the 90-minute interview is the optimal one as far as regards duration. Interviews lasting less than hour do not usually enable informants to understand their story, to place it in the appropriate context and think about its significance. In contrast, two hours or more is too long for most interviewees. As noted above, the target audience we chose is senior managers, mostly CEOs or entrepreneurs/owners, and therefore, conducting a 90-minute interview was seen as a challenge by this population. Fortunately for this research, the interviewees were very interested in the research subject and were ready to devote the required time.
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to the interview. Of 32 interviews, only two took less than one hour (50-55 minutes); 11 interviews took 60-70 minutes; eight interviews took 70-80 minutes; six interviews took 80-90 minutes; two interviews took 90-100 minutes; and one interview took 112 minutes.

Each interview began with an explanatory statement about the study, the interview and the researcher’s fields of interest. The interviewer asked for and received the interviewee’s permission to record the interview. After starting the recording, the interviewees were asked to talk about themselves and their experiences. For some of the interviewees this was enough for them to open up and develop the subject but others required guiding questions.

Technical and organizational structure of the interview:
The interview was split into two stages. The first stage was more open. During this stage questions that opened up topics and facilitated the interviewees’ understanding of their answers were asked (Sparadely 1979). In this stage I used primarily theoretical questions, comprehensive and limiting. In the second stage of the interview, more focused questions can very carefully be introduced (Seidman 1991). This stage of the interview is the ‘time for detailed questions,’ when the interviewer initiates deeper discussions using guiding questions about subjects already brought up. The interviewer can also ask questions about subjects not yet broached (Gudmundsdottir 1996). The division of the interview is not a rigid directive and in the course of every interview, the interviewer can move from one style to the next in keeping with the situation (Gudmundsdottir 1996). Interviews are conducted for purposes of research, and consequently, even though the interview may be open and not structured, the interview must focus on the research questions (Sparadely 1979).
4.4.3 Summary Report

In general, there are two types of basic reports. The first kind is a report of a single case that focuses on a single case study and presents the findings about it. The second kind, more complex, is ‘multiple case studies’ – the collective version of the single case. A multiple case report contains many narratives that are usually presented as chapters or separate sections for each case on its own. Aside from the multiple case narratives, the report also contains a chapter that deals with cross-case analysis and results. The more informants the research has, the more difficult it is to analyse and present each case separately without tiring out one’s readers. Moreover, the objective of a study that involves thirty informants is not to present each case but to compare the different cases and reveal what they have in common and what differentiates them from one another.

Strauss and Corbin (1990) presented three approaches to writing a standard qualitative research report: the documentary approach, the descriptive approach and the theoretical approach. These three approaches can be displayed as points on a continuum on one end of which (the documentary approach) the report includes low level interpretation and abstraction and on the other end (the theoretical approach), the report contains the high level interpretation and abstraction required for theory building.

Strauss and Corbin compared the first approach to that of the work of a journalist. The researcher who intends to present his data with the bare minimum of obvious analysis will adopt this approach. This kind of description may stem from the categories that were created during the mapping stage. This type of description uses the direct language of the participants with minimal intrusion of the researchers’ language. This type of report is not appropriate for a professional, academic report.

The focused descriptive report presents the storyline created during the focused analysis stage. This approach is taken by researchers who are interested in faithfully describing
the phenomenon as they understood it. The descriptive report is similar to what Geertz (1973) called ‘rich description’. This approach undertakes a certain selection and interpretation of the data. As a result of their analysis, the researcher utilizing this approach interweaves theories, quotes and his own interpretation in order to enrich the descriptive narrative. This kind of report gives the informants’ language centre stage. Two main characteristics of focused description are the use of literary techniques and the strong presence of the researcher’s voice in the report (Dey 1993).

The third approach suggested by Strauss and Corbin (1990) and adopted by the present researcher is the descriptive-theoretical approach based on theoretical analysis. While the report allocates an important place for the language of the informants and their culture, it focuses on the theoretical conceptualization of the phenomena by using the theoretical terminology customary in the academic community. This report requires the highest level interpretation and abstraction possible for structuring the data in order to reach a theory that explains the phenomenon being investigated (Lincoln and Guba 1985).

4.4.4 The process of writing the summary report, the descriptive-theoretical report

The report concentrates on presenting theoretical explanations that integrate rich descriptions of the phenomena under investigation. The problematic issue in writing the theoretical description is getting the correct balance between descriptions and theories (Lincoln and Guba 1985). Some researchers believe that there should be rich descriptions with non-invasive additions of analytical assertions. Others encourage the preparation of analytical reports that also include descriptions in the styles of stories. Chapters, sections, sub topics and other components of the theoretical description should be organized along the lines of the theoretical analysis ‘tree’ – that is, the order
of the sub topics should match the theoretical explanation that was obtained in the course of the analysis.

In this type of description separate sections may not be devoted to the stories of individual cases. The information about several cases will typically be presented together in keeping with the categories that have been chosen and according to the analysis emphases. In this type of description, each section revolves around a different issue – a single category or a family of categories. The chapters, sections and other components of the description must be organized according to the logic of the results of the analysis or the logic of the message. The theoretical description is a document that uses the language of the informants alongside the theoretical language, with the theoretical explanation of the phenomena lying at the heart of the theoretical description.

4.5 Principles of data analysis

Data analysis is a process of arranging and structuring the collected information in order to interpret it and understand its significance. Through this process we wish to answer questions such as ‘what’, ‘how’, and ‘why’ (Dey 1993). The analysis involves dividing the data into sections and reorganizing these sections in the aim of creating a revitalized analytical order. Each such ‘section’ constitutes a significant unit; significant units are identified through rigorous reading of the transcriptions. The need to choose a piece of information and categorize it lies at the core of any qualitative analysis. Without a formal process we are forced to rely only on impressions and intuition about the entire mass of data. Two traditions of data analysis in qualitative research exist: structural analysis and narrative analysis. The structural analysis relates to the words and descriptions of the informants. The narrative analysis focuses primarily on what the
informants are saying and not how they are saying it. In the analysis method presented in this research, we will concentrate on narrative analysis using sections of text as the analysis units and not single words.

4.5.1 Encoding processes

The heart of building a grounded theory is the encoding processes, data analysis and interpretation. The grounded theory approach asserts that a solid theory can be built through encoding, done through a systematic and attentive process of revealing variables, explaining the phenomenon and the relations between the two using the evidence collected as a result of the research. According to Strauss and Corbin (1990), encoding must be performed rigorously in order to ensure the research process and the suitable strength to be considered good science. The analysis that is attentive to the data enables the researcher to breach the inclinations and assumptions with which he approached the research and develop the sensitivity necessary to create a rich theory that has sufficient power to explain the phenomenon.

Strauss and Corbin (1990) recommended that encoding be done in three stages. In the first stage, the researcher closely and systematically examines the research data. He reads one sentence after the other, one section after the other and finds the central idea in all of them. In the second stage, the researcher sorts all similar ideas into categories and within these categories, organizes the data into sub-categories. In the third stage, the researcher identifies the relations between categories and the abstract structure – the grounded theory. We present two development methods, one of Glaser (1978) and the second of Strauss and Corbin (1990).

The process of building the grounded theory according to Glaser (1978): Glaser proposed that the researcher should ask three questions: (1) what do the data teach us?
(2) What data category does this event provide evidence about from within the data? (3) What is happening within the data?

According to Glaser, these three questions enable the researcher to display ‘theoretical sensitivity’ and ‘rise above the past’ in regard to the data. They force the analyst to focus on patterns within the data that produce codes and in terms of concept, rise above the experiential details of the data. Each time it seems to the researcher that he has discovered a partial answer to one of the three questions; he should write a memo – a comment describing his insights – along the margin of the coding sheet.

Glaser in his writing described the thinking process that he recommended the researcher adopt: raise basic questions about the essence of the data in order expedite the grouping of the concepts that appear into abstract categories. He advised researchers to study theoretical coding, which splits up phenomena that can be applied to a specific phenomenon such as reasons, results, reciprocal relations and more. Glaser offered 18 theoretical coding families to help in encoding the analysis and to go beyond the datum per se on the empirical level toward scientific conceptuality. These coding families permit observation of the data and their transformation into a theoretical model whose categories explain the phenomenon under investigation. The table 4.5 presents Glaser’s 18 theoretical coding families.
### TABLE 4.5: ENCODING PROCESS

<table>
<thead>
<tr>
<th>Coding Family</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Links and relations between variables</td>
<td>Causes or factors, contexts, continued reactions, conditions, joint changes</td>
</tr>
<tr>
<td>Processes</td>
<td>Phases, passages, stages, steps, circularity</td>
</tr>
<tr>
<td>Measurements</td>
<td>Boundaries, extents, polarization, delineation</td>
</tr>
<tr>
<td>Dimensions</td>
<td>Divisions, sectors, layers</td>
</tr>
<tr>
<td>Types</td>
<td>Type, shape, styles, classifications</td>
</tr>
<tr>
<td>Strategies</td>
<td>Techniques, means, manipulations, tactics</td>
</tr>
<tr>
<td>Reciprocal relations</td>
<td>Mutual influences, mutual implications, joint changes</td>
</tr>
<tr>
<td>Individual identity</td>
<td>Self image, self value, social value, identity change</td>
</tr>
<tr>
<td>Decision crossroads</td>
<td>Boundaries, intersecting points, breaking points</td>
</tr>
<tr>
<td>Means and goals</td>
<td>Goals, targets</td>
</tr>
<tr>
<td>Culture and norms</td>
<td>Values, beliefs, attitudes</td>
</tr>
<tr>
<td>Consensus</td>
<td>Agreements, contracts, consensus</td>
</tr>
<tr>
<td>Central social process</td>
<td>Socialization, cultural method</td>
</tr>
<tr>
<td>Concepts that describe theory and its quality</td>
<td>Predictive strength, integration, theoretical range</td>
</tr>
<tr>
<td>Organization and channelling</td>
<td>Structural and generalization</td>
</tr>
<tr>
<td>Unit</td>
<td>Collective, organization, cluster, family</td>
</tr>
<tr>
<td>Building blocks of the theoretical crystallization process</td>
<td>Distinguishing among concepts, problems and hypotheses so as to facilitate encoding</td>
</tr>
<tr>
<td>Models</td>
<td>The model as the basis for establishing a theory; it may be linear, panoramic, interconnected etc.</td>
</tr>
</tbody>
</table>

Some of these coding families were also used by Strauss and Corbin (1990) in building their grounded theory out of the research data. They co-opted some of these coding families to build a meta-theory about the structure of the phenomena in order to assist researchers in identifying the phenomenon under investigation.

#### 4.5.1.1 The coding process according to Strauss and Corbin

The coding process has three stages: Initial-open encoding, the first stage in which the significant categories are drawn from the data; mapping-axial encoding, the stage in which we identify the primary and secondary categories and expose the links between
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them; selective-theoretical encoding, the third stage in which we build the ‘story’ of the phenomenon under investigation – which is the theory.

4.5.1.2 Initial-open encoding

The coding opens with conceptualization of all the parts of the research data, i.e., by identifying the central idea in each section of the texts that have been collected and turning them into titles. The text is read sentence by sentence and section by section. The central idea of each section is formulated and then we move on. This is methodical, attentive and consistent encoding intended to extract the ideas arising from the text. If the encoder feels that a category is starting to take form, he writes down the title as a memo along the margin of the page in order to append earlier or future titles to it.

4.5.1.3 Mapping-axial encoding

If the initial-open encoding aspired to develop the data and identify some categories and sub categories that characterize them, then the mapping encoding creates new constellations of data by sharpening and refining the categories and finding relations among them. In order to identify the relations among categories, the researcher can use a meta-theory that explains what the natural elements of the phenomenon are. According to Strauss and Corbin (1990), when we want to help the explanation of a phenomenon emerge from the research data, we identify these categories: the conditions that led to creation of the phenomenon, action strategies and reciprocal actions and their outcomes.

Identification of the categories according to the phenomenon’s elements, whoever and whatever they are, allows us to decipher the significance of the phenomenon under investigation and create a reliable mapping of the categories to that we can build a solid theoretical explanation. In axial encoding we identify the system of relations between categories. It is important to note that without identifying the actual system of relations
among the categories, including their characteristics, the encoding remains only theoretical and we will find it difficult to transform it into a theory.

### 4.5.1.4 Selective-theoretical encoding

This stage of encoding is the one in which the theoretical explanation for the phenomenon under investigation takes shape. Data analysis reaches the highest level of abstraction and generalization. Out of the whole range of categories, which were identified in the earlier coding stages, a single central category is identified. This is called the core category and it is identified with the event axis. Around the core category and event axis, we build the research narrative that presents the theory that has emerged from encoding of the data. Strauss (1987) proposed criteria that would enable us to judge which category should serve as the central one: (1) It must be related to as many other categories as possible; (2) It must appear in the data with high regularity; (3) It must be clearly linked to other categories; (4) It contributes significantly to the overall explanation of the phenomenon under investigation.

The grounded theory is created by way of a number of stages that do not necessarily follow a linear order:

In the first stage, the narrative line — the axis that provides a skeletal frame for the theory, which has emerged from the data — is revealed and the core category emerges. Around the core category a relational system among the categories that have been found to be important to the narrative and their sub categories is built. Following this, the validity of the category system and the relations between them that have been exposed is tested by comparing them once more to the data collected for the research. If this comparison produces gaps between the theory taking shape and the categories that emerged during the open coding, additional data may have to be collected from the field in order to re-examine the category mapping. In the final stage the categories that
require additional attention are delicately adjusted in order for them to fit properly into
the theory growing from within the data.

The stages of analysis of the findings are presented according to their successive stages
in figures 4.1 – 4.4, starting with the initial encoding stage and up to and including the
Theory creation stage.

Figure 1 demonstrates the interview conceptualization process. On the left hand side of
the table the informant’s response appears and on the right hand side the central idea in
each section, which is transformed into a category title during the open coding process,
is conceptualized.

Further along in the open coding process, the researcher looked for similarities and
differences between the concepts revealed through the textual analysis (Figure 1, Stage
2), with similar parts of the phenomenon getting common headings and becoming sub-
categories (Figure 1, Stage 3).

During the first categorization process, many categories were identified. Given that in
Stage 1 the researcher used the informants’ language to name the categories being set
up, occasionally similar phenomena were given different category names. Later the
researcher reviewed the sections that had been sorted into categories and changed
category names in light of the names given to other categories. For example, in figure
4.1, the text in line 6 was originally categorized as “advertising” but after re-reading all
the categories, it was categorized as “regulatory”.

In the first analysis, the researcher evaluated all the categories on the same level and did
not take note of the relationships between categories and subcategories. In the mapping
analysis, the researcher compared categories and positioned each category on two axes:
a horizontal and a vertical axis, and in this way created a category tree.
Strauss and Corbin (1990) stress that subcategories are the sum of the characteristics of the categories above them and to which they belong. For example, in our study, the three categories of strategic capabilities, tangible assets and non-tangible assets are the sum of the characteristics of the meta-category, RBV. The researcher learned about the characteristics of the phenomenon directly from the descriptions given by the informants and gathered the subcategories under a common category heading (figure 4.2), with the subcategories hence reflecting the characteristics of the category above them.

In order to identify relationships between categories when axes coding (figure 4.2), explaining what the phenomenon’s natural components are may facilitate the emergence from the research of an explanation for the phenomenon. In other words, identifying the categories according to the phenomenon’s components allows us to ‘crack’ the significance of the phenomenon that we are investigating and create a credible mapping of the categories in order to construct a theoretical explanation (Strauss & Corbin, 1990). In the axes analysis, the researcher is assisted by all the theories reviewed in the literature survey (TCA, Network, IBV, RBV, et al.) in order to translate the subcategories that were labeled using the language of the informants into theoretical categories. After the subcategories were translated into theoretical categories, the researcher went up the tree and translated the upper categories, which pooled together the subcategories, into theoretical language. In this way, the theoretical subcategories that were identified in the preceding stage reflect and contain the characteristics of the categories above them. For example, the three categories of differentiation, cost leadership and niche strategy are contained within and pooled together under the Industry Based View category.
In Stage 3, when the theoretical selective coding is done (Figure 4.3), a theoretical explanation for the phenomenon under investigation begins to take shape. From among the set of categories identified in earlier coding stages, the core category was identified: managers’ perception of their position vis-à-vis their reference points. In parallel to this identification, the event axis was also identified so that around the core category and the event axis a research narrative was built that explains the theory emerging from the data coding. In order to verify the validity of the core category, the researcher examined it in accordance to Strauss’ (1987) criteria. Strauss offered criteria for judging whether a category should be used as a core category. The perception of managers of their position relative to their reference point met all the criteria and was (1) linked to the greatest number of other categories; (2) appeared with high frequency in the data; and (3) contributes significantly to the general explanation for the phenomenon under investigation.
FIGURE 4.1: REDUCING PHRASES, CLUSTERING AND CREATING SUB-CATEGORIES

<table>
<thead>
<tr>
<th>Intermediate steps</th>
<th>Step 2 Clustering</th>
<th>Step 3 Sub Category</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Example of reduced phrases</strong></td>
<td>Know how</td>
<td>Distribution</td>
</tr>
<tr>
<td>This created a situation in which we are all alone even if we would like to collaborate there is no one, so it forced us to set up overseas sales force</td>
<td></td>
<td>Organizational contacts</td>
</tr>
<tr>
<td>You have no integration between the two …so we had to assemble it ourselves</td>
<td></td>
<td>Personal contacts</td>
</tr>
<tr>
<td>Since we’re lucky that our partner’s are very large global companies located all over the world.</td>
<td></td>
<td>Knowledge exchange</td>
</tr>
<tr>
<td>Their strength lies in the fact that they attract high quality caliber staff</td>
<td></td>
<td>Regulatory</td>
</tr>
<tr>
<td>They are great for only a certain type of company that is looking to develop technology and less in the need for marketing buzz</td>
<td></td>
<td>Legal aspects</td>
</tr>
<tr>
<td>Because regulation there are states where operators are not allowed to advertise</td>
<td></td>
<td>Strategic mind set</td>
</tr>
<tr>
<td>Because this is the law</td>
<td></td>
<td>Unique assets</td>
</tr>
<tr>
<td>We were the only ones focused and that’s what saved us</td>
<td></td>
<td>Intelligible capabilities</td>
</tr>
<tr>
<td>So the DNA of this company was built according to this philosophy</td>
<td></td>
<td>Reputation</td>
</tr>
<tr>
<td>I have relative advantage in several places and that’s what distinguish us</td>
<td></td>
<td>Strategic Capability</td>
</tr>
<tr>
<td>We had no reputation that could have been destroyed</td>
<td></td>
<td>Marketing Positioning</td>
</tr>
<tr>
<td>Our advantage today is our knowledge and branding capabilities</td>
<td></td>
<td>Risk Management</td>
</tr>
<tr>
<td>I’m not in their …. I take myself out of the game against them</td>
<td></td>
<td>Organizational learning</td>
</tr>
<tr>
<td>I chose a ….</td>
<td></td>
<td></td>
</tr>
<tr>
<td>From the beginning all our patent requests were for all the countries in the world</td>
<td></td>
<td></td>
</tr>
<tr>
<td>We made an implementation which took a week instead of 20 days, so let’s learn how to do it again</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
FIGURE 4.2: CREATING CATEGORY

Cluster of Reduced Phrases

Sub Category

Category

Core

Learning Capability
Strategic thinking Capability
Risk Management Capability
Synergy of Organization units
Absorption Capabilities

Strategic Capability

RBV

Management perception of their company R.P
FIGURE 4.3: CREATING SUB CORE CATEGORIES AND CORE CATEGORY

Methodology
Internationalization Pace decreases with time

**FIGURE 4.4: TYPOLOGY**

- **Management Perception of their company Reference Point**
  - Above R.P.
  - Risk Averse
  - Slow Int. Pace
    - Conservative approach
    - Using or Awareness of Risk
    - Not Using Organizational Learning
    - Not Using Product/Strategy Adaption
    - Not Using Organizational Learning
    - Not Using Product/Strategy Adaption
  - Proactive approach
    - Using Organizational Learning
    - Using Risk Management Strategies
    - Using or Awareness of Risk
  - Innovative approach
    - Using Product/Strategy v Adaption
    - Using Organizational Learning
    - Using Risk Management Strategies
    - Using or Awareness of Risk
  - Fast Int. pace
    - Conservative approach
    - Using or Awareness of Risk
    - Not Using Organizational Learning
    - Not Using Product/Strategy Adaption
    - Not Using Organizational Learning
    - Not Using Product/Strategy Adaption
  - Passive approach
    - Using or Awareness of Risk
    - Not Using Organizational Learning
    - Not Using Product/Strategy Adaption
    - Not Using Organizational Learning
    - Not Using Product/Strategy Adaption
  - Not Using Organizational Learning
  - Not Using Product/Strategy Adaption
  - Not Using Product/Strategy Adaption

- **Industry Based View**
  - RBV
  - Network Approach
  - TCA
  - Institutional Approach

- **Tangible Capabilities**
  - Unique Assets
  - Intangible
  - Tangible

- **Intangible Capabilities**
  - Advanced
  - Collaborative
  - Strategic

- **Ethical Norms**
  - Legal Aspects
  - Regulatory
  - Distribution
  - Components
  - Marketing
  - Know how
  - Reputation

- **Differentiation**
  - Differentiation
  - Cost Leadership
  - Niche Strategy

- **Multiple Modes of Entry**
  - Personal Network
  - Client

- **Advanced Technology**
  - Harmonisation
  - Advanced

- **RBV**
  - Industry Based View
  - RBV

**INTERNATIONALIZATION PACE DECREASES WITH TIME**
4.6 Research quality standards

4.6.1 Validity in a qualitative research

In contrast to positivist research, in which the question asked is one of the validity of the measurement (and its repeatability), in a qualitative study the issue of validity depends on the candid disclosure of the viewpoints of the researchers who undertook the measurements (Miles and Huberman 1994) and authenticity. Such disclosure enables other researchers to decide about the validity of the measurements. In qualitative research the issue of validity is related to the question of does the researcher see what s/he thinks s/he is seeing (Kirk and Miller 1986). A valid explanation is one that can be defended as being acceptably established in terms of it concepts and empiricism (Dey 1993).

Kirk and Miller (1986) suggested using the concepts of apparent reliability, instrumental reliability, and theoretical reliability in order to relate to the issue of validity. These criteria are applicable both in qualitative and quantitative research. Instrumental reliability is established on the basis of the sound research process and apparent reliability is established on the basis of the reasonableness of the findings. Theoretical reliability is determined on the basis of the solidity of the theoretical anchor. Nonetheless, in cases where the theoretical reliability and the apparent reliability do not match, the researcher must check the research process again both from the theoretical perspective and the methodological perspective.

4.6.1.1 Process of validating the research

Validation means repeatedly going back and forth from induction to deduction, between the data and our conceptual perspective. In qualitative research the researcher is required to preserve the chain of evidence of every step of the study. In other words, the researcher must save all the recordings of the interviews and every other relevant
information (Miles and Huberman 1994). He must also safeguard all documents, memos, and diagrams created during the analysis. The chain of evidence comprises pieces of data from the raw stage of collecting data up to the final findings and conclusions (Yin 1981). An analysis process composed of a number of stages enables the researcher to question himself also. Retaining the documents of each stage of analysis allows the researcher to examine to what degree s/he has been faithful to the data received from the informants and locate potential sources of errors. The validity of the method and interpretation must be verified by a rigorous process of examination and building anew of the way through which the researcher believes he has reached them. There are no shortcuts in this process (Mason 1996). Maintaining the chain of evidence enables the researcher to consult with colleagues. The consultation process is effective if the following conditions are met: (1) it makes the information accessible to other researchers; (2) it transforms the research process into an open process; (3) it describes the way in which the interpretation was performed (Riesman 1993).

An additional way to check the validity is to write a final report as a rich description. A rich description must include information about the context, appropriate citations of the informants, and an open conceptual discussion. This allows us to test to what degree the research claim or conclusions are convincing. This also permits us to evaluate whether the interpretation is reasonable and if there exists a logical relation between the different components.

4.6.2 Reliability in qualitative research

Traditionally, reliability is interpreted as the ability to repeat the researcher’s actions and arrive at the same results. If our research is reliable, other researchers repeating the research process will be able to reach the same findings (Yin 1984).
Generally, in qualitative research, one can expect that researchers in similar situations or even identical situations will recreate the results of any research project (Yin 1984). What is the position of such measurement in light of the claim of qualitative research that every phenomenon that is studied is unique and cannot be recreated at another time and in a different context? What constitutes the basis for determining the reliability of a qualitative analysis is the frank exposure of the conceptual perspective and criteria of the researchers who conducted the study.

Accordingly, in order to meet the criterion of reliability, the researcher should reveal to his colleagues how the research was conducted and how decisions were made. This enables the researcher to judge the quality of the research and check the logic at the base of the research (Mason 1996). This transparency allows other researchers to test the reliability of the researcher in his unique context. In order to convince others, an explanation must be provided for the way in which the level of reliability and precision, which we assert is sufficient, was achieved (Lincoln and Guba 1985).

4.6.2.1 Process of testing the reliability of the research
The characteristics of qualitative research that focus on the researcher as a preferred research instrument present a challenge to claims of reliability, in view of the fact that if a large part of the research is based on the personal perspective of the researcher, then how is the researcher meant check his/her own reliability? This challenge can be met by requiring three formal and open stages of data collection and analysis, as follows:

(1) Creating a data repository: each research project must develop a data repository that can be presented at any time, to enable other researchers to check the sources of information on which the study was based. This data repository allows others researchers to check the information sources directly and not have to be satisfied by reading the summary report alone.
(2) Preserving the analysis documentation: the process of analysis in this research has three phases. Each analysis phase mandates its own unique diagrams and logs. The documents of each phase containing the analysis categories and their content must be kept so that researchers will be able to recreate the analysis process and in this way check the research reliability. Documenting the way the analysis is conducted is crucial because it is not only used for identifying what was done but also for encoding an additional analysis (Pidgeon 1996).

(3) Presenting the chain of evidence in the final report: The report must include a lot of information consisting of citations related to the subjects under discussion. In addition, the report must note the circumstances under which the testimony was collected and show a logical linkage between data collection and the research questions. The objective is to enable other researchers to follow the process of drawing conclusions at each stage of the research. By presenting empirical support for the categories by way of the citations and explaining the analysis process, readers will be able to judge for themselves the strength of the research claims. If we cannot expect others to repeat our findings, the most we can do is to explain how we got to them. Thus, our audience of readers have the opportunity to check the processes we underwent and decide whether the results are reliable or not (Dey 1993).

4.6.3 Generalization in qualitative research

4.6.3.1 The challenge in generalization
Accepting qualitative research as a valid approach raises the following question: Is it possible to generalize the research findings effectively to similar environments and populations? One of the typical criticisms of qualitative research asserts that the challenge in generalizing qualitative findings to different people and environments from those in which the research was conducted is extremely difficult. Many researchers
believe that it is impossible to generalize qualitative results and view this as a limitation of the method (Firestone 1993). Regardless of our philosophical position regarding the importance of being able to generalize, it is obvious that many characteristics of the qualitative approach do not lend themselves to generalization in the way that it is perceived by the positivist tradition (Schofield 1989). Stake (1995) proposed studying the uniqueness as a way of acquiring the ability to generalize. According to him, by learning about the uniqueness of the single event, we learn to understand about the universal. Stake spoke of naturalistic and not formalistic generalization and claimed that the qualitative researcher must organize the research in order to reach the greatest amount of opportunities for naturalistic generalization. Accepting Stake’s generalization method (1995) means drawing the conclusion that the reader of the research, and not its writer, determines the degree of generalization. The reader decides which aspects of the case under investigation can be implemented in other contexts. This causes us to relate to the research findings not as established conclusions but rather as what can be described as hypotheses that have been developed in empirical terms (Stake 1995).

Whereas the reader decides where he can find a basis for generalization and indeed generalize the findings of one case to another, the researcher is required to support this process by providing a rich and detailed description in the report of the case under investigation.

### 4.6.3.2 Three types of generalization

Peterson claimed that there are three types of generalization in qualitative research:

1. Generalizing from one case to another;
2. Analytical or through theory generalization;
3. Generalizing from a sample to a population.
4.6.3.3 Generalizing from one case to another

The perception of generalizing from one case to another requires adapting the significance of the ability to generalize to the process in which we are examining to what degree the situation under study matches other situations in which we are interested. It seems as if a general agreement exists that for qualitative researchers the ability to generalize means to see the similarity between the situation under investigation and other situations to which we are interested in applying the perceptions and conclusions of the research (Schofield 1989). This type of generalization is closer to Stake’s (1995) viewpoint regarding the naturalistic generalization that focuses on applying findings of one research to a similar situation in order to reinforce the understanding of the latter situation. Generalizing from one case to another generates a discussion between the analysis of a certain case and the broader audience of cases. This process allows us to not to forecast but to anticipate what is likely to happen in similar cases (Lincoln and Guba 1985). The readers of the research are liable to find that certain aspects of the cases, and not necessarily the cases as an entirety, are applicable to new situations that are relevant to them.

4.6.3.4 Analytical generalization

By linking the research questions to the theoretical structures, the researcher shows that the details of the research help to explain broad issues, and therefore, have wide importance (Marshal and Rossman 1989). According to Yin (1984), in analytical generalization, the researcher aspires to generalize a certain group of results to produce a broader theory. In Firestone terms, to generalize a theory is to provide evidence that supports this theory (Firestone 1993). In qualitative research, generalizing a theory is not linked to hypothesis proposing and does not even necessarily use a complete theory
as a relational framework but rather is more akin to a grounded theory in terms of theory building.

In this research, we are translating the categories that we have worked on into theoretical terms with the theoretical analysis itself being transformed into the basis for analytical generalization. Generalization in this context is roots and its relations stem from the process of developing theoretical positions and relations. Consequently, our research relates to many established theories like the prospect Theory and TCA Theory that promotes the analytical generalization.

In contrast to the principles of generalizing from case to case, which are based on applying elements of one situation to another, analytical generalization is based more on drawing conclusions than on application (Dey 1993). The link between description to theory enables the research’s readers to examine to what degree the new cases can be explained using the theoretical explanation proposed in the research (Marshal and Rossman 1989).

4.6.3.5 Generalizing to a population

The quest to find some degree of generalization from a sample to a large population constitutes a limitation of qualitative research. The greater the number of cases, the greater the potential, we assert, to generalize to a wide population. We believe that we can show that some of the characteristics of the thirty informants are similar to other cases – which raise the opportunities for generalization. Relating to the cases under investigation in the context of categories increases the research’s potential to generalize the case research to a population. Thus, finding a certain group of characteristics and similar lines between those studied and cases relevant to them that they are trying to understand (McClintock et al. 1983). Attempts to strengthen the ability to generalize from a sample to a population in qualitative research always have problems. The search
for similarities between the cases under investigation and other population has
advantages (Strauss and Corbin 1990) but in general, qualitative research samples are
not large and the questions remain about how they were selected (Firestone 1993). It is
evident that every generalization depends on defined conditions, and the similarities
between the cases under investigation must meet these conditions (Strauss and Corbin
1990). The validity of generalization regarding a population grows as the number of
cases being studied grows. In our research we examined thirty cases, from nine different
industries. Given that Israeli is a country of immigrants, the thirty informants represent
seven different nationalities – which increase the range and strengthen the ability to
generalize. And despite this, this type of generalization (from a case to a population) has
not been examined in positivist terms, but only in special terms belonging to
constructivist-qualitative research.

4.7 Summary
This chapter has introduced theoretical considerations supporting the choice of method
adopted for this study. The adopted philosophy of research was discussed, and various
methods were considered before deciding that a grounded theory method was the
preferred way forward, this research design was then evaluated in terms of reliability,
validity and generability, based on these, the next section will discuss the research
findings regarding the internationalization of BG companies, as well as relates these
findings to the previous literature in the field.
Chapter 5

Research Findings: Exploring Entrepreneurial Process of Behavior during Internationalization

5.0 Introduction

This chapter presents the findings of the field work conducted with 32 start-up “born global”. The stages of analysis of the findings (see section 4.5.1.4 in the Methodology Chapter) are presented according to their successive stages in figures 4.1 – 4.4, starting with the initial encoding stage and up to and including the Theory creation stage.

The purpose of the research is to examine the decision making processes of managers deciding to internationalize, to investigate why managers choose some entry modes, and why they prefer to use certain strategies, rather than others when internationalizing.

The main research question is:

What is the relation between the managers’ perceived reference points and his or her decision making process, insofar as it relates to choosing an internationalization strategy?

The additional questions derived from this main question are:

13. How do entrepreneurs perceive their company’s reference point relative to their industry?

14. How do entrepreneurs perceive the issue of risk, innovativeness and proactivity?

15. How do entrepreneurs perceive the process of choosing the foreign markets in which to internationalize?
16. How do entrepreneurs perceive the change in the pace of penetration into these markets over time?

17. How do entrepreneurs perceive the issue of risk management by their company?

18. How do entrepreneurs perceive the issue of adapting their product and strategy to foreign markets?

19. How do entrepreneurs perceive the joint learning process with their partners in the foreign markets?

20. How do entrepreneurs perceive their network?

21. How do entrepreneurs perceive their resources?

22. How do entrepreneurs perceive their competitive strategy?

23. How do entrepreneurs perceive their institutional strategy?

24. How do entrepreneurs perceive the issue of knowledge transfer and reputation?

In order to provide a comprehensive understanding of the entrepreneurial strategies that managers may adopt for BG companies, we present our findings related to the above mentioned questions. Each research question is analysed separately, and then at the end, integrated into the analysis of the rest of the research questions in order to create a conceptual framework and a typology that unites the main existing theories in the IB literature in relation to choosing internationalization strategies.

5.1 Entrepreneurs’ perception of their company’s reference point relative to the industry

The discussion is presented in a number of stages that show that the manager's perception of his position vis-à-vis his industry reference point is a factor influencing his "attitude" and from there his management style – as a risk-seeker, proactive,
innovative and versatile, or as a risk-avoider, reactive, conservative and rigid. His attitude impacts on his choice of internationalization strategy and entry mode.

Main findings:

1. Managers' perception of their position vis-à-vis their industry reference point is subjective, and sometimes does not correlate with the objective reality in the field.

2. A manager's understanding of different parameters (technology, finance, marketing, sales, etc.) will be mediated by his perception of his position vis-à-vis his industry reference point. The manager's choice of which parameter to relate to affects his management style, which in turn influences his choice of strategy.

In the semi-structured interviews, the managers were asked how they position themselves relative to their competitors in the industry. This question was asked twice, once regarding the managers’ perception about their relative position in their local market and a second time as regards the global market. Twenty-four managers positioned themselves beneath their industry reference point (irrespective of whether it was a local or global industry), in comparison with eight managers who positioned themselves above their industry reference point, also regardless of whether it was a local or global industry. The managers who perceived themselves above their industry reference point mostly viewed themselves as being in the upper tier of the industry. Their perception of their place in the industry was that they offered a unique technology/product or solution that gave them a significant competitive edge, which as noted, positioned them at the top of their industry. See, for example, what the manager in Case 18 said: “All around the world we are perceived as above average, a great deal above average, we are the high end of the market; this means that in terms of product, we are seen as better, in terms of market presence, we are not quite as good. Overall, we are among the top five.”
It must be noted that the managers’ perception of their industry position is subjective, and that this research also exploited additional information sources, which included an investigation of the companies in the business press and the use of market research studies of the leading market research companies such as the Israel Venture Association and Gartner’s data bases. From our investigation we found that a large number of times the manager’s perception of his company’s industry position was not based on reality. For example, we have Case 18 where the manager perceived his firm as being among the top five companies in its field. Our research found that the company in question in Case 18 was not even among the top 100 leading companies in its field. Other managers who also positioned themselves above their industry reference point perceived themselves as being in the top tier of their field. For example, the manager in Case 13 defined his company’s product as “the highest and the most expensive in Israel and abroad;” the manager in Case 6 expressed it thus: “we are...perhaps the leading solution in the world.”

In contrast, the managers who positioned themselves beneath their industry reference point generally perceived themselves in one of two ways. On the one hand, they thought of themselves as significantly below the reference point. In other words, just as the managers who perceived themselves above their industry reference point perceived themselves as belonging to the top tier of the market, so too did the managers who perceived themselves below their industry reference point perceive themselves as positioned at an extreme point in the market – this time, however, at the other extreme in the bottom tier of the market.

Note the following statements: the manager in Case 20 described his market position as “a small fly trying to catch a ride on the back of elephants;” the manager in Case 22 described his market position as “a small flea that is differentiated only by technology;”
and the manager in Case 16 described his market position as “an ant marching in the trail of elephants.”

The second way in which the managers who perceived themselves below their industry reference point thought of themselves differentiated between their company’s technology and other business parameters such as sales, marketing, service, and financial abilities etc. They believed that their technological prowess positioned their company above the industry reference point and in contrast, all the rest of the parameters positioned them below their industry reference point. For example, in Case 4 the manager described his company’s position thus: “Our advantage is in technology...in terms of financial abilities, we are in the bottom level, because our competitors are huge companies.” In Case 15 the manager described his company’s position by saying: “In terms of technology I would place myself in first place and regarding the remaining parameters, I would put myself in last place.”

The division among the managers’ perceptions of their market position as described below is significant both as regards their perceptions of the subject of risk, proactiveness and innovation and as regards the pace of foreign market penetration, as will be described in detail in the following chapter.

5.2 How the entrepreneurs perceive the subject of risk, innovation and proactiveness

Main findings:

- Managers who believe themselves to be above their reference point perceive new issues as risks and will be risk averse, conservative and reactive in their process of internationalization.
Managers who believe themselves to be below their reference point perceive new issues as opportunities and will be risk seeking, proactive and innovative in their process of internationalization.

Managers who perceive themselves to be above their reference point will be rigid, defensive and conservative in their decision making, and when entering a market will rely on existing business models and distribution and marketing channels. These managers will focus on protecting … and continued improvement of existing products and technologies.

Managers who perceive themselves to be below their reference point will be flexible, on the offensive and innovative in their decision making. They will be involved in continual development of new products, business models, and distribution and marketing channels.

5.2.1 How the entrepreneurs perceive the subject of risk

According to (Freeman and Cavusgil 2007), an international entrepreneurial orientation is characterized by three types of entrepreneurial behaviour: proactiveness, risk taking, and innovativeness. In opposition to this opinion, several researchers (Chetty and Campbell-Hunt 2004; Freeman and Cavusgil 2007; Freeman et al. 2006; Fan and Phan 2007) described BG companies that were characterized by passive behaviour and risk aversion behaviour. Nevertheless, aside from these descriptions of company behaviours, the researchers did not suggest any reason for these different behaviours of the BG companies.

According to our findings, senior managers who perceived themselves as being below the reference point were prepared to take overt risks, in order to reach the market quickly eg. This behaviour was accompanied by a cursory check of the target market, which for the most part did not include any market research of any sort, an examination
of a limited number of distributors along with very short negotiations period, active
behaviour in choosing partners in the target market and rapid penetration with the
attempt to create quick achievements such as sales contracts or product installation at
the client. This behaviour is in line with Kahneman and Tversky’s Prospect Theory
(1979) (see section 3.7), which links the level of perceived risk and the level of
anticipated returns, in contrast to neo-classical economics that asserts that there is a
direct link between the level of risk and the level of expected return. That is, people are
risk averse and only in situations in which they can foresee getting a high return will
they be willing to accept a high risk. In opposition, Prospect Theory claims that
individuals use reference points when they need to predict options, acceptance or
rejection of risk and base their decision on their perception of the position above or
below this reference point (Kahneman and Tversky 1979). Companies that perceive
themselves as above a reference point will be risk adverse whereas companies that
perceive themselves below the reference point will be risk takers. These latter
companies will prefer risky projects with low expected returns (Fiegenbaum, 1996). For
example, the manager in Case 16 who perceived himself as being below the reference
point said, “Our main advantage is in the speed of our work...and our tendency to take
risks, you know, our big competitors are huge companies...starting from IBM up to
Google, and they do not take risks. They can’t. I can take risks, so that I can get to the
market two years before the others and that is our big advantage, that we are the first to
get into the market because we took risks, and came out with things (products that are
not yet mature) that our competitors would never have done.”

The entrepreneurs in Cases 1-2, 4-5, 9-11, and 15-16 who perceived themselves as
being below the reference point were prepared to take large risks in exchange for low
returns, in order to get a foothold in their first markets. In addition, according to
Prospect Theory (Kahneman and Tversky 1979), managers who perceive themselves as below the reference point are willing to take risks because they believe they have nothing to lose, in contrast to managers who perceive themselves above the reference point who will avoid risks so as not lose their market position. See, for example, Case 16: “In the beginning when we got to London we hired one person and before we saw what was happening, we hired another two people to assist him…this helped me with the first penetration [laughs], a start-up of five idiots from Israel that was ready to take risks that no one else was prepared to do, you know, we don’t even have a reputation that we could destroy, so we don’t have anything to lose.”

The manager from Case 15 put it this way: “In India in order to break through, you need to be a strong commando who fights with a knife between his teeth.”

The manager from Case 1 described his market penetration strategy as identifying the easiest opportunities to bring the quickest results for the company in order to satisfy investors. This type of opportunism is described by Crick and Spence (2005). Note the following statement made by the manager in Case 1: “You have to place the computer systems where you can…we looked for the easiest customers…we entered France first, but if you would have taken me to Germany, I would have gone to Germany, it didn’t really matter to me, or England or whatever I could do. It was very simple. I reached the type of customer that I could reach…this was just thinking about first of all getting in through the easiest route that was available,…get results…where the opportunities are and where it is easiest to reach them.”

On the other hand, companies whose managers perceived themselves as being above their industry reference point tended not to take risks during market penetration. This behaviour was accompanied by a detailed study of the target market, which included among other elements, deep market research, examination of a large number of
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distributors followed by long negotiations, passive behaviour in choosing partners in the
target market and a slow and gradual penetration of the target market that comprised
several stages. For example, in Case 17 the manager described his long decision making
process and spoke of a number of market penetration stages: “There are two things that
impact. A. Product maturity. In technology companies, the more advanced you are, the
more mature is the product. At the beginning you sell some type of vision and after that
you sell some type of pilot and sometime later you sell something that you can bring to
the market…and the second thing is, of course, your experience. You know where to
stand firm and about where not to. At the beginning you really do not want to be a sap
and maximize profits; and at some point you simply want to sell.” In Case 12 the
manager examined a great many distributors in the target market. He investigated each
distributor in depth and engaged in long negotiations (between 6-12 months) and even
after signing he did not give long term exclusivity and kept a window open:
“Distributors in all the countries I noted...with some we signed an exclusive
distribution agreement and with some we have only passed the signing of a
memorandum of understanding, what is called a field test. The purpose initially is really
to link up with a party that will become the sole distributor as a result of two insights:
one, in order to get into this field, every business party is required to invest a great
deal, in terms of time and money. If he knows he is not the only player, he won’t enter
the deal...from our perspective this means that we must check very, very, very well who
this party with whom we are contracting is, because the moment we are connected, even
though there are agreements, what is called an exit window, it is very difficult, you can
go ahead and finish off and kill the market in this country.”
Managers who perceived themselves above their industry reference point were also
distinguished by the broad scope of the market research they carried out both in terms of
the resources and time they invested in these. For example, the manager in Case 12 answered the question about his checks prior to market entry: “First of all, identifying standards and regulations in the U.S...the second factor was seeing if there was an American state that had issued local regulations...to see when these had been issued, who issued them and if they had even been applied in the field. Three, to check the existing NFPA codes....to see how it would be possible to get them to create work committees, in order to examine the possibilities of changing these codes.”

In contrast, managers who perceived themselves below their industry reference point generally satisfied themselves with a superficial examination of the market and in some instances preferred not use market research because of its high cost. One reason for selecting the target market they did was in order to follow potential customers. This finding accords with the studies of (Coviello 2006; Chetty and Campbell-Hunt 2004). For example, the manager in Case 16 said: “There wasn’t that much to check out...the only inquiry we made was to see the geography. This is a terribly childish investigation and without any significance. Geographically – where the majority of cellular operators in Europe were located and we saw that Telefonica and T-Mobile and Orange had their headquarters in London and that is why we went to London. There was no other reason.”

5.2.2 How entrepreneurs perceive the subject of innovation

In the research literature, entrepreneurs with an international orientation are characterized by innovativeness. Nonetheless, an examination of the research literature focused on global entrepreneurship and in the field of BG companies, from 1995 up to 2011 (Chetty and Campbell-Hunt 2004; Freeman and Cavusgil 2007; Freeman et al. 2006; Oviatt and McDougall 2005; Knight and Cavusgil 2004; Zahra 2005), showed that studies in the area related to technological or product innovation (Young,
Dimitratos and Dana 2003). According to Mckinsey (1993), technological/product innovation is the motivation for accelerated Internationalization. Other researchers (Busenitz and Barney 1997; Oviatt and McDougall 2005; Malhotra 2003) also related to innovation as technological or product innovation. By contrast, we did not find any mention of the subject of 'business innovation' as a source of innovation in the research literature in the context of international market penetration. Hamel (1996) made a clear distinction between technological/product innovation and business innovation, which according to him is defined as “new innovative business concepts, innovative business models, opening of innovative distribution channels and more.”

One of the questions that interviewees were asked was: “What was the unique business/strategic advantage or ability or any other advantage that made you choose to penetrate these specific markets?”

Managers who perceived themselves above their industry reference point noted that technological/product innovation was the motivation for entering international markets. All eight managers who perceived themselves as above the reference point related to unique technology as the motivation for going global. In addition, the perception of the managers as being above the reference point created within them a sense of protecting their company's technological assets, especially patent protection. In consequence, these managers did not feel it necessary to be innovative in terms of new business concepts or parameters beyond the initial technology they developed, this line of thinking created a "vicious circle" of continuous improvements and focusing in the initial technology and as a result, their companies became single technology or one product companies. This finding is in line with Hamel (2001) who asserted that most start-up companies are one-time innovation companies.
Note the manager in Case 17: “For us, it is expressly technology, unequivocally. In other words, we have nothing else asides from technology. You might even say that a patent...not only has a technological advantage, but it must be difficult to copy you...so we have a patent, we are relatively calm.”

In contrast, managers who perceived themselves to be below their industry reference point did not refer to technology as the main motivation for rapid penetration abroad or as their primary business advantage. The belief that their company was below their industry reference point prompted them to look for creative ways to get into new markets including new distribution channels and innovative business models. In essence, the (mis)perception was the motivation for continuing to innovate. Their sense of being below their industry reference point was, however, shown to be subjective. According to our assessment of the companies’ technology level using Israel Venture Association data, the two types of companies did not noticeably differ (those that perceived themselves to be above their industry reference point vs. those that perceived themselves to be below their industry reference point) in terms of number of registered patents per company and the quality of these patents. Moreover, even though the technology of the companies believed to be below their industry reference point was at least as innovative as that of the companies perceived to be above their industry reference point. The managers of the former companies related to other parameters as the stimulus for their successful penetration overseas. The managers in Cases 2, 4, 8, and 16 ascribed their successful entry into foreign markets to their unique business model. Note this statement made by the manager in Case 16 (who was voted by the American venture association and the FT as one of the ‘world changing’ technologies): “Our model was one where by the time we got to market there had essentially been no cellular advertising before then. Now there are a lot of companies that understand a lot
about advertising but have never in their lives turned on a cell phone and there are companies...who understand a lot about cell phones but have never sold advertising. This drove our strategy. It created a situation in which we were alone...which forced us to set up a sales force abroad and recruit people abroad."

In Case 10 the company invented a new diagnostic kit for eye disease, but when the manager was asked about the unique advantage that prompted him to expand overseas, despite the innovative patent, he referred to a new innovative business model, which though risky in terms of regulations, as the reason for his successful entry into the foreign markets. “Our unique business model is a rental and leasing model and a model for cooperation between us and the doctors. In our field this doesn’t exist...and the unique part is the cooperation with the doctors. Here we are profit sharing with the doctors. This is a very problematic issue in terms of its legality. That is, you can’t give doctors money for writing prescriptions...we are making it legal also because it is the most logical thing in the world, the person who is responsible for the patient is the doctor, we are providing the service and the patient pays the doctor for follow up...We handle everything; that is, we provide the doctor with billing services, we invoice the patient on behalf of the doctor and deduct his share.”

On the other hand, managers who perceived themselves as above their industry reference point were conservative about any innovation beyond a technological one. For example, in selecting distribution channels, the manager in Case 17, when asked if in his opinion there is an innovative business model, answered: “No, I don’t think so, no, the opposite...You try to be the most mainstream. In any event you are coming with a new idea, because that is what we are producing in a start-up, technology. You come with something unusual, and to a great extent, you have to explain and innovate the rest. You try as much as possible to rely on existing infrastructures...you try to use
existing distributors, existing marketing and sales and distribution channels and existing models, and on markets that have all the networks, so that you don’t have to invent something for yourself.”

The manager is Case 14 was also conservative in choosing distribution channels and preferred existing ones “because being a path blazer means spending a lot of money, not just the risk but a great deal of money.”

In contrast to these managers, managers who perceived their companies to be below their industry reference point were flexible and innovative in choosing distributors and chose distributors outside of the industry. In Cases 8-9 and 16, the managers created new distribution channels that did not exist before in the industry and this, among other ways, by creating demand for their products through innovative marketing. See the example of Case 9 in which the manager went straight to the Ministry of the Environment in Taiwan and created a demand for his product by using a political blog that cause the Minister of Environment to turn to leading local companies and convince them to enter a new field as distributors of a small Israeli start-up. “In order to convince a distributor to approach you, you have to work differently...the key is to first create business for the distributor and that is why the Taiwanese distributor approached me. I made appointments that included the Minister of the Environment...the moment I created the need, he approached the local distributor...and he told him to get it.”

5.2.3 Managers’ perception of the issue of being proactive during market penetration

In the research literature, BG companies opt for a rapid entry into foreign markets proactively, with the catalysing factor for the exit being a product or technology advantage (MacKinsey 1993). There are, however, researchers (Chetty and Campbell-Hunt 2004; Freeman and Cavusgil 2007; Freeman et al. 2006) that found that
companies with unique resources appear risk adverse and avoid a rapid entry into foreign markets, but do not offer an explanation for this phenomenon.

An additional stimulus for rapid entry into foreign markets, which is mentioned in the literature, is when BG companies venture abroad by following their clients (Coviello 2006; Chetty and Campbell-Hunt 2004). Generally, when multinational companies enter international markets, BG companies are forced to follow them in order to maintain their market share. In such cases, the entry into the foreign markets is considered passive.

The managers in Cases 6-7, 12 and 17 that are above their reference point preferred to focus on R&D and concentrate their efforts internally, on the organization so as to preserve and strengthen it. In contrast they were passive in their focusing efforts outside the organization, which efforts included locating distribution channels, finding distributors or marketers in foreign markets. Note the statement made by the manager in Case 17. We found during our financial evaluation of his company that it had recently raised 6 million dollars and that the product the company had developed had passed the development stage and reached commercialization. However, as the statement makes clear, the company executives had not internalized these positive circumstances. “They simply come to us and we ...we are at the stage where we have used up all our money for development and do not have a marketing budget. I don’t understand why this is so surprising. We are not going outside of the company and we aren’t looking and we aren’t conducting either a market survey or research. We’re also not trying to map potential distributors or talk to them or interview them or….. We aren’t doing any of this.”

The manager in Case 7 was also very passive. He did not conduct market research or try to actively find distributors. Rather, potential distributors approached him, usually
through his Internet site. In answer to our question about where he met his distributors, he said, “two through telephone conversations and one came to Israel. The American who we know came to Israel and signed with us. The two Europeans via the telephone not face to face.” This finding is in line with a number of studies that were conducted regarding finding distributors abroad (Arnold 2000; Coviello 2006). These studies, however, only described the phenomenon but did not explain the theory grounded in this behaviour.

In contrast, companies below their reference point such as those in Cases 5, 10-11 and 15 were proactive and even aggressive in locating distributors during their market penetration. See the example of the manager in Case 5: “The second client in Texas also... we came to him. It was all done with a lot, a lot, and I again stress, a lot of persuasive effort and it was not the classic sale done with a presentation and negotiations. A team from our company came and spent a month there. They didn’t leave until they closed the deal.”

Sometimes managers developed an advanced technology or product even before the market need was created and without having marketing or service channels to support it. In these kinds of cases there is no way to link up with existing distributors. Rather, totally new marketing channels must be created. See the following comment by the manager in Case 16: “There was advertising and there was a leader but neither of the two players in these markets knew the other one’s market...there was nothing. You either have advertising people who didn’t know how to turn on a cell phone or cell phone people who had never in their lives seen advertising. You don’t have a combination of both...so we had to put it together ourselves.”
5.3 How entrepreneurs perceive the process of choosing foreign markets

Main findings:

- Managers who believe themselves to be below their reference point adopt a rapid pace of internationalization compared to managers who believe themselves to be above their reference point who adopt a more moderate and multi-stage internationalization process.

- Managers who believe themselves to be below their reference point will be proactive and flexible in their decision making process, will be open to a range of market entry modes and will strive to exploit quick opportunities while selecting the easiest path to internationalization and entering a foreign market.

- Managers who believe themselves to be above their reference point will be reactive and rigid in their decision making; they will internationalize by relying on existing infrastructures and networks.

The theory of stages relates to culture as the main variable in the process of choosing which foreign markets to enter. The psychological distance between the company moving out of its domestic arena and the target market has become one of the most studied concepts in IB literature (Fan and Phan 2007). In contrast, the BG literature of the past few years has put less emphasis on the psychological distance as a variable in the internationalization process, and according to researchers (Chetty and Campbell-Hunt 2004; Freeman et al. 2006), flatten it out as an important variable in the equation.

In the 32 interviews we conducted, only two interviewees related to the culture variable as a factor in the decision to internationalize. Nevertheless, these interviewees related to the cultural variable as marginal in the decision making process. The rest of the interviewees did not mention the issue of a cultural variable and did not attribute to it...
any weight in the decision making process. See, for instance, the remarks of the manager in Case 15 when asked about the issue of culture: “Culture? This is what you want to hear me talk about? Culture? No, no, no, no. no (emphasis in the original)...the language?...no, no, no, no, the Middle East? Why, (because) we and the Greeks play in the same Mediterranean waters. That’s nonsense!”

There were no differences between the managers who perceived themselves beneath their industry reference point and those who perceived themselves above the reference point. In opposition, there were two variables that appeared in all the interviews that determined the market selection decision process: business opportunities and a network in the target market accessible to the manager.

Freeman (2006) described the entry of entrepreneurs into international markets as an imperative and not an option, when they arrive at the understanding of the necessity of internationalizing at an early stage of their evolution (Freeman et al. 2006). Examine the statement made by the manager in Case 16: “You present going into international markets as a risk. In my opinion, the main reason that Israel is a high tech power is because it did not have a choice. There is no local market. In Israel, if you develop a product, you must move into international markets.”

Managers who perceived themselves beneath their industry reference point did indeed see internationalization as imperative for their success, and from the moment their companies were established aimed for a quick exit into international markets. For example, we have the manager in Case 5 who was so intent on fast entry into new markets that he was prepared to talk to any potential partner without doing preliminary market research or organized due diligence in regard to the prospective partner. “When you have been in the business a long time, you check out all the partners, what is called getting down to the nitty gritty...when you are young and vigorous and must show
Miller (1983) described this behaviour as opportunistic. The manager in Case 10 also spoke about the fervour that characterizes him at the first stages of the business and the aiming for a quick closure of a deal at any price, exuberance that in the end culminates in bitter disappointment for both sides: “my fervor is also different; that is, today I prefer not to sign a contract if the other side does not suit me 100% — which is something I didn’t do before. In the past I always wanted to go ahead and sign, and at the end, of course, it comes back to you like a boomerang.”

Aiming for quick achievements is described in the literature as proactive management, opportunistic and risk taking (Oviatt and McDougall 2005; Freeman and Cavusgil 2007). The manager in Case 5 is “all over the place”, has no strategy and exploits any opportunity that comes his way in order to make a deal. We examined his reaction when asked about his strategy for finding distributors: “you are again looking for something strategic, there was no strategy...the model is choose a country in which you think you will be able to sell...from the start we did not have money to set up a marketing team, which perhaps will be, will consider, will set up exhibitions and branding, no , we did go for opportunities, in order to make money, in the previous company there was a VP for marketing, for business development, an American CEO, a European CEO, a complete mess, but there was also nothing along the lines you are talking about, there just wasn’t, there wasn’t something that...uh...let’s call it look before you leap...it’s like a commando method, there isn’t any thought given here at all...we succeeded because we were very determined...and we were determined to make deals.”

The manager in Case 1 in his answer to our question about the reasons for entering specific markets also related to the business opportunities that came his way and acted as a trigger for entry into the market: “These were business opportunities that opened
up in those places...you have to install switch boards where you can...there were targets and from among these same potential customers, we chose the easiest, for instance in France it was by chance France Telecom...not because I thought the French market was exactly where I was intending to market, but because it would give me a standing... but if you would have taken me to Germany, I would have gone to Germany, it didn't really matter to me, or England or whatever I could do. It was very simple. I reached the type of customer that I could reach...this was just thinking about first of all getting in through the easiest route that was available,...get results...where the opportunities are and where it is easiest to reach them.”

The need to exploit opportunities rapidly and the striving to close deals quickly is vital for most entrepreneurs and stems from the limited financial resources characterizing start-ups and the need to satisfy investors pressing to see results and get a quick return on their investment. The issue of financial resources as a constraint impacting the decision making process reoccurs in Cases 1-2, 9-11 and 16. See, for example, the statement by the manager in Case 11: “We are a small company. There is not a lot of money. We are still young so our marketing budgeting is laughable.”

The manager in Case 1 expressed his striving to exploit quick opportunities while taking into consideration budget constraints and existing resources: “The Italian or Greek market is an easier market in which to begin to develop...because with the limited resources I have I can’t ask for a lot...if I want to go to the U.S., right off, I will fold after the first hundred thousand dollars...and the costs are very high, so therefore, I try to create an international presence in places that are easy to penetrate also in terms of input, costs.”

Managers who perceived themselves to be below their industry reference point and those who perceived themselves to be above their reference point were diametrically
opposed in how they targeted which foreign market to enter. The former type of manager is characterized by his quickly exploiting opportunities in the attempt to satisfy investors seeking a return on their investment and taking into account budget constraints and the limited resources typical of start-ups. The latter managers were passive and reacted to opportunities instead of creating them. Freeman (2006) described “risk adverse” entrepreneurs who choose to enter markets gradually. Other studies described companies that track international companies in order to minimize risks (Chetty and Campbell-Hunt 2004; Freeman et al. 2006). Both types of managers who perceived themselves above and below their industry reference points built their companies from the start by identifying opportunities in international markets, but managers who perceived themselves above the reference point chose to venture abroad using existing infrastructures, following suppliers/customers or existing market channels in order to minimize risks (Chetty and Campbell-Hunt 2004; Freeman et al. 2006).

Examine the manager’s statement in Case 17: “You try to use existing distributors, existing marketing and sales and distribution channels and existing models, and markets that have all the networks, so that you don’t have to invent something for yourself. Usually, the formula is, the more you rely on something that already exists, the less time and money you have to invest.”

Many start-ups create new technologies and new industries and rely on existing infrastructures such as distributors or suppliers who do not, by and large, come from the new industry (Arnold 2000). Being new, the fledgling industry makes the mistake of choosing existing distributors or relying on existing infrastructures, which does indeed save them money and reduce the entrepreneur’s risks, but because of their incompatibility with the new market, do not generate results. Arnold (2000) described reliance on the infrastructures belonging to an existing industry when entering a new
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market as one of the most catastrophic mistakes a company can make when internationalizing. See, for example, the statement made by the manager in Case 4: “We attempted to rely on the infrastructure of our parent company in terms of salespeople, which was not very suitable. The parent company was more a company that sold to the security industry and we are all of a sudden coming to the civilian industry, so the salespeople were really not suited to this...and we didn’t see any orders.”

5.4 How entrepreneurs perceive the Internationalization pace
Main findings:

- The pace of internationalization of BG companies slows over time, with the managers’ increasing knowledge of the markets acting as a mediating factor.

- The more markets BG companies enter, the more time they will devote to checking out the market, which will lengthen the time it takes them to enter the market but which will also improve their business performance over time.

According to the IB literature, companies internationalize in markets that are culturally close to them and the more they learn about the target market, the greater their penetration rate (Johanson and Vahlne 1977). In the last few years a new school of thought has arisen in the IB field, called BG or INV. This viewpoint asserts that there is a type of entrepreneurial company that from the moment it is set up begins internationalizing at an accelerated pace, by exploiting its technological resources that give it an edge in these markets (Oviatt and McDougall's 1994; Zahra et al. 2004). Even though research in the IB field is very developed, the BG concept lacks theoretical maturity (Freeman and Cavusgil 2007). According to MacDougall (2000), research in the field of international entrepreneurship is missing a clear and unifying theoretical
direction. The research literature in the BG field describes entrepreneurial companies that internationalize at an accelerated pace but does not give a theoretical explanation for the phenomenon. In addition, the behaviour of these companies over time does not appear to garner very much attention in the literature. There seems to be little discussion of the question whether the penetration pace remains fixed over time or whether it accelerates even more? (Indeed, according to the stages theory, internationalization accelerates over time, from which it may be concluded that the entrepreneurial companies did internationalize faster than traditional companies but as more time elapses, they learn more about the markets, and in line with stage theory, the pace of internationalization should increase (see section 3.5.1) Or perhaps after the first desire to exploit the market opportunities and the technological resources that give the company a strategic advantage in international markets, the entrepreneurial company will grow and develop an organizational structure characterizing more traditional companies and consequently adopt the management style of traditional companies; that is, will the internationalization pace slow over time? As noted, these issues are not dealt with in the research literature in the field.

One of the topics that arose in the interviews was the change over time in the internationalization momentum, in contrast to the accepted theory of stages that asserts that the internationalization pace is at first slow and increases over time the more the company learns about the market. According to the BG concept (Oviatt and McDougall 2005), the pace of penetration of foreign markets is high right from the beginning. Despite this, researchers (Chetty and Campbell-Hunt 2004; Freeman and Cavusgil 2007; Freeman et al. 2006) have found that not all entrepreneurial companies act the same and some are risk adverts and their behaviour follows the stage theory.
From the interviews, it was found that rapid internationalization characterizes companies that perceive themselves below their industry reference point compared to companies that perceive themselves above their industry reference point. The latter are characterized by an initial slower penetration and is in line with traditional IB theories (Fan and Phan 2007)(see section 3.5). From the interviews it was also seen that in contrast to the discipline’s leading paradigm that contends that the internationalization momentum increases over time, in 29 of 32 interviews, interviewees’ answers to the question of “do you see any change over time in the pace and speed of your internationalization?” were that yes, there changes, but these for the worse. The pace dropped over time.

The other three managers did not see any significant change over time and claimed that the entry speed was fast and remained fast. See, for example, the statement made by the manager in Case 14, to the above question: “Ahh…I don’t think so. In fact, the opposite. It became more…if it is measured over time, then it became slower. The cost of such a decision, the financial cost now has greater significance…in the beginning the considerations were ‘let’s get started already and afterward we’ll see to putting out all the fires, which is quite characteristic of our country and sometimes it is difficult to resist when those above you put the pressure on. So yes, it slowed down.”

When we tried to understand from the managers the reasons for the changes in internationalization over time, they divided the process into two stages. The first stage is when a distributor/partner is chosen. This stage comprises: market research to find a distributor, due diligence of potential distributors, negotiations and contract signing. The second part is the actual process of working with the distributor after the contracts are signed, starting from the first product order until becoming established in the target market.
As mentioned above, the entrepreneurs internationalized and identified distributors/partners while simultaneously identifying quick opportunities – generally, through networking. As a result, the first stage of choosing a distributor is completed very quickly and in reality, most of its sections are omitted. Nonetheless, choosing distributors/partners quickly and not on the basis of market research and checking of all existing options in the market and simply aiming to sign contracts so as to reach milestones dictated by investors means, in many cases, making hasty and wrong decisions (Arnold 2000). See, for example, the manager in Case 9: “Let’s say, the selection style generally is an indicator predicting the quality of relations in the future. What can I compare it to? If someone chooses his wife the way he should, then I claim that if this selection is done in a deeper way, let’s put it like that, then the chances that they’ll get divorced are lower.”

Accelerating the first stage of the process hurts its second stage and effectively lengthens the process as a consequence of the distributor’s unsuitability or the failure of the deal in other cases. Thus, in actual fact, rapid internationalization of companies harms the quality of the process and many companies have indeed raised their flag over many countries but have not really attained any significant achievements in most of the countries they have entered. See, for example, what the manager in Case 5 said: “When you are young and enthusiastic and have to present achievements to the board and in general...you go and close deals with anyone who will talk to you. For instance, in Belgium...I had a distributor called TEIN. When I met him, he was a distributor for ECI. It was a company specializing in hardware. It sold 30 million dollars of equipment, a lot, but it turned out that it was not good at software. Aside from opening doors, they did nothing...and after a year and a half...we decided to get rid of him. So this is a classic example of a situation that we got into because of our stockholders...
knowing someone...They indeed opened the doors for us...but very fast we saw that they didn’t know how to sell software...after the third, fourth, fifth client, when you feel relatively confident, you begin to check out your partners more deeply.”

As the managers acquired more experience in international markets, they began to check the options among potential distributors in the market better and as a result, the first stage of choosing a distributor lengthened. Nevertheless, the quality of the selection improved and impacted the second part, the actual sales. See, for example, the statement made by the manager in Case 4: “In real time our check was relatively short and we didn’t see any orders. Today we already have the right model of the distributor we are looking for and if we don’t find him in the market...we don’t give into temptation, we wait and check until we really find the one with the right profile for us.”

See what the statement by the manager in Case 18 who summarized the process undergone by the organization over time: “In terms of the survey when you talking about friends, it is a lot easier to start off with them and a lot easier to fail with them...you have to remember that an organization in its beginning stage is a lot more impatient and has a lot fewer resources to start checking out the market, etc. You run the fastest you can...and the cheapest you can. When the organization gels, then you can begin filtering, then you can look at the overall picture, then the speed drops, but the quality or performance improves.”

And the manager in Case 2 summarized it: “At the beginning you run very fast; after that the learning graph causes you to maybe, like, practice a bit.”

Between the managers who perceived themselves below their industry reference point and those who perceived themselves above the reference point, no significant differences were discerned regarding the pace of internationalization over time. And in both cases, the pace slowed down with time. The difference was the time constant,
given that managers who perceived themselves above their reference point are risk averts, and therefore, their initial market penetration was slower than the second group of managers (who perceived themselves below the reference point). Nonetheless, despite this, the managers who perceived themselves above the reference point did not behave according to the theory of stages in which the pace of internationalization increases with time; and among them too, the pace of penetration dropped with time. Examine the statement made by the manager in Case 7 when asked about the change over time: “The process of checking and negotiating with the company itself were longer, to reach the first person, who is really the one we needed to talk to, we got there more quickly, but moving from that point and until closing the deal took longer.” To our question regarding the difference in times of market penetration pace over time, the answer was: “I won’t answer you in terms of times. I will answer you in terms of magnitude. Today it is almost two times more time and work.”

5.5 The managers’ perception of the issue of risk management in the company

Main findings:

- Managers who perceive themselves to be below their reference point will show little awareness of risk and will not adopt risk management strategies when entering a foreign market, in contrast to managers who perceive themselves to be above their reference point who will invest reserves and utilize an actively defensive risk management strategy when entering a foreign market.

The theory of stages and the TCA theory are based on neoclassical economic theory (Fan and Phan 2007), and relate to the company/manager as risk averts, aiming to get the maximum information about the markets, striving for risk symmetry and a rational
decision that will lead to optimal results (Fan and Phan 2007). In contrast, Prospect Theory asserts that individuals use reference points when attempting to forecast possibilities, accepting or rejecting risk, depending on their managers’ perception of being above or below their reference point (Fiegenbaum, 1996). (see section 3.7)

According to Prospect Theory (Kahneman and Tversky 1979) (see section 3.7), managers who perceive themselves below their reference point will tend to take greater risks. Managers who perceived themselves below their reference point did not see their behaviour as risky behaviour; rather, they perceived their behaviour as dictated by the reality of the situation and their relative position in the market. Therefore, they believe that not taking a risk will put their organization in an inferior position vis-à-vis the market and will not enable them to survive for very long. Hence, taking risks is the “correct” behaviour. See, for example, the statement made by the manager in Case 16, when asked about the risk of quick internationalization: “You present going into international markets as a risk. In my opinion, the main reason that Israel is a high tech power is because it did not have a choice. There is no local market...so it is not a risk. It’s reality. It’s a requirement.”

And from here we assume that managers who perceived themselves below their reference point will invest less in risk management strategies as compared to managers who perceived themselves above their reference point.

When managers who perceived themselves below their reference point were asked about their degree of exposure and risk in the foreign markets, we heard three types of answers. Some managers ignored the issue of risk and claimed that it was irrelevant for their company. For example, the manager in Case 15, when asked about his company’s exposure/risk in foreign markets, said: “I say that that is perfect bullshit. I say that the only thing that one should be anxious about when entering a country...in a certain
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country...is suiting the product to that country...the reason we did not go to China is not because of patentability...that is, because the Chinese steal patents.” When the managers who ignored the issue of risks were asked if they had a risk management strategy, across the board they said that they did not have a risk management strategy. For example, the manager in Case 15 said: “No...if you enter the Czech Republic, what will make you fail there is not the Czechs copying your patents or the Euro, or the split of the Czech Republic and Slovakia, what will bother you then will be that no customer of yours needs your product there.” The above mentioned managers did not see the risk standing in front of them; they only saw the opportunity for rapid internationalization with the objective of grabbing market segment and producing quick sales for the company in order to ensure the organization’s survival and meet the investors’ expectations. This is in line with Prospect Theory.

The manager in Case 10 summarized this point well when asked about market risk: “Our exposure is at the end, during the sale, and whether we fulfill the plan or not.” And when asked about his organization’s risk management strategy, he answered: “No, we do not have one. We have a money management strategy.”

A second type of manager is those who when asked about risk and exposure in foreign markets do not understand the question at all, and as a result, also did not answer the question. What is actually a risk management strategy and do you have such a strategy in your organization? See, for example, the manager in Case 2 (who only after entering four foreign markets began patenting his products) answered the question of ‘are you exposed/at risk in foreign markets?’: “Not significantly. We are in the middle of registering a patent...we were in the provisional stage and now we are in the...uhh...what’s it called...PCT, sorry, the PCT stage, umm. We aren’t, we aren’t significantly exposed in foreign markets.” When asked again about the company’s risk
management strategy, he confused the concepts and claimed that the organization is conducting a SWOT check of competitors: “We have risk management discussions with potential factors. You know, at the level of the standard SWOT that you conduct about your competitors, but, uhh, no...not...not in the way you describe.”

A third type of manager is aware of the issue of risk and exposure in foreign markets, but from his perspective, the issue is limited to the area of patents and natural exposure. Moreover, in spite of being aware of the issue, such managers did not believe it necessary to deal with the issue and claimed that they are unable to do so in terms of resources and manpower. For example, see the statement by the manager in Case 5 when asked about exposure and risk: “Sure, first of all, the budget is handled in dollars. We sell in dollars or Euros...two months ago the Euro was worth 5.5 shekels and today 5 shekels. That’s a 10 percent difference. It is very significant for the company.” When asked about a risk management strategy, despite his awareness of the high potential losses, the manager did not even implement currency hedging: “No, really no. We are unable to do so. The only strategy now is to say I won’t transfer Euros to shekels, because the Euro seems low.”

In contrast, managers who perceived themselves above their reference point thought differently. They too held certain premises. One type of manager was aware of risks and only entered markets in which they could hedge their risk. For example, see the statement made by the manager in Case 18, who only entered countries in which he could protect his patents, and in addition he took care to give his distributor a temporary license in order to ensure he was paid: “OK, so see, we have a number of patents, which worries us in the Chinese market for example or the Indian. It scares us a little to enter them...how can we do business there?...so we have a problem with patents in these countries...in terms of financial considerations, it is not such a big problem there. That
is, we issue a temporary license until the money is paid and if it is not paid, we cancel the license and that’s it. We have no hardware components and if there are some that we supply to this country, they are always prepaid.”

Other managers were aware of the risks but did not know how to hedge them and could also not bear the costs of risk management – which actually led to passive management and in reality paralyzed them and motivated them not to internationalize. For example, the manager in Case 7 viewed every activity as one incurring risk expenses, so that consequently her style of management was so passive that she preferred not to travel to foreign markets in order to interview potential distributors but rather to interview them on the phone or ask them to come to Israel. When asked a question about exposure and risk, she replied: “Yes, first of all, costs. Even a trip to a certain client, a couple of times, which in the end results in zero orders – in my opinion, that is exposure because I could have invested the same money, approach more objectives in closer and safer locations. We have patents but I am not afraid of the technology. Let someone copy it. If you are afraid of these things, you won’t get anywhere. I freed myself of this about a year ago (after a lot of work with an organizational consultant). Another exposure risk is an unsuccessful project. This is part of my fears – unsuccessful projects that burn you relatively quickly.”

The manager in Case 1 was aware of the risk and exposure, and despite a lack of financial and managerial resources, he managed the risks within the limits of his abilities. Nevertheless, from his perspective he is dissatisfied and feels that there is no risk management strategy, which has actually stopped his attempts to internationalize completely. Note his following remarks: “I am exposed simply by virtue of the fact that my IP is open to everyone…I have no resources to deal with it…there may be holes that I haven’t closed, despite the hard work I’ve put in. But you know, we have limited
resources and how much can I do? IP is an area that sucks up cash…but I am exposed there!”

Other managers who perceived themselves above the reference point demonstrated high awareness of the issue of exposure and implemented an active strategy in order to minimize the risk. For example, the manager in Case 17, who divided the manufacturing of his product components among a number of plants in different countries: “Yes, I have methods; that is, maybe I won’t transfer the software there (to the target market), the chip…all types…to encrypt the code.”

The manager in Case 12 reduced his market exposure to the minimum and adopted a very active strategy of risk management: “We do not have any assets...we contact a local organization and sell through its platform...all the patent registration...the moment we see there is an attempt to actually compromise our intellectual property, we act. There are ways. We use legal consultants for this matter and everything that is necessary. A second thing is the exclusivity agreement that we sign and that protects us, in effect protects us from everything...we issue documents about everything, including use of names, logos, materials we offer, use of our website, the interface on the website, what use can be made of our films...so do you have a strategy?...Of course, of course, of course.”

5.6 How managers perceive the issue of product and strategy adaptation for foreign markets

Main findings:

- Managers who perceive themselves to be above their reference point will adopt a strategy of direct product expansion and will be passive and rigid in their ability to adapt products for different markets.
Managers who perceive themselves to be below their reference point will adopt a strategy of product adaptation and will be active and flexible in their ability to adapt products for different markets, and they will identify this strategy as a way for rapid growth in the market.

The literature on the subject of product adaptation in global markets relates to integration of the strategy and organizational constraints (internal dimension), on the one hand, and to market needs and constraints (external dimension) as factors determining the degree of adaptation needed for products. Nevertheless, the research literature that links the manager’s cognitive perception of the international market and the degree of adaptation required of a product being sold in this market is limited.

W. J. Keegan (1995), (mentioned in Section 3.3.7) distinguished among five strategies for product adaptation and sales promotion for the international market, beginning with straight extension – presenting the product in all markets without making any changes – through adapting the product or the communication for every market in keeping with the market’s characteristics or double adaptation, for both the product and the communication in the foreign market – up to product invention – that is, developing an entirely new product for the target market. The decision about which strategy to choose is made according to the type of strategy the particular organization adopts on a global scale. Bartlett and Ghoshal (1998) described in detail the most appropriate circumstances They listed a number of forces that mandate global integration (such as capital-intensive manufacturing, homogeneous demand, etc.) and in opposition, national reactions (such as local regulations and obstructions, preference for locally based industries, etc.). Taking these forces into account, Bartlett and Ghoshal distinguished
among three organizational strategies: a global strategy, a multinational strategy and a global strategy.

According to Prospect Theory (Kahneman and Tversky 1979), we should expect managers who perceive themselves above their industry reference point to tend to maintain a strategy of straight extension and be inflexible in their ability to adapt their products to different markets. Managers who perceive themselves below their reference point would, in contrast, be very flexible in adapting their product and see this strategy as an opportunity for rapid growth in the market.

Managers who perceived themselves above their reference point who were asked if they adapted their product or strategy during their internationalization gave completely negative responses. See the statement by the manager in Case 12, who believed that his product is perfect: “We did not adapt our product because we came out with a product that we believe...is perfect in our opinion.” Nevertheless, over time and as it became more difficult to sell the product, the organization, despite realizing the difference between different market demands, would still not agree to change the product to align it with market demands. It did, however, agree to make communication changes, following pressure placed on it by its distributors: “Each market has different characteristics. Obviously, the business culture is different... (The interviewer) So in the end you did change the product?...No, no, no, no!! Those who actually made a change in the psychological dimension were our local business partner.”

The manager in Case 6 was not prepared to change the product that he perceived as excellent and not requiring changes. Only continued pressure from his distributors in 15 different countries, for over a year, caused him to make the necessary change. Moreover, even though the market accepted the change enthusiastically, the manager’s opinion did not change and he felt that the product change was unneeded. We note the
dissonance between his first statement in which he rightfully asserted the need for balance and listening to the customer and the rest of what he said: “We try to maintain a balance...first of all, we really do listen to our customers...but not necessarily like in the context of ‘come on, let’s do research and ask them, etc.’ Like Henry Ford used to say, if I would have asked people, they would have wanted a faster horse. I’ll give you an example: We really, really believe that our interactive solution is on a much higher level than just a plain short film. We believe in it. Nothing can shake us from this belief.

In the first year, you wouldn’t believe how many clients said: It’s great that I can move...but give me a short film. Why? Because I have to meet the expectations of people who haven’t used this technology? But for what? The short film is heavy, long, one time use. It doesn’t give him any change. So at some point we inserted ‘a produce a short film button’ into the product. I still think it’s stupid, idiotic, that people do not have vision...At the beginning I didn’t want to make a change. It took us about a year and something of being stubborn, and by the way, you should realize the level of development, it took us two-three days. It wasn’t a big investment in these terms. The psychological block was much bigger. To be prepared to give the market this thing despite the fact that we believe it wasn’t good.”

In contrast, managers who perceived themselves below the reference point paid more attention to the market and had the flexibility to tailor the different product features to each target market according to the latter’s needs. For example, the manager in Case 11, when asked if he noted a change in the level of product adaptation among the different markets over time, said: “Listen, our product is tailor-made. So, certainly, it is not just the first few times; it is always like this.”

The managers who perceived themselves beneath the reference point did not perceive product adaptation as a necessary evil. Rather, they viewed it as an opportunity to enter
the market while exploiting the strategic abilities of a small entrepreneurial company that has flexibility as opposed to large organizations (Zahra 2005). Examine the statement made by the manager in Case 9: “Look, the adaptation, I tell you, adaptation...if you don’t, from my experience, if you don’t do it, you simply waste a lot of money and waste a lot of time. It’s adaptation not just of the product...you simply don’t sell.” Most managers saw product adaptation for the market as an integral part of their business model and part of the company’s strategic policy. For example, the manager in Case 15 said: “Right from the beginning I was flexible. I knew right off that for each country we break into, because the product is multidimensional...(we’ll need) a different product strategy and different entry strategy.”

The manager from Case 16 also linked product strategy and business models for each country: “The first product suited the first market, which was Europe...now we are going to India, Japan...We have to adapt the product, the strategy, everything. When the adaptation is on the simplest level of directing...through the manner of working with them, when they expect a different kind of support than what is expected in other places in the world, through to the business model.”

The desire of some managers who perceived themselves below the reference point to exhibit flexibility sometimes went too far and harmed the company’s business management, caused a price rise and even posed a risk for the organization. See, for example, the remarks made by the manager in Case 10: “Our model was built all the time by taking into consideration market feedback. From the day it was born. Each time the feedback countered what we had done; we took a step back and dismantled it. And this cost millions. We took it apart and rebuilt it all the time according to the market profile...we launched it about the time we spent our last shekel.”
The manager from Case 2 also tried to satisfy his clients’ desires but achieved the opposite, and when he presented his clients with too many option, when the clients were flooded with too much information, they simply decided to forego the product. “We would come to give a presentation, we would say to the client – aside from the main product that I told you about, we have several sub-products. And we would say: guys, we can do this and this and this for you. What do you want? We coopt them… but in the end, it really confused the client.”

5.7 The managers’ perception of the process of learning from partners in the foreign markets

Main findings:

- Managers who perceive themselves to be above their reference point will block access to knowledge and avoid sharing it with their network (both within and outside of the organization). They will prefer to keep the existing technological knowledge compartmentalized within the organization.

- Managers who perceive themselves to be below their reference point will enable access to knowledge and greatly exert themselves in order to learn and share knowledge and abilities within the network, and allocate resources and develop learning mechanisms.

Start-up companies require experienced managers and managerial know-how in order to compete effectively in foreign markets. Research has shown that the lack of managerial knowledge is a central reason why companies fail to internationalize (Porter, 1980). Studies (Hitt et al. 2000; Shrader, Oviatt and McDougall 2000) have also demonstrated that companies that lack managerial capabilities will choose partners with managerial abilities and will try to bolster their capabilities and knowledge by learning from their
partners. Beamish (94) claimed that knowing how to approach a market is an important criterion for a company in the process of internationalization. According to the studies by Svetlicic and Rojec (1994), developing marketing companies that perceive themselves inferior in knowledge and technology actively look for knowledge and technology in other markets that can help them attain a competitive advantage (please see section 3.6). Having said all the above, we can conclude that according to Prospect Theory (Kahneman and Tversky 1979), managers who perceive themselves below the reference point will search for partners with knowledge and access to the market, and will develop mechanisms for learning with their partners in order to transfer knowledge to them so as to get a competitive advantage. In contrast, managers who perceive themselves above the reference point will emphasize knowledge transfer less and try to preserve their existing technological information and not transmit it to anyone else.

Managers who perceived themselves below the reference point viewed the knowledge transfer among organizations as critical for their success, and the feedback from their partner's generated changes both in the product and in the managerial strategy. Examine the statement of the manager in Case 5: “Feedback is critical for success. You come to IBM...you hear what the client wants, you adapt the product, you change...for example, the first and second client influence the direction of the product immensely, also the fifth and sixth clients. For example, Alcatel. They made us suddenly understand that we have a strength that we did not even think about. We were not aware of it and now we say, wow, here's something we didn't think about.”

The manager is Case 8, even though he admitted that he does not have managerial resources for dealing with all the information that reaches him, also believes that learning from partners and building a continual learning mechanism is critical for business success: “Yes, unequivocally you learn a lot, continually, all the time. In this
case you also have a partner who is also pushing the issue. It is not hard to get it out of
him. On the contrary, he sometimes drowns us in excess information, but absolutely,
yes.”

The manager in Case 16, despite the absence of financial resources, viewed the issue of
learning from partners as critical for success and while still in the early stages of
internationalization appointed a director to be responsible for assimilating the issue in
the organization (not a small matter in a start-up). Moreover, the entire issue of learning
was incorporated into the contract with the partner, without any concern about his being
interested in it or not. See the following remarks: “Our support team has a director who
is responsible for documenting everything and for the learning. For better or for
worse,...as a start, we have a mechanism that we built together with them, we have road
mark meetings once every two months with our clients, whether the clients want them or
not. We sit with the clients once every two months. We fly all over the world, learn from
them what works and what doesn’t work. In addition, we installed a CRM system here...
everything we do vis-à-vis the client is documented.”

The manager in Case 15 chose a more focused approach due to the paucity of resources,
and specified three clients that he defined as his strategic customers or learning
customers and was even prepared to pay these clients for the information he received.
See his following statement: “We identified certain clients, three customers at any given
time, which we designated as our learning clients, for technological as well as market
learning...how do they want to see our product in a few years...they get benefits from us
because of this status, and remit information. This means that instead of receiving, they
give...through the currency of information.”

The manager in Case 10 developed a learning mechanism and methodically tracked his
partners and even changed some of them who were uncooperative and didn’t share with
him information about the market: “Uhh...we have organized information, whether it is in the form of a document. Look, we tracked our distributors fairly methodically and changed distributors after this tracking.”

In contrast, managers who perceived themselves above their reference point did not see the same significance in learning from partners and in building a learning mechanism and do not give the issue much attention. The manager in Case 1 did not have a learning mechanism even though his partner in the Italian market pressured him about the subject: “Uhh...I don’t have...that is, I don’t have one today, it doesn’t exist...it is clear to me that there will be one for the European market because of the type of partner I have, in the Italian market, I don’t know...that is, I don’t know if that will happen there.”

The manager in Case 18 works with huge distributors such as Samsung, Mitsubishi, and Philips, and as a result of their demand he had, in the past, attempted to create a mechanism but had not, however, allocated enough resources to it and decided after a few months to give up. See his following remarks: “We tried in the past to do some sort of work in this direction of at least, you know, having someone sitting and collecting all the PR that goes out every month, do some sort of analysis of the important events that happened here and there, but it really didn’t catch on.”

The managers who perceived themselves above the reference point viewed their technology as the most important thing and given that they saw their product/technology as superior and unique, they did not see any reason for sharing this knowledge with their distributors and even believed it carried the risk of information leaking to distributors that may in the future become competitors. Consequently, they were very guarded about the information they had. See the statement by the manager in Case 12: “They learn more from us. We learn less from them.”
On the other hand, managers who perceived themselves below the reference point viewed information exchanges as opportunities (and not risks) for acquiring knowledge that will give them preferential access to the market and a competitive edge.

5.8 How managers perceive the parameters for choosing a partner

5.8.1 Entrepreneurial Perception of Network Evolution

Main findings:

Both managers who perceive themselves to be above and managers who perceive themselves to be below their reference point will use network strategies as a means for rapid internationalization; however, managers who perceive themselves to be below their reference point will also use:

- Many and diverse entry modes when internationalizing, in contrast to managers who perceive themselves to be above their reference point who will enter a market using existing marketing and distribution platforms.
- Will attempt to build long term relationships with many partners and view this strategy as critical to their success, in contrast to managers who perceive themselves to be above their reference point who will use this strategy sparingly, if at all.

One factor influencing the performance of BG companies is how fast they internationalize (Crick and Spence, 2005). However, BG companies lack resources and knowledge, which limits them during the internationalization process (Welch and Luostarinen, 1988). Moreover, small companies apparently also lack the time to integrate previous knowledge and develop an international strategy prior to assimilating it (Johanson and Vahlne, 1977). Ucbasaran (2002) asserted that internationalization is a dangerous step and managers of small firms do not have strong managerial abilities or
the capacity to deal with risk and uncertainty in comparison to large, well established companies. A number of researchers (Chetty and Campbell-Hunt 2004; Freeman and Cavusgil 2007; Freeman et al. 2006) have claimed that in the absence of knowledge and financial resources, BG companies rely on networking for success in internationalization. Accordingly, these companies must create and exploit quick opportunities while maximizing the limited resources they have and trying to survive in the dynamic environment in which they operate (2004). Thus, a central factor that has been identified as contributing to the success of BG companies undergoing internationalization is having an international network (Chetty and Campbell-Hunt 2004; Freeman and Cavusgil 2007; Freeman et al. 2006).

Also in the interviews that we conducted, networking emerged as a central factor for the interviewees when internationalizing. When the interviewees were asked for the reasons for preferring certain markets over other ones, the issue of networking was the foremost reason given by most managers. See, for example, the statement of the manager in Case 5: “It is the direct result of personal relations. There was no chance in the world that I could reach him (the distributor) in an orderly fashion. The same is also true for our second client. This was a client named Broadwing in Austin, Texas. We got to him through personal contacts.”

In many cases, the management’s knowledge, previous experience and the networking done by the marketing staff were the crucial parameters in choosing markets and determined how the company internationalized (2005). See, for example, the statement by the manager in Case 9: “Nowhere in any of the companies that I have seen was there a clear strategy for choosing which country to enter and that a decision was made based on a multiplicity of criteria. It was the result...if there was a salesman that was...
According to researchers (Chetty and Campbell-Hunt 2004; Freeman et al. 2006), BG companies track clients such as international companies that are part of their international marketing network. In addition to this phenomenon, we have seen start-ups that have internationalize as a result of pressure from international venture capital funds that have invested in them. As the manager in Case 16 said, “We are lucky that the funds and our partners are big players around the world and are found everywhere. One fund has headquarters in London. Another fund has headquarters in Tokyo. Another one in the U.S. So, in actuality, they helped us recruit local talents in the best way.”

Other managers identified the opportunity for internationalizing following the declaration of an international company of its desire to support companies developing certain kinds of software. This is in line with researchers (Chetty and Campbell-Hunt 2004; Freeman et al. 2006) that said that following companies that declare their intention to support technology developments reduces the uncertainty and minimizes risks. For example, the manager in Case 6 said: “The moment I heard that this company, a world leader, about to take over the global market in this area, wants to openly support any company producing products and developing new platforms, I saw an opportunity I had to exploit. At last, after all the technology we had amassed.”

Even though in our research companies that perceived themselves above their reference point as well as companies that perceived themselves below their reference point used networking as an internationalization strategy, there were a number of differences in how the two types of managers used it. Our findings are in line with the studies by Freeman (2006), which described five key strategies used by BG companies when
internationalizing. Nevertheless, Freeman’s research only listed the strategies without providing a holistic theoretical explanation for managers’ reasons for using each strategy. From our findings, three of the five strategies described by Freeman, appear to be used by the two types of managers (those above and those below the reference point). These strategies are: Personal Network, Use of Advanced Technology and Client Followership. In contrast, the two other strategies described by Freeman, Collaborative Partnership and Multiple Modes of Entry were found to be used only by managers who perceived themselves below the reference point.

5.8.1.1 Multiple Modes of Entry
Few managers who perceived themselves above the reference point varied their modes of entry into new markets and generally stuck to a limited number of methods by using distribution channels and networks already existing in the industry they were targeting. See, for example, the remarks made by the manager in Case 17: “Look, when you are such a little guy facing such a big and crazy market, you try as much as possible to be mainstream. In any event, you are coming with an innovative idea...for all the rest of the things you have to try as much as possible to rely on existing infrastructures...you try to use existing distributors, existing marketing and sales and distribution channels and existing models, and on markets that have all the networks, so that you don’t have to invent something for yourself.” In contrast, managers who perceived themselves below their reference point also looked for distributors outside of the industry in which they operated and that were sales-driven. See, for example, the statement made by the manager in Case 2: “The distributors with whom we worked were guys that previously sold diamonds and now they were selling cellular games. They simply, you know, dealt with selling and they are apparently good at what they do.”
The managers who perceived themselves below their reference point tried to break into the market quickly in order to achieve rapid results. The opportunism that stemmed from the need to ensure the survival of the company caused them to try a range of methods for entering the market and working with different kinds of distribution channels and marketing outside of the mainstream of their particular industry. See, for example, the remarks made by the manager in Case 15: “Most companies...after you’ve been a start-up for five years, you say to yourself: the main objective has been attained by surviving, because the statistics are well known...what are the chances of surviving...a start-up that has survived for five years is already a statistical miracle...and therefore, only their (the partners’) ability to shorten the path to clients, personal relations, friends, past experience,...if he can’t shorten the way, then he should step aside and not interfere.”

Managers who perceived themselves below their industry reference point did not relate to technology as their primary motive for internationalization or as a business advantage. The perception of their company being below the reference point caused their managers to look for creative ways to enter new markets including new marketing channels and innovative marketing models.

Examine the remarks made by the manager in Case 16: “Our model was one where by the time we got to market there had essentially been no cellular advertising before then. Now there are a lot of companies that understand a lot about advertising but have never in their lives turned on a cell phone and there are companies...who understand a lot about cell phones but have never sold advertising. This drove our strategy. It created a situation in which we were alone...which forced us to set up a sales force abroad and recruit people abroad.”
5.8.1.2 Collaborative Partnership

A further significant difference between the two types of managers (above and below the reference point) was in building long term relations with partners. Gad (2003) claimed that … (quote). Svensson (2004) asserted that building a network and long term relations is essential for the success and development of small companies. Naude (2003) claimed that the growing need to innovative technologically raises companies’ needs for managing complex relations. In contrast to the old, simple seller—buyer relationships, manager who perceived themselves below their reference point viewed the management of relations with their partners as an essential condition for success and invested significant resources in managing the relations. The manager in Case 16, despite lacking financial resources, believed the issue of learning from partners to be critical for success and while still in the early stages of internationalization appointed a director to be responsible for assimilating the issue in the organization (not a small matter in a start-up). Moreover, the entire issue of learning was incorporated into the contract with the partner, without any concern about his being interested in it or not. See the following remarks: “Our support team has a director who is responsible for documenting everything and for the learning. For better or for worse, ... as a start, we have a mechanism that we built together with them, we have road mark meetings once every two months with our clients, whether the clients want them or not. We site with the clients once every two months. We fly all over the world, learn from them what works and what doesn’t work. In addition, we installed a CRM system here...that everything we do vis-à-vis the client is documented.”

In contrast managers who perceived themselves above their reference point did not see the same significance in learning from partners and in building a learning mechanism and do not give the issue much attention. The manager in Case 18 who works with huge
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distributors such as Samsung, Mitsubishi and Philips, and as a result of their demand he had, in the past, attempted to create a mechanism but had not, however, allocated enough resources to it and decided after a few months to give up. See his following remarks: “We tried in the past to do some sort of work in this direction of at least, you know, having someone sitting and collecting all the PR that goes out every month, do some sort of analysis of the important events that happened here and there, but it really didn’t catch on.”

The managers who perceived themselves above the reference point viewed their technology as the most important thing and given that they saw their product/technology as superior and unique, they did not see any reason for sharing this knowledge with their distributors and even believed it carried the risk of information leaking to distributors that may in the future become competitors. Consequently, they were very guarded about the information they had. See the statement by the manager in Case 12: “They learn more from us. We learn less from them.”

On the other hand, managers who perceived themselves below the reference point viewed information exchanges as opportunities (and not risks) for acquiring knowledge that will give them preferential access to the market and a competitive edge. They, therefore, invested resources in building these mechanisms.

5.8.2 How entrepreneurs perceive their resources

Main findings:

- Managers who perceive themselves to be above their reference point will have difficulty in accepting and processing new information and will avoid trying out new business practices. They will, therefore, use their existing technology as a driving force in their internationalization, using this technology to map out the strategy for internationalization.
• Managers who perceive themselves to be below their reference point will be open to new information and will adopt new business practices. They will, therefore, develop and value the strategic capabilities they develop as their main impetus for internationalization and that map out the strategy they will use to decide which markets to enter.

RBV is considered, within the IB research literature, to be one of the main strategies used by managers when entering foreign markets (Peng et al. 2008), when RBV focuses on development and exploitation of knowledge, resources and unique abilities in order for a company to internationalize. In the IB literature, which focuses on BG companies, RBV is also identified as the primary motivation for an entrepreneurial company to internationalize rapidly (McKinsey 1993). Nevertheless, the BG literature does not distinguish between the types of resources used by the companies as a stimulus for internationalization. Moreover, no distinction is made among companies about the types of resources these companies use in their internationalization strategy. The theory asserts that strategic capabilities, and not tangible resources on their own, give companies a sustainable competitive advantage (Hall 1991); given that tangible resources, just as unique technology, only provide a short-term edge. These assets can be imitated or purchased whereas strategic abilities are rare, unique and difficult to copy (Barney 2001; Aaker 1989). Consequently, they offer the organization a long-term advantage.

Research in the area mapped five main strategic capabilities: the ability to adopt a strategic approach, the ability to innovate, the ability to take risks, the ability to make and implement changes and the ability for organizational learning (March and Levitt 1999).
In the interviews we conducted we also saw that managers perceived their organization’s unique resources as the primary motivation for rapid internationalization. However, we did see several differences among managers who perceived their company below the industry reference point and managers who perceived their company above the industry reference point in regard to the type of resources that they leveraged as a competitive edge when internationalizing rapidly.

Managers who perceived their company above their industry reference point were risk adverse, and consequently, their preferred tendency is to use technology as a competitive advantage and protect the technology by using patents. Managers who perceived their company above their industry reference point believe their technology/product gave them their main competitive advantage, and the majority used it as their primary tool to leverage their entry into foreign markets. When managers who perceived their company above their industry reference point were asked about their reason for entering a specific market and their preferences for other markets, they indicated that their unique technology was their prime stimulus. For example, the manager in Case 6, said: “We built this company from the start on opportunities. We identified opportunities in the international market for our developments...the technological part, relatively, the only one! I believe that we are proud of our technological advantages.”

The manager in Case 17, when asked why he went to the U.S. as his first market, gave this response: “The product, our product...for us, it is explicitly technology, unequivocally, that is, we do not have anything else, aside from technology, you might say a patent too.”

In contrast to managers who perceived their company above their industry reference point who used their unique resources, preferably technology, as the impetus and
support resource for internationalizing, managers who perceived their company below their industry reference point did not view their technology as a sufficient reason to internationalize or selecting a specific markets. They held this belief despite having unique technology and products, which were equal in value to those of the companies above the industry reference point (technological quality is measured by the amount of patents and their degree of innovativeness, according to the examination done by IVC, whose information bank the investigator used; for more details, see the Methodology Chapter). Managers who perceived their company below their industry reference point developed strategic capabilities in order to enter markets and took into consideration the organization’s strategic and dynamic abilities as the resources backing them and driving their rapid internationalization.

Managers who perceived their company below their industry reference point saw opportunities and given that they are risk-seeking and innovative, they, therefore, leveraged strategic capabilities in order to create a competitive advantage. This finding is in line with the research literature in the field. Hit (2000) saw that young companies will try to absorb abilities and talents from the market in order to create many collaborative partnerships. Sharkar (1998) showed that entrepreneurial companies will try to absorb supplementary abilities in order to create a competitive edge.

The manager in Case 2 leveraged this organization’s learning ability and capacity to adjust quickly to varying market conditions, while taking risks. His business model was to approach key customers and ask them to characterize the need/product, and then exploit the strategic advantage, which was a combination of an innovative technological platform and short development times by his technological teams, in order to tailor-make a product for his client on the basis of the company’s generic platform. See this manager’s statement about the reasons for entering specific markets: “I would go to
Europe and sell a product I did not have, and I would see the reaction. And then when I understood what the market wanted, and maybe even a letter of intent from clients who wanted, I would return to Israel and develop...convene the management and say to them, guys, I have clients waiting in line...what we in the end bring to mobile operators, is a variety of very, very unique games...in addition because our development times are significantly shorter (than the competition), we have the ability, in actual fact, to respond in real-time to events around the world.”

The manager in Case 16, when asked what the strategic advantage in entering specific markets abroad is, said that the ability to handle change and take risks are the main advantage (despite the fact that the technology upon which his company is based is considered revolutionary and despite the fact that his company was chosen by the World Economic Forum as a technological pioneer in 2010): “I believe our main advantage is in the speed of our work and ability to handle changes and our propensity to take risks.”

The manager in Case 10 adopted a strategic approach and an innovative ability when he combined a new product that monitors retinal diseases with a financial model of income sharing with doctors, and providing doctors with billing services – the company in essence bills the client and deducts the doctor’s share. When this manager was asked about the strategic advantage that drove him to enter a specific foreign market, he said: “I would place it (the strategic advantage) in our business model and our product, which are both unique. Our business model is unique. It is a model for cooperation between us and the doctors. In a field that doesn’t exist...Here we are profit sharing with the doctors...who is responsible in fact for the patient...is the doctor, we are providing the service and the patient pays the doctor for follow up...We handle
everything; that is, we, of course, provide the doctor with billing services, we invoice the patient on our behalf and on behalf of the doctor.”

### 5.8.3 How entrepreneurs perceive their competitive strategy

Main findings:

- Managers who perceive themselves to be below their reference point will be aware of competitive pressures coming from their environment and will use strategies of differentiation, cost leadership and focus when internationalizing. In contrast, managers who perceive themselves to be above their reference point will be focused on maintaining the status quo and will, therefore, use a defensive strategy and rarely use positioning strategies.

The IBV theory is one of the most widespread strategies in the IB literature (Peng et al. 2008). The IB theory or the positioning school is based on Michael Porter’s five generic forces and generic strategies (1980) and adapted to global markets in his book, *The Competitive Advantage of Nations* (1990). Porter described four main strategies that are applicable to all industries (for more details see section 3.3.6). In contrast; the theory of stages does not assign any significance to strategy during the internationalization process.

Johanson and Vahlne (1990, 22P) claimed that "basically the process model (traditional approach) is rather skeptical in regard to strategy". In opposition to this, the BG approach stresses the role of strategy when internationalizing, given that the focus and pace of internationalization is determined by the strategy used to exploit a leading position in a global niche or developing market (MacKinsey 1993; Oviatt and McDougall's 1994; Zahra et al. 2004). According to Knight (2000), BG companies compete against each other using innovative marketing strategies and unique products that appeal to a niche market. In opposition, other studies (Chetty and Campbell-Hunt
Research Findings: Exploring Entrepreneurial Process of Behavior during Internationalization

2004; Freeman and Cavusgil 2007; Freeman et al. 2006) found that certain BG companies are risk averse and enter markets slowly and carefully, similar to the way traditional companies operate.

Today, there is no theory in the research literature that explains why certain entrepreneurial companies are risk-takers and others are risk-haters. According to Prospect Theory, managers who perceive themselves below their reference point will be risk-takers and proactive, and from this we can presume that this companies will compete using innovative competitive strategies. Companies that perceive themselves below their reference point will believe they are inferior to their competitors in the market and will, therefore, try to protect themselves by entering or creating a protected niche market. Or alternatively, they will use a strategy that differentiates them from their competitors. This is in contrast to companies that perceive themselves above their reference point and believe that their technology is superior to anything else in the market, and consequently, they attempt to protect the existing advantage by registering patents, instead of creating differentiating strategies or appealing to a particular niche.

In the interviews with managers who perceived themselves below their industry reference point, we saw evidence of the use of all the generic strategies. In opposition to these managers, we did not see any use of generic strategies among the managers who perceived themselves above the reference point.

The manager in Case 16 (even though his company had the leading technology in its industry without any competitors) described the company’s strategy as focusing on a niche that the company created in order to protect itself: “This is where we focus...we were the only ones that focused on this and it saved us, and when your competitors are Yahoo and Google and Qualcomm and Ericsson and Nokia, as a start-up, if you are not focused, you don’t exist. They will eat you...we do only one thing.”
The manager in Case 8, even though he had a clear technological edge, also chose the strategy of cost leadership in a niche that he created: “Our business model says that we have a technological product that is very, very strong, very, very flexible, which enables us to create very high quality solutions, in a relatively short time, and at a low price relative to alternatives.”

The manager in Case 15 chose different strategies for different markets – product differentiation for the American market and cost leadership for the Indian market. He said, “The business model is not generic. It is a changing model. The differences are vast, on levels...in India we sell an entirely different product than what we market in the U.S.A. A completely different product!...Not just in its marketing packaging, but even R&D. We do entirely different things.”

In opposition to this, the managers who perceived themselves above their industry reference point did not believe it that it was correct to change strategy or adapt their products to market needs. For example, the manager in Case 18, when asked about adapting strategy to foreign markets, said: “We built a generic platform...and are convinced that this is the best for everyone.”

5.8.4 How entrepreneurs perceive their institutional strategy

Main findings:

- Managers who perceive themselves to be above their reference point will use many institutional factors in deciding which foreign market to enter; in contrast, managers who perceive themselves to be below their reference point will make little or no use of institutional factors when entering a foreign market.

- Managers who perceive themselves to be above their reference point will designate resources for and will use an active institutional strategy in entering and getting
established in a foreign market; in contrast, managers who perceive themselves to be below their reference point will make little or no use of these types of strategies.

In the IB literature there is a growing recognition of the importance of an institutional approach as an approach that shapes the organization’s strategy on a global level (Peng et al. 2008). Peng (2004) claimed that institutional based view (IBV) is one of three important legs in the design of international strategy by organizations, in addition to IBV and RBV. Nevertheless, despite this, the many research studies about the issue fall short in their attempt to address the basic questions in the IB literature in regard to the motivation for choosing a strategy and the performance of companies that internationalize (Peng, 2004).

Managers who perceived themselves above their industry reference point aim to protect their technology, and consequently, they will be more alert to institutional aspects as driving market penetration such as an amenable regulatory environment with a strong patent enforcement system. For example, the manager in Case 18 related to the issue of protecting patents as a factor having critical weight in the decision whether to enter the Indian and Chinese markets, because of the lack of patent protection in these two markets: “OK, so see, we have a number of patents, which worries us in the Chinese market for example or the Indian. It scares us a little to enter them.” In contrast, managers who perceived themselves below their industry reference point did not attribute any great significance to the issue of patents as a determining factor in the decision to enter a specific foreign market. See the statement made by the manager in Case 15: “I say that the only thing that one should be anxious about when entering a country...is adapting the product ...I do not think, even today...that the reason we did not go to China, for example, is because of patentability...truthfully, not.”
Another factor in the decision to internationalize, evident among managers who perceived themselves above their reference point, was the issue of credibility and ethics in certain markets. For example, the manager in Case 17 balked at entering the Chinese market because he did not believe in the integrity of Chinese managers: “The moment you manufacture in China you become afraid that they’ll sell your product for 10 shekels...after work hours.”

An additional factor that emerged from the interviews of managers who perceived themselves above their reference point concerned the issue of regulation as an important parameter for choosing which market to enter. Consider the statement by the manager in Case 7 who described the regulatory and ethical checks made by his company in order to decide which country to enter: “For example, France and this was a serious mistake. The entire manner of work there is different. The work culture is different...we checked...the country's bureaucracy also. Also the payment system of this country...handling the new regulations that the government enacted.”

The manager in Case 1 also preferred to enter markets with whose regulatory system he was familiar. “I had, I knew it all, that is, I knew what my compensation would be there, what the regulatory track were, all these things, and I knew what I had to do.”

Managers who perceived themselves above their reference point used their institutional vision as the impetus for deciding to penetrate foreign markets. Furthermore, managers who perceived themselves above their reference point used an active institutional strategy – a topic that managers who perceived themselves below their reference point were not aware of at all. Of eight companies above their reference point, five had a senior manager on the vice president level, which functioned as a Regulatory manager. In contrast, none of the 24 companies below their reference point employed a Regulatory manager.
The manager in Case 12 used a variety of institutional factors as his chief parameters when deciding which country to penetrate. The manager divided the world’s countries into a number of blocs, with the main variables determining the attractiveness of each one being its institutional variables. Countries without the appropriate institutions were classified as disorganized, the most open group, versus states with organized institutions that were the most difficult to enter. The manager preferred the latter over the countries with the laxest enforcement: “The market of, we call them the disorganized countries, are the last market (for entry)...there are not just a few countries whose actual safety regulations...are not applied...these are the disorganized countries...in the proper countries, the bureaucracy for us is a lot harder for us to enter, because the processes are much longer...you have to navigate a number of authorities in order to get approval.”

In addition, it turned out that the company in Case 12 had an active institutional strategy for entering each state: “We invest our efforts to creating, first of all, a process of some sort of recommendation or mandatory regulation through the authorities in charge of the situation...NFPA is the leading American body in the world for writing and creating codes in the area of fire safety and building safety...to see how we can bring about the creation of work committees...in order to examine the possibilities of changing and revising these codes.”

### 5.8.5 How entrepreneurs perceive the area of knowledge transfer and reputation

Main findings:

- Managers who perceive themselves to be above their reference point will stress the factors of a regulatory system and intellectual property protection laws when entering new markets and will enter the market as predicted by TCA theory. In contrast,
Managers who perceive themselves to be below their reference point will emphasize different strategic factors and will not behave as predicted by TCA theory.

- Managers who perceive themselves to be above their reference point will emphasize reliability and reputation as factors in choosing a partner in a new market in contrast to managers who perceive themselves to be below their reference point who will stress other factors such as the partner’s accessibility to the market, sales and service capabilities, and ability to 'open doors'.

The TCA theory (Buckley and Casson 1976) is one of two leading paradigms in the IB literature, together with the theory of stages. The TCA theory, similar to the theory of stages, is based on the neo-classical economic theory that assumes risk aversion, rationalism and symmetrical information relations. Buckley and Casson (1976) broadened the theory to the field of knowledge and reputation. According to the theory, when there is an orderly system in the state that protects intellectual property rights, the market transaction between sellers and buyers is conducted through the market (license or franchise). In contrast, when there is no orderly enforcement of laws protecting intellectual property, and the market lacks symmetry, then the transaction is conducted through a company.

In opposition to TCA theory (Buckley and Casson 1976), which presupposes rationality, Prospect Theory assumes that individuals use reference points when they come to evaluate opportunities. Managers who perceive themselves above their reference point will be risk-haters, versus managers who perceive themselves below their reference point who will be risk-lovers and prefer risky projects with projected low returns (Fiegenbaum, 1996).

Managers who perceive themselves above their reference point will behave as predicted by TCA theory and in countries that have strong regulations and that enforce IP
Research Findings: Exploring Entrepreneurial Process of Behavior during Internationalization

Protection laws; managers will sign franchise or licensing agreements. For example, the manager in Case 12 only entered markets that had an orderly regulatory system that enforced IP protection laws, and within this group of countries he identified the partners to whom he wanted to award the franchise: “I found a party…business that you could see as a strategic partner in the future, that could also in the future assemble the product in the American market itself, one that was knowledgeable about and comfortable with the entire licensing process.”

When asked about adapting his product to the international market, the manager in Case 12 said that adapting a product or strategy are the job of the local franchise holder, given that the cost of the transaction was lower through the franchise than through the option of establishing an independent platform in the country: “Who actually is supposed to do this for us…is our local business unit, because they know the best what to do in their country. If I knew how to sell in each and every country, then I wouldn’t need these people…this is a very common mistake made by a lot of companies…that arrive in foreign markets and think that they know everything and try to set up an independent platform, and then after a year understand how much (a lot of) money they spent and didn’t get anywhere.”

The manager in Case 14 also works in stable markets with a strong patent protection system and therefore chose a licensing strategy. See his following statement: “The best model is not to move your products into the market. The best model is to find a strategic partner who will move your products into the market.”

In contrast, when the markets did not have an orderly system for protecting IP, the managers who perceived themselves above their reference point chose, in most case, not to get into these markets. For example, the manager in Case 18 preferred not to enter the markets that he viewed as risky such as the Chinese and Indian markets. In other
markets he tried to minimize the risk by giving only a temporary license: “We issue a temporary license until the money is paid and if it is not paid, we cancel the license and that’s it.”

Companies below their industry reference point did not relate to the issue of IP protection enforcement as a factor in their decision about a market entry strategy and did not operate according to the prediction of TCA theory. Even in situations when there was an orderly patent protection system, companies below their industry reference point entered the market through a company (a subsidiary or distributors) and not through the market as predicted by TCA theory. These companies took other strategic factors into consideration. For example, the manager in Case 15, for whom the criterion of patent protection was not critical for success or failure, felt that choosing the correct strategy for market entry was important: “if you enter the Czech Republic, what will make you fail there is not the Czechs copying your patents…what will bother you then will be that no customer of yours needs your product there...because at the moment they are using a security product that costs 2% of the turnover and not like in the U.S.A. where they buy a payroll...it doesn’t get to that level.”

The manager in Case 16 also acted in contradiction to TCA theory, and even though the patent protection system was strong in the state, he identified an untreated market niche that other countries could not supply and preferred to enter the market through a subsidiary and not through the market (as the theory predicts he will): “Our model was one where by the time we got to market... there had essentially been no cellular advertising before then. Now there are a lot of companies that understand a lot about advertising but have never in their lives turned on a cell phone and there are companies...who understand a lot about cell phones but have never sold advertising. This drove our strategy that we had to sell ourselves.”
TCA theory also relates to a company’s reputation. According to the theory, when the reputation is open to development and enforcement, then the transaction will be through the market (license or franchise); but when there is no ability to oversee the reputation, the transaction will be through the company. Managers who perceived themselves above their reference point behaved as predicted and worked only with trustworthy and reputable companies. The manager in Case 1, who was asked about the characteristics he looks for when searching for partners, replied: “First and foremost, what is the most important to me is that he has a proven business record in the market in which he operates...and that he has a reputation for carrying out similar applications. I have to know this not sort of, not about, but exactly.”

In cases when potential partners were not perceived as reliable and having a proven reputation, managers who perceived themselves above their reference point preferred to forego the deal. See the statement by the manager in Case 7: “We look for reliability over and over because we say that his face and how he presents himself...that’s also how he will present us. So there were a lot of kinds of salesmen, even though they agreed to work for nothing, who we didn’t want.”

In contrast, managers who perceived themselves below their reference point did not consider reputation to be an important parameter when deciding who to choose as their partner. Rather, they emphasized the issue of the partner’s accessibility to the market, his ability to open doors and his capacity to sell and provide service as the primary features needed by a partner. Examine the statement made by the manager in Case 11 who was asked about the abilities his partner needs: “The ability to open doors...and to manage the selling process. The second thing may be integration, that he has people who can assimilate our products...and support, of course...(the interviewer)...his
reputation wasn’t important to you?...We aren’t looking for giant partners now. I am looking for medium-sized companies...therefore, reputation is less important.”

5.9 Summary

This chapter presents the research findings as well as relates these findings to the previous literature in the field; the chapter begins with a discussion of the findings related to the manager's position vis-à-vis his reference point and his perception of the subject of risk, innovation, and proactivity in the internationalization process. These findings are in line with Prospect Theory and the findings of Fiegenbaum (1996), as an outgrowth, we link the manager's perception of his position vis-à-vis his industry reference point and his decision making in the area of risk management, joint learning, and product adaption, innovation in marketing and business models, and product development. Our findings indicate that managers below their industry reference point display innovation when developing new marketing/distribution channels or business models, and product development and share their knowledge with partners. Nevertheless, they demonstrate low awareness of risk management.

In contrast, managers above their industry reference point focus on the organization's existing technology and marketing and distribution channels and avoid adjusting their products to the market needs and sharing knowledge with distributors. On the other hand, they adopt an active risk management strategy.

Later on in this chapter we will show the link between the manager's perceptions of his position vis-à-vis his industry reference point and his choice of entry mode strategy. Our findings indicate that a number of differences exist between managers who perceive themselves to be below their industry reference point and managers who perceive themselves to be above their industry reference point. Managers below their industry
reference point use positioning strategies but use TCA or institutional strategies little, if at all. In contrast, managers above their industry reference point use TCA or institutional strategies but will use positioning strategies little, if at all.

The two types of managers (above and below their industry reference points) use network strategy and RBV, but each group uses different factors within the theories. In RBV – managers below their industry reference point use its strategic capabilities, in contrast to managers above their industry reference point who use tangible assets. In network strategy – both groups of managers use Personal Network, Use of Advanced Technology and Client Followership, but managers below their industry reference point use, in addition, a multiple entry mode strategy and partnerships collaboration. Based on these findings, the next section will concentrate on the interpretation and discussion of the research findings as well as relates these findings to the previous literature in the field. We will connect the findings to a typology that describes the understanding of senior management of the phenomenon of accelerated internationalization.
Chapter 6

Interpretations and Discussion of Key Findings

6.0 Introduction

The aim of this section is to interpret the research findings, as well as connect them to the research literature in the area. The discussion is presented in the form of sections that link the manager’s perception of his position in relation to his industry’s reference point, as a factor influencing his “attitude”, and consequently his management behaviour; he is either a risk seeker, proactive, innovative and adaptive or risk averse, reactive, conservative and rigid. This attitude impacts on his choice of internationalization strategy when moving out of his domestic market.

We will connect the findings to a typology that describes the understanding of senior management of the phenomenon of accelerated internationalization by linking the manager’s attitude to existing theories that recognize separate perspectives that also overlap.

We present our findings related to the research questions. Each research question is analysed separately, and then at the end, integrated into the analysis of the rest of the research questions in order to create a conceptual framework and a typology (see table 6.2 and figure 6.1) that unites the main existing theories in the IB literature in relation to choosing internationalization strategies.

The main research question answered is:

What is the relation between the managers’ perceived reference points and his or her decision making process, insofar as it relates to choosing an internationalization strategy?
The additional answered questions derived from this main question are:

1. How do entrepreneurs perceive their company’s reference point relative to their industry?

2. How do entrepreneurs perceive the issue of risk, innovativeness and proactivity?

3. How do entrepreneurs perceive the process of choosing the foreign markets in which to internationalize?

4. How do entrepreneurs perceive the change in the pace of penetration into these markets over time?

5. How do entrepreneurs perceive the issue of risk management by their company?

6. How do entrepreneurs perceive the issue of adapting their product and strategy to foreign markets?

7. How do entrepreneurs perceive the joint learning process with their partners in the foreign markets?

8. How do entrepreneurs perceive their network?

9. How do entrepreneurs perceive their resources?

10. How do entrepreneurs perceive their competitive strategy?

11. How do entrepreneurs perceive their institutional strategy?

12. How do entrepreneurs perceive the issue of knowledge transfer and reputation?
# TABLE 6.1: INCORPORATION OF PRIOR STUDIES AND FINDINGS IN THE DEVELOPMENT OF CONSTRUCTS

<table>
<thead>
<tr>
<th>Construct</th>
<th>Supporting References</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Industry based Factors</strong></td>
<td></td>
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<td><strong>Resource based Factors</strong></td>
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<tr>
<td><strong>Institutional based Factors</strong></td>
<td></td>
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<tr>
<td><strong>Internationalization (Attitudinal Dimension)</strong></td>
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<tr>
<td><strong>Attitude of top managers</strong></td>
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<td><strong>Entrepreneurial Capabilities</strong></td>
<td></td>
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<tr>
<td>• Proactiveness</td>
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<tr>
<td>• Risk taking</td>
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<tr>
<td><strong>Network based factors</strong></td>
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<td><strong>TCA factors</strong></td>
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<tr>
<td>• Know how</td>
<td></td>
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<tr>
<td>• Distribution and market accessibility</td>
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</tbody>
</table>
### TABLE 6.2: TYPOLOGY OF INTERNATIONALIZATION R.P. AMONG B.G. FIRMS

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Managers above R.P</th>
<th>Managers below R.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Risk Innovation and proactivity</strong></td>
<td>Perceive new issues as risks and will be risk averse, conservative and reactive</td>
<td>Perceive new issues as opportunities and will be risk seeking, proactive and innovative</td>
</tr>
<tr>
<td><strong>Pace of Internationalization</strong></td>
<td>Moderate and multi-stage internationalization process slows over time, with the managers’ increasing knowledge of the markets acting as a mediating factor</td>
<td>Rapid pace of internationalization slows over time, with the managers’ increasing knowledge of the markets acting as a mediating factor</td>
</tr>
<tr>
<td><strong>Product development</strong></td>
<td>Will focus on protecting … and continued improvement of existing products and technologies</td>
<td>Will be involved in continual development of new products</td>
</tr>
<tr>
<td><strong>Business models and Distribution and marketing channels</strong></td>
<td>Rely on existing business models and distribution and marketing channels</td>
<td>Involved in continual development of business model and distribution and marketing channels</td>
</tr>
<tr>
<td><strong>Risk management</strong></td>
<td>Invest reserves and utilize an actively defensive risk management strategy</td>
<td>Show little awareness of risk and will not adopt risk management strategies</td>
</tr>
<tr>
<td><strong>Product and communication adaption</strong></td>
<td>Adopt a strategy of direct product extension</td>
<td>Will be active and flexible in their ability to adapt products for different markets</td>
</tr>
<tr>
<td><strong>Organizational learning</strong></td>
<td>Block access to knowledge and avoid sharing it with their network</td>
<td>Learn and share knowledge and abilities within the network, and allocate resources and develop learning mechanisms</td>
</tr>
<tr>
<td><strong>Network evolution</strong></td>
<td>Use only Personal Network, Use of Advanced Technology and Client Followership</td>
<td>Use Collaborative Partnership and Multiple Modes of Entry on top of Personal Network, Use of Advanced Technology and Client Followership</td>
</tr>
<tr>
<td><strong>Resource dependency</strong></td>
<td>Using existing technology as a driving force in their internationalization</td>
<td>Develop strategic capabilities as a driving force for internationalization</td>
</tr>
<tr>
<td><strong>Positioning strategies</strong></td>
<td>Be aware of competitive pressures and will use strategies of differentiation, cost leadership and focus</td>
<td>Focused on maintaining the status quo and will, therefore, use a defensive strategy and rarely use positioning strategies</td>
</tr>
<tr>
<td><strong>Institutional strategies</strong></td>
<td>Use many institutional factors in deciding which foreign market to enter</td>
<td>Make little or no use of institutional factors when entering a foreign market</td>
</tr>
<tr>
<td><strong>Intellectual properties</strong></td>
<td>Stress factors of a regulatory system and intellectual property protection</td>
<td>Will emphasize different strategic factors and rarely use factors of a regulatory system and intellectual property protection</td>
</tr>
<tr>
<td><strong>Reputation</strong></td>
<td>Emphasize reliability and reputation</td>
<td>Stress factors such as the partner’s accessibility to the market, sales and service capabilities, and ability to ‘open doors’</td>
</tr>
</tbody>
</table>

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Interpretations and Discussion of Key Findings

FIGURE 6.1: TYPOLOGY

Management Perception of their company Reference Point

Below R.P

- Risk Taker
  - Innovative approach
    - Using Product/Strategy Adoption
      - Industry Based View
  - Fast Int. pace
    - RBV
  - Proactive approach
    - Using Organizational Learning

Above R.P

- Risk Averse
  - Conservative approach
    - Not Using Product/Strategy Adoption
      - Institutional Approach
  - Slow Int. Pace
    - Using or Awareness of Risk
      - TCA
  - Passive approach
    - Not Using Organizational Learning

Internationalization Pace decreases with time
6.1 Finding 1: The relation between the manager’s perception of his position relative to the industry reference point and his perception of the issue of risk, proactivity and innovation in the process of internationalization

The research literature in the area of decision making developed and examined three stream of strategic choice behaviour. The first research stream is based on the hypothesis that decision makers are risk averse; hence organizations will assume a risk only for high returns (Bettis, 1982; Schoemaker, 1982). The second research stream, begun with the findings of Bowman (1980, 1982), asserts that individuals and organizations can become risk takers under different sets of circumstances. These studies were supported by Fiegenbaum and Thomas (1986) who found that managers take risks also for low returns. The third research stream began with the Kahneman and Tversky (1974, 1979). The primary prediction of this stream was that organizations are both risk seekers and risk avoiders, and which one they are at a particular moment in time depends on their manager’s perception of his position in terms of profit and loss. Prospect Theory claims that decision makers use reference points in order to assess decisions. In addition, individuals are not uniformly risk averse or risk seekers, as claimed by earlier researchers, but rather adopt a mix of risk-seeking behaviour when they perceive themselves to be below their industry reference point and a mix of risk-averse behaviour when they perceive themselves to be above their reference point. In other words, companies with ‘everything to lose’ (above their reference point) will tend to view new issues as risky, in contrast to companies with ‘nothing to lose’ (below their reference point) that will tend to see this issues as opportunities.
It is interesting to examine this in regard to the IB literature. The two leading streams in the IB field relating to internationalization are: Transaction Cost Theory (TCA)/the Theory of Internationalization of the international organization (Buckley and Casson 1976) and the stage theory (Johanson and Vahlne 1977). They are rooted in traditional neo-classical economic theory that advocates risk aversion, full information about the market and risk taking only for high returns. Thus, the leading theories in the IB field are in line with first stream of research in decision making described above.

An additional stream of research in the area of IB describes the phenomenon of companies in their embryonic stage internationalizing rapidly. These companies have been dubbed Born Global (BG) companies. Their style of internationalization is characterized by risk taking, innovation and proactivity. This rapid internationalization seemingly contradicts the IB literature based theories that were reviewed above and accords with the second stream of the decision making literature described above.

Nevertheless, in the past four decades of research in the area, much empirical evidence has accumulated that contradicts the way traditional companies are thought to internationalize. According to the evidence, companies skip stages of the internationalization process, do not take into consideration the cultural distance as a factor when deciding to enter a foreign market, do not increase the pace of market penetration over time and use different factors when making the decision to internationalize – not simply the transaction cost and in contradiction to the stage and TCA theories. In addition to this, the research that has accrued in the BG area describes certain entrepreneurial companies that are managed in line with the theory that asserts that they are risk-seekers, proactive and innovative whereas other entrepreneurial companies are shown to be risk-avoiders, reactive and conservative (Chetty and Campbell-Hunt 2004; Freeman and Cavusgil 2007; Freeman et al. 2006). Accordingly,
despite the dichotomy found in the existing theories in the literature, which creates the impression that one is speaking of different strains of companies (traditional versus entrepreneurial), the empirical research in the area demonstrates that both traditional and BG companies behave in part like risk seekers and in part like risk avoiders. This is in line with the third stream of research founded by Kahneman and Tversky (1976).

The findings of our study agree with Prospect Theory, with managers who perceived themselves to be below their reference point tending to take large risks even for an expected low return. These managers felt that they had nothing to lose, and therefore, tried to enter markets proactively and rapidly in order to get quick results for their companies such as sales/distribution contracts or install customers’ first products. This behaviour was usually accompanied by only superficial investigation of the target market and did not include evaluation of market research of any kind, and examination of only a limited number of distributors based on contacts or via the management. Contracting with distributors was quick, involving very little negotiation and without conducting any due diligence.

Even though the company owned an innovative technology or product and held a superior position vis-à-vis the market, these managers did not perceive the technology/product at the base of their company as a the crucial factor in the company’s success and they distinguished sharply between the company’s technology and the rest of the company’s business parameters such as sales ability, marketing ability, service systems, financial ability and others. These managers believed these latter parameters to be essential for the company’s success. Their perception of themselves as being below their reference point in certain parameters affected the company’s strategic behaviour; in other words, the manager’s decision to use certain reference points impacted on the company.
In contrast, managers who perceived themselves to be above their industry reference point believe that the technology/product at the base of their company was the essence of the company. They were certain that they had a unique technology/product that gave them a significant competitive advantage and placed them in the upper echelons of the industry. These managers believed that they had ‘everything to lose’. They tended not to take risks when entering a market. They entered a market slowly, going through a number of stages. They examined the target market in detail, including conducting extensive market research, checking out a large number of distributors accompanied by a drawn out negotiation process. They were passive when choosing partners in the target market, essentially being drawn and led to foreign markets because of the interests and needs of key customers or suppliers for the company’s innovative products or technology. This leads to the following findings:

F1a: Managers who believe themselves to be above their reference point perceive new issues as risks and will be risk averse, conservative and reactive in their process of internationalization.

F1b: Managers who believe themselves to be below their reference point perceive new issues as opportunities and will be risk seeking, proactive and innovative in their process of internationalization.

F1c: Managers who believe themselves to be below their reference point adopt a rapid pace of internationalization compared to managers who believe themselves to be above their reference point who adopt a more moderate and multi-stage internationalization process.

Managers who believed themselves to be below their reference point actively looked for opportunities and strived for quick contact with potential distributors, while at the same time exploiting contacts and openings. These managers created
personal ties both within the industry and outside of it and were open to accepting and trying new internationalization practices. These managers were network-oriented and not cultural-distance sensitive (Freeman and Cavusgil 2007). They were prepared to check out different entry modes or markets beyond their 'natural' market. The factors that they considered were: ease of market entry, expressed by rapid penetration and low entry costs.

In contrast, managers who believed themselves to be above their reference point were passive in looking for opportunities during market entry. These managers were not open to new experiences and entered a market conservatively, tending to engage with existing distribution and marketing channels and use existing infrastructures. These managers also had a network orientation but as opposed to the former type who were open to trying the networks outside of their core markets, managers who believed themselves to be above their reference point limited themselves to a network with a proven reputation within the existing industry, even though at times even these companies internationalized rapidly. As already noted, they were drawn to foreign markets by their key customers’ or suppliers’ concerns and expressions of interest in the unique technologies of these companies (Oviatt and McDougall 2005).

Dutton and Jackson (1987) and Staw, Sandelands and Dutton (1981) hypothesized that decision makers who perceive a new issue as risky (above their reference point) will be constrained in their ability to accept and examine new information, will make decisions in a centralistic fashion and become rigid in their decision making processes, willing to adopt only previously used practices. In contrast, decision makers who perceive a new issue as an opportunity (below their reference point) will tend to be more open to new information and will be more flexible and prepared to check out new practices yet to be tested. This suggests the following:
F2a: Managers who believe themselves to be below their reference point will be proactive and flexible in their decision making process, will be open to a range of market entry modes and will strive to exploit quick opportunities while selecting the easiest path to internationalization and entering a foreign market.

F2b: Managers who believe themselves to be above their reference point will be reactive and rigid in their decision making; they will internationalize by relying on existing infrastructures and networks.

6.2 Finding 2: The relation between the manager’s perception of his position vis-à-vis his reference point and his perception of the issue of innovation in business models, distribution channels and product development

According to our findings, managers who believed themselves to be above their reference point related to their company’s technology as the best available on the market, as the main reason for their business success and as the catalyst for their internationalization. This belief caused the managers to put all their faith in the company’s existing technology in terms of resource allocation, both economic and managerial. These managers felt that they had to protect the company’s technological assets both through patents and through continued refinement of the technology at the base of the product. This findings is in line with the research done by Fiegenbaum (1999), who showed that managers who believe themselves to be above their reference point proceed to protect that which exists, and with the research in the BG literature that indicates that technology is the stimulus for different companies to internationalize (Knight and Cavusgil 2004). The research findings show that these managers enter a continuing cycle of enhancement of the existing product/technology and focus on this to
the exclusion of developing new products and technologies. This type of thinking traps the managers into focusing on their initial technology and turns their companies into one-product/technology companies. This finding is consistent with the studies in the field of entrepreneurship that claimed that most start-up companies are one-time innovators (Hamel 1996, 2001).

Given that the focus of these managers was ‘intra-company’ and that their style of management was to preserve the existing, and as a result to focus on allocating resources for enhancing existing technology, these managers dealt with anything that demanded resource budgeting for ‘extra-company’ activities very carefully, and avoided risks. These managers avoided entering a market through new distribution channels or by developing innovative business models that they believed endangered the company. As noted, these managers were conservative in their management and tried to ‘squeeze into’ existing infrastructures in terms of distributors, marketing channels and business models with a proven market record.

In contrast, managers who believe themselves to be below their reference point did not see their technology as the main reason for their success, and therefore, did not try to protect their existing resources. These managers perceived their environment and the business parameters within their external competitive environment as essential for their business success. Furthermore, given that through using these parameters the managers perceived themselves to be below their reference point, they felt that they ‘did not have anything to lose.’ Consequently, they did not feel committed to the existing technology and hence chose an offensive and daring strategy and were free to innovate and allocate more resources to development of new products and technologies, beyond their original one. This behaviour transformed their company into a company developing new products and technologies and took it out of the slot of a one-product company.
In addition to this, the managers who believed themselves to be below their reference point were open to trying new business practices, beyond the core practices of their industry. This openness meant that these companies were innovative in their business management – which includes development of new business models and testing of new distribution and marketing channels beyond their core business – thereby transforming these managers into serial entrepreneurs.

As already noted, successful strategies are measured, among other ways, by the ability of the company to position itself within its industry, with the concept of competitive advantage (Porter, 1985) asserting that correct positioning vis-à-vis the most appropriate reference group, which can be the appropriate strategic group in the industry or a competitor from a completely different industry (best in its class concept). In other words, the manager’s strategic behaviour will be affected by the reference point he selects both within the organization and outside of it.

According to the Theory of Dynamic Fit (Itami 1987), organizations pass through periods of stability, characteristic of mature organizations in stable markets, which are interrupted by periods of revolution, characterized by a lack of equilibrium and chaos arising from market changes that force the organization to change. The function of management is, therefore, to build both order and chaos into the organization. This is to say, they must ensure, on the one hand, a proper fit between the organization and its environment, but on the other hand, guarantee that the organization has the permanent ability to change and be dissatisfied with the status quo (i.e., managers should perceive themselves to be below the reference point) in order to adapt itself to changes and upheavals in the environment. These abilities are especially crucial for entrepreneurial organizations that by their very nature live in changing and imprecise environments.

This suggests the following:
F3a: Managers who perceive themselves to be above their reference point will be rigid, defensive and conservative in their decision making, and when entering a market will rely on existing business models and distribution and marketing channels. These managers will focus on protecting ... and continued improvement of existing products and technologies.

F3b: Managers who perceive themselves to be below their reference point will be flexible, on the offensive and innovative in their decision making. They will be involved in continual development of new products, business models, and distribution and marketing channels.

6.3 Finding 3: The relation between the manager’s perception of his position relative to his reference point and his perception of the issue of risk management within the organization

Managers who perceived themselves to be below their reference point ignored the issue of risk and claimed that it is irrelevant to their organization. These managers are unable to see the risks, only the opportunities for rapid market entry with the objective of gaining market share quickly and getting the company income as fast as possible, in order to ensure the organization survives and that investors’ expectations are met. Even when the managers were aware of the issue of risk, they did not feel it necessary to deal with the issue and asserted that they were unable to, in terms of not having sufficient resources and manpower to allocate to the issue. These findings are in line with the research in the field that claims that BG company managers are inexperienced and do not have the resources to deal with the field of risk management (Hitt et al. 2000).
addition, according to Prospect Theory, managers who perceive themselves to be below their reference point will tend, as noted above, to take greater risks.

According to these managers, their behaviour was not risky. They believed their behaviour to be necessary under the circumstances and as a result of their relatively inferior position in the market. As far as these managers are concerned, if they did not take risks, they would be placing their company in a precarious market position that would not enable them to survive for very long. Accordingly, taking a risk is the ‘correct behaviour.’

In contrast, managers who perceived themselves to be above their reference point demonstrated strong awareness of risk exposure in the market and they, therefore, allocated a great deal of resources to the area, including senior level managerial and financial resources. They adopted an actively defensive strategy in order to contain and manage the risks. Moreover, when these managers were unable to allocate sufficient resources (according to them) to risk management, they were dragged into passive management that paralysed them and stimulated them to flee from foreign markets.

This behaviour accords with the studies in the field of behavioural economics (Fiegenbaum, 1996), according to which managers who perceive themselves to be above their reference point view new issues as threats, and therefore, their management style will be passive and defensive. In the opinion of these managers, they have ‘everything to lose’ and they will, therefore, adopt defensive risk management strategies designed to maintain the status quo. When they are unable to continue using these strategies due to lack of resources or knowledge, they will prefer not to take risks and not enter new markets.

This suggests the following:
F4: Managers who perceive themselves to be below their reference point will show little awareness of risk and will not adopt risk management strategies when entering a foreign market, in contrast to managers who perceive themselves to be above their reference point who will invest reserves and utilize an actively defensive risk management strategy when entering a foreign market.

6.4 Finding 4: The relation between the manager’s perception of his position relative to his reference point and his perception of the issue of product adaption and strategy for international markets

The research literature (Bartlett and Ghoshal 1989, 1998, 2001) regarding the issue of product adaptation in global markets relates to a combination of, on the one hand, strategy and organizational constraints (the internal dimension), and on the other hand, of market needs and constraints (the external dimension) as factors determining the degree of need for product adaptation. Keegan (1995) distinguishes five product adaptation and promotion adaptation strategies for the international market, beginning with direct expansion, which means presenting the product in all markets without any change, through to product invention (for more on this issue, refer to Section 3.3.7). According to Staw, Sandelands and Dutton (1981), and Dutton and Jackson (1987), decision makers who perceive a new issue as risky (above their reference point) will be limited in their ability to absorb and check out new information, and will be centralistic in their decision making and become rigid during the process. They will be willing to deal only with parameters that have previously been tested, in contrast to decision makers who perceive a new issue as an opportunity (below their reference point) who will be more open to new information and more flexible and prepared to check out new
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practices that have yet to be tried. Given that the ability to adapt a product to different markets is linked to, among others, the ability to identify opportunities via receipt and processing of new information from the market, we can conclude that managers who perceive themselves to be above their reference point will be rigid in their ability to adapt their products to different markets and will hence tend to maintain a strategy of direct expansion. This is in contrast to managers who perceive themselves to be below their reference point who will demonstrate greater flexibility in adapting the product and will identify this strategy as an opportunity for rapid growth in the market.

According to our findings, managers who perceived themselves to be above their reference point were rigid in their ability to adapt their product to different markets and were not open to the market demands. Even in situations when their market partners or customers demanded that they adapt their product, these managers asserted that the product was excellent and did not require changes. Only after great effort on the part of their customers and distributors, which were sometimes expressed as loss of market share or a threat to stop the joint venture, did these managers acquiesce to adapting the product. This was accomplished in the face of their obvious unwillingness and their view of it as a diktat.

In contrast, managers who perceived themselves to be below the reference point did not view product adaptation as a necessary evil but as an opportunity for better market penetration, a way to exploit a competitive advantage and a strategic ability on the part of the entrepreneurial company that can be flexible in its decision making, as opposed to large organizations ( ). Managers who perceived themselves to be below their reference point were open to product adaptation or the creation of a product in line with the market characteristics and needs. Nonetheless, some managers who perceived themselves to be below their reference point demonstrated over flexibility in adapting
the product. When these managers tried to satisfy their clients and created an entirely new product according to the customer’s demands, this harmed the company’s business management, increasing costs and even endangered the organization.

According to our findings, these managers use a reference point in their external environment and did not position themselves relative to a point within the organization, in opposition to managers who perceived themselves to be below their reference point who operated in a more balanced manner and related to reference points both within and outside of their organization.

According to Fiegenbaum (1996), the more (internal and external) reference point dimensions organizations relate to in their strategies, the more efficient they are. This assumption is in line with the management theories that emphasize the importance of strategic adaptation among the company’s internal elements (strategy, structure, technology and processes) and its external environment (Miles and Snow, 1978).

This suggests the following:

F5a: Managers who perceive themselves to be above their reference point will adopt a strategy of direct product expansion and will be passive and rigid in their ability to adapt products for different markets.

F5b: Managers who perceive themselves to be below their reference point will adopt a strategy of product adaptation and will be active and flexible in their ability to adapt products for different markets, and they will identify this strategy as a way for rapid growth in the market.

F5c: The more reference point dimensions managers relate to, both in their external and internal environments, the more efficient they will be in allocating resources for product adaptation.
6.5 Finding 5: The relation between the manager’s perception of his position relative to his reference point and his perception of the issue of learning from his partners in international markets

Managers who perceive themselves to be below their reference point saw learning from their partners, knowledge transfer between organization and building an organized mechanism for continued learning and feedback between partners as critical for their success. These managers used the knowledge and feedback that they received from their partners in order to make changes in the product and their managerial strategies.

Managers who perceived themselves to be below their reference point, despite their lack of resources, tried to budget special resources for the issue of learning from partners and appointed senior managers from within the organization as responsible for assimilating the issue within the organization (not a small matter for start-ups). Furthermore, these managers tended to choose foreign distributors and partners who showed interest in cooperating in learning and even made the issue of learning part of their joint contract. Other managers noted which strategic customers they could learn from and even paid these clients for the knowhow they possessed.

These findings agree with studies (Hitt et al. 2000; Shrader, Oviatt and McDougall 2000) that showed that companies lacking managerial abilities will choose partners that can make up for this deficit – in other words, ones who have managerial abilities – and will try to strengthen these abilities and their knowledge by learning from these partners.

According to the study done by Svetlicic and Rojec (1994), companies from developing markets, that perceived themselves to be inferior in terms of knowledge and technology actively look for knowledge and technology in other markets that can help them achieve a competitive advantage. According to Fiegenbaum (1996), managers who perceive
themselves to be below their reference point will develop channels that will allow them to access knowledge and will share this with partners and other stakeholders and will be open to receiving and sharing knowledge.

In contrast, managers who perceived themselves to be above their reference point did not see the importance of learning from partners and transferring knowledge between organizations or in building a mechanism for learning and passing feedback between partners. Consequently, they were not prepared to allocate organizational resources for this purpose, despite pressure from distributors and partners. Furthermore, even when these managers worked with huge organizations such as Samsung, Mitsubishi or Philips that demanded the creation of such a mechanism, these managers did not see the need for building a learning mechanism and missed the point entirely as far as their partner were concerned. Given that these managers believed that their technology was the best in the market (above the reference point), and that it was unique and gave their organization a competitive edge, they did not see any reason to share their knowledge with their distributors and even thought that knowledge falling into the hands of distributors/clients posed a danger in that the latter could become competitors in the future. They, therefore, guarded their knowledge zealously. As noted, these findings support those of Staw, Sandelands and Dutton (1981) and Dutton and Jackson (1987) who claimed that managers who perceive themselves as above their reference point will block access to knowledge, be defensive and rigid, and avoid sharing this knowledge with others.

This suggests the following:

f6a: Managers who perceive themselves to be above their reference point will block access to knowledge and avoid sharing it with their network (both within
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and outside of the organization). They will prefer to keep the existing technological knowledge compartmentalized within the organization.

f6b: Managers who perceive themselves to be below their reference point will enable access to knowledge and greatly exert themselves in order to learn and share knowledge and abilities within the network, and allocate resources and develop learning mechanisms.

6.6 Finding 6: The relation between the manager’s perception of his position relative to his reference point and his perception of the entry mode parameters according to institutional theory

According to our findings, managers who perceive themselves to be above their reference point operate under the view that they have ‘everything to lose’. These managers believe that their technology is the best on the market and use a number of rational strategies in order to protect their technology such as patent registration, trademarks, formalizing agreements by written contracts, etc.

What are institutions in reality? North (1990:3) defines institutions as “the humanly devised constraints that structure human interaction” in a similar manner. Scott (1995:33) defines institutions as “regulative, normative and cognitive structures and activities that provide stability and meaning to social behaviour.”

From these definitions we understand that managers that perceive themselves to be above their reference point who are conservative and risk-avoiders will look for order and stability provided by institutions and will, therefore, be more sensitive to institutional aspects as a factor in deciding whether or not to enter new markets. Indeed, according to our findings managers that perceives themselves to be above their
reference point included the regulatory environment as crucial among the various factors they considered when they debated internationalizing. For them, a suitable regulatory environment is one that enforces strong patent laws, which is an essential parameter in the decision to enter a new market. Should the market lack such a regulatory environment, these managers will refuse to entertain the option of entering it. Additional factors that emerged as critical in the managers’ decision making process were the subjects of reliability and ethics, including the target country’s business culture and payment integrity, local government stability and the existing bureaucracy.

In contrast, managers who perceived themselves to be below their reference point operated under the view that they had ‘nothing to lose’. They were not even aware of institutional strategies and did not use them as a parameter when deciding whether or not to enter foreign markets.

These findings are in line with (Hitt et al. 2000) who claims that entrepreneurs have neither the experience nor the resources to deal with an institutional strategy. In opposition, other studies in the BG area (Peng 2008) describe organizations that use an institutional strategy as a strategic tool for internationalizing.

Additionally, managers who perceived themselves to be above their reference point used an active institutional strategy and invested significant organizational resources, including appointing a senior executive to be in charge of regulatory affairs. As mentioned, these managers used an active institutional strategy both in registering patents and in working with the regulatory authorities in each country they entered as well as in hiring a senior locale person to be in charge of this area in each country. In contrast, managers who perceived themselves to be below their reference point were unaware of such strategies and did not allocate special resources to them or hire executives to handle this subject only.
This suggests the following:

F7: Managers who perceive themselves to be above their reference point will use many institutional factors in deciding which foreign market to enter; in contrast, managers who perceive themselves to be below their reference point will make little or no use of institutional factors when entering a foreign market.

F8: Managers who perceive themselves to be above their reference point will designate resources for and will use an active institutional strategy in entering and getting established in a foreign market; in contrast, managers who perceive themselves to be below their reference point will make little or no use of these types of strategies.

6.7 Finding 7: The relation between the manager’s perception of his position relative to his reference point and his choice of parameters when deciding to enter a foreign market according to network theory

According to the BG literature, the existence of an international network is one of the two leading theories (the other being RBV) that explain the accelerated internationalization of BG companies. Freeman (2006) and other researchers (Chetty and Campbell-Hunt 2004; Freeman and Cavusgil 2007; Freeman et al. 2006) list five key strategies from Network Theory that BG companies use as a way to internationalize rapidly: Personal Network, Use of Advanced Technology, Client Followership, Collaborative Partnership and Multiple Modes of Entry.

Our findings show that both managers who perceived themselves to be above and managers who perceived themselves to be below their reference point used three of the five strategies described (Personal Network, Use of Advanced Technology, Client
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Followership) in order to cope with obstacles blocking their way to internationalization. Nonetheless, a number of differences in the use of these strategies by the two types of managers were evident. In contrast, two more strategies described by Freeman et al. (Collaborative Partnership and Multiple Modes of Entry) were used only by managers who perceived themselves to be below their reference point.

According to our findings, both managers who perceived themselves to be above and managers who perceived themselves to be below their reference point used personal contacts to internationalize rapidly. Many times the management’s knowledge, the marketing team’s previous experience and networking were crucial parameters in selecting markets and how to internationalize (Oviatt and McDougall 2005).

Nonetheless, whereas managers who perceived themselves to be above their reference point focused on personal contacts coming from within the internal network of their own industry, and to a very small degree created new networks outside of their core industry, managers who perceived themselves to be below their industry reference point created many more networks both within their core industry and outside of it.

Both managers who perceived themselves to be above and managers who perceived themselves to be below their reference point tracked their customers such as international companies that were part of their international market network. Other managers identified internationalization opportunities following the statements of multinational companies that they want to support the development of start-up companies. Nonetheless, whereas managers who perceived themselves to be above their reference point were drawn passively into international markets as a result of the interests of multinational/venture capital companies or investors that were interested in the companies’ technology, managers who perceived themselves to be below their reference point identified the needs (overt or covert) of multinational companies for
technology to complement their products, and consequently, developed these technologies and actively offered them to these companies.

Managers who perceived themselves to be below their reference point attempted to break into the market rapidly in order to generate quick business results. The managers’ opportunism, which stemmed from their companies’ need to survive and their perception of having ‘nothing to lose’, caused them to try a variety of ways to enter the market and work with a range of distribution and marketing channels – including those outside of the mainstream of their particular industry.

In contrast, managers who perceived themselves to be above their reference point used very few different ways to enter new markets and generally kept to a limited number of existing modes of action. For the most part, they exploited the existing distribution and marketing channels that had proved themselves and used networks within their respective industry.

These findings are in line with the studies done by Dutton and Jackson (1987) and Staw, Sandelands and Dutton (1981), which demonstrated that managers who perceive themselves to be above their reference point will not try out new practices and will attempt to use only those with which they are acquainted and have used in the past. This is in contrast to managers who perceive themselves to be below their reference point who will be open to receiving and working with information and new practices.

Managers who perceive themselves to be below their reference point viewed building long term relations with partners as critical for their success. Such managers successfully built complex network systems and used information and feedback given to them by their network partners in order to change their product and management strategy.
Managers who perceive themselves to be below their reference point, despite lacking resources, attempted to allocate special resources to the subject of relationship building and learning from partners. They appointed senior executives in the organization as responsible for assimilating the subject into the organization. Moreover, these managers tended to choose foreign partners who were interested in sharing knowledge, and even formalized the subject of learning from partners in contracts.

These findings are in agreement with research (Hitt et al. 2000) showing that companies lacking managerial capabilities will choose partners that can fill in this gap – that is, which have managerial capabilities – and will attempt to bolster their abilities and knowledge by learning from these partners. According to the study done by Svetlicic and Rojec (1994), companies from developing markets that believes themselves to be inferior in terms of knowledge and technology actively look in other markets for knowledge and technology that can assist them in gaining a competitive advantage.

According to Fiegenbaum (1996), managers who perceive themselves to be below their reference point will develop channels that allow them access to knowledge and will share this knowledge with partners and other stakeholders and will be open to receiving and giving knowledge.

In contrast, managers who perceived themselves to be above their reference point did not see any significance in building relations with partners and disseminating knowledge between companies, and accordingly, were not prepared to allocate organizational resources to the subject, despite pressure from distributors and partners. Furthermore, even when such managers worked with huge organizations such as Samsung, Mitsubishi or Philips, which demanded that they create a mechanism for knowledge transfer, they did not believe in the need for this mechanism. These managers did not see any reason to share knowledge with their distributors and even
believed that allowing knowledge to trickle out to distributors/clients was risky because in the future these allies could become competitors. Consequently, they guarded their knowledge carefully and built very few relationships with partners. As already noted, these findings are consistent with those of Dutton and Jackson (1987) and Staw, Sandelands and Dutton (1981) that claimed that managers who perceive themselves to be above their reference point will block access to knowledge, adopt a defensive and rigid position and avoid sharing of knowledge with anyone.

This suggests the following:

F9: Both managers who perceive themselves to be above and managers who perceive themselves to be below their reference point will use network strategies as a means for rapid internationalization; however, managers who perceive themselves to be below their reference point will also use:

- Many and diverse entry modes when internationalizing, in contrast to managers who perceive themselves to be above their reference point who will enter a market using existing marketing and distribution platforms.
- Will attempt to build long term relationships with many partners and view this strategy as critical to their success, in contrast to managers who perceive themselves to be above their reference point who will use this strategy sparingly, if at all.
6.8 Finding 8: The relation between the manager’s perception of his position relative to his reference point and his choice of parameters when deciding to enter a foreign market according to RBV theory

RBV is considered, in the IB research literature, to be one of the main strategies used by managers who are internationalizing (Peng 2008). BG companies focus on development and exploitation of special knowledge, resources and abilities in order to enter foreign markets and develop their companies on an international scale (Oviatt and McDougall 2005); however, the existing studies in the BG area do not specify when and how BG companies will use a resource or strategic capability.

Also according to our findings, managers perceived the unique resources of their organization as the impetus for internationalizing. Nevertheless, we saw a number of differences between managers who perceived themselves to be below their reference point and managers who perceived themselves to be above their reference point in terms of the type of resources they used and how they leveraged them as a competitive advantage for rapid internationalization.

Managers who perceived themselves to be above their reference point viewed their technology as their primary, and generally, sole competitive advantage, and therefore, used it as their main tool to leverage their entry into foreign markets. When managers who perceived themselves to be above their reference point were asked why they entered specific foreign markets and their preference for these as opposed to other markets, they pointed to their unique technology as their prime motivator.

Managers of technological start-up companies generally develop their companies around their unique technology/product (Hitt et al. 2000; Knight and Cavusgil 2004). These companies remain for a relatively long time in a research and development stage...
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(Busenitz and Barney 1997), during which their organizational culture crystallizes and they become a technological organization (MacKinsey 1993). The move from being a technology-oriented company to a marketing-oriented company is a challenging period for start-up companies, with some of them having difficulties making the transformation and some even failing to do so (Shrader, Oviatt and McDougall 2000). Managers who perceive themselves to be above their reference point have problems processing and absorbing new information and prefer using business practices that have been tested and are used by the managers’ comfort group (Fiegenbaum, 1996, 1999). Accordingly, we conclude that managers who perceive themselves to be above their reference point will find it difficult to receive and process new information coming from the market or from within the organization, and given that these managers are risk-haters, conservative and rigid, they will prefer to use as their main internationalization strategy existing technologies that have been proven within the organization to work. They will avoid creating new strategic capabilities (both external and internal to the organization) that they perceive as risky.

In contrast, managers who perceived themselves to be below their reference point did not believe that their existing organizational technology was sufficient to leverage their organization’s internationalization process or for choosing a specific market over another one (as a result of their inferior perception of themselves vis-à-vis the market). Accordingly, these managers developed strategic capabilities beyond their core technology in order to enter foreign markets and used and valued the company’s strategic and dynamic capabilities as a resource supporting and driving their accelerated internationalization and choice of specific markets.

Studies in the area of dynamic capabilities mapped five main strategies: ability to adopt a strategic approach, ability to innovate, ability to take risks, ability to implement
changes and ability for organizational learning (Prahalad and Hamel 1990; Hamel 2001; Fiegenbaum, 1999).

According to our findings, managers who perceived themselves to be below their reference point adopted at least one strategy, if not more, from the above five strategies, and as noted, consider these strategies to be part of their reason for their success in foreign markets.

These findings are in line with the studies done by Fiegenbaum (1996), showing that managers who perceive themselves to be below their reference point are risk-takers and innovative. According to Dutton and Jackson (1987) Managers who perceive themselves to be below their reference point are flexible and open to receiving and adopting information. According to Sandelands and Dutton (1981), managers who perceive themselves to be below their reference point will be open to trying out new business practices.

These findings are also in line with other studies in the field of entrepreneurship. Hit (2000) showed that young companies will try to absorb abilities and talents from the market in order to create many cooperative partnerships. Sharkar (1998) demonstrated that entrepreneurial companies try to absorb complementary abilities in order to create a competitive edge.

This suggests the following:

F10a: Managers who perceive themselves to be above their reference point will have difficulty in accepting and processing new information and will avoid trying out new business practices. They will, therefore, use their existing technology as a driving force in their internationalization, using this technology to map out the strategy for internationalization.
F10b: Managers who perceive themselves to be below their reference point will be open to new information and will adopt new business practices. They will, therefore, develop and value the strategic capabilities they develop as their main impetus for internationalization and that map out the strategy they will use to decide which markets to enter.

6.9 Finding 9: The relation between the manager’s perception of his position relative to his reference point and his choice of parameters when deciding to enter a foreign market according to Industry Based View

IBV is a very widespread strategy in the IB literature and is based on Porter’s Five Forces Model and Generic Strategies Model (1980). Porter describes four strategies that organizations use in reaction to competitive environmental pressures. According to Porter, these strategies are appropriate for every industry. In opposition to Stage Theory, which does not attribute any importance to internationalization strategies, but does to the cultural difference between the home and target country (Chetty and Campbell-Hunt 2004), the BG approach is in line with the IBV, emphasizes the role strategy plays when internationalizing, given that the focus and pace of internationalization are determined by the intention to exploit a leading position in a global niche or developing market (Porter 1991).

Nevertheless, in the literature that discusses BG, there is evidence both that companies internationalizing rapidly are trying to exploit a global niche and that companies are run as risk-hating entities and do not use such strategies when internationalizing.

Our findings showed that managers who perceived themselves to be below their reference point also believed that they were inferior relative to their market competitors.
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In addition, these managers were receptive to information from their surroundings (Dutton and Jackson, 1987) and were, therefore, more aware of a competitive environment and its pressures. They consequently tried to protect themselves by going into or creating a protected niche, or alternatively, chose a strategy of differentiation or cost leadership in order to reduce the competitive pressures.

Managers who perceived themselves to be above their reference point also adopted a defensive strategy but this was because they believed that they had ‘everything to lose’, given that these managers were focused on their existing technology and assumed that it gave them a competitive advantage. They, accordingly, embraced a strategy whose purpose was to protect the existing state of affairs, that is, patent registration, protecting their rights through contracts, etc. The managers, however, were less receptive to new information from their environment (Dutton and Jackson, 1987), and therefore, less sensitive to competitive pressures. They, consequently, rarely used the strategies of differentiation, cost leadership, differentiation focus, if at all.

This suggests the following:

F11: Managers who perceive themselves to be below their reference point will be aware of competitive pressures coming from their environment and will use strategies of differentiation, cost leadership and focus when internationalizing. In contrast, managers who perceive themselves to be above their reference point will be focused on maintaining the status quo and will, therefore, use a defensive strategy and rarely use positioning strategies.
6.10 Finding 10: The relation between the manager’s perception of his position relative to his reference point and his choice of parameters when deciding to enter a foreign market according to TCA theory

According to TCA theory, when a country has a well-organized system for protecting intellectual property, then the market transaction between sellers and buyers will be done through the market (licensing or franchise). In contrast, when there is no organized system in place for enforcing protection of intellectual property and there is no symmetrical market information, the transaction will be done through the company.

According to our findings, managers who perceived themselves to be above their reference point behaved as predicted by TCA theory, and in countries with a strong regulatory system protecting intellectual property, signed licensing or franchise agreements. In contrast, when the markets had no system for enforcing intellectual property protection laws, managers who perceived themselves to be above their reference point in most cases chose not to enter the market at all – in contradiction to what TCA predicts: that in these types of cases, the company will enter the market through a subsidiary. However, since our study focused on BG companies, which lack resources, in contrast to MNE companies, which were the main research focus of TCA theory, this finding cannot be said to refute the theory. It can only confirm it; given that TCA theory is based on neo-classical economics that asserts rationalism, risk aversion and striving for informational symmetry. Further, given that managers who perceive themselves to be above their reference point are risk-haters, then in the face of lack of resources, knowledge and experience in markets lacking regulation, the actions of these managers are actually in line with the theory asserting bounded rationality (Buckley 2002, 2007).
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In contrast, managers who perceived themselves to be below their reference point were not concerned with intellectual property protection when choosing their market entry strategy. These managers did not behave as predicted by TCA theory and even in situations when there was a strong intellectual property protection system in place, they chose to enter the market through the company (as subsidiaries) and not through the market – in other words, contrary to what TCA theory predicts. This finding is in line with what Prospect Theory predicts. Given that managers who perceive themselves to be below their reference point will recognize new subjects as opportunities, these managers will be risk-seekers and will prefer risky projects even if they are liable to produce low returns for the possible (even if low) opportunity to gain market leadership. Therefore, these managers saw other strategic factors (other than transaction cost) such as market niches not yet exploited or new business models and saw opportunities (even if risky) for them to enter and lead the market through a subsidiary and not through the market (as TCA theory predicts should happen).

TCA theory also relates to a company’s reputation as a factor in the decision. When a company’s reputation, according to TCA theory, can be managed and enforced, then the transaction will occur through the market (license or franchise). However, when it cannot be managed, then the transaction will occur through the company. In our study, managers who perceived themselves to be above their reference behaved as predicted by TCA theory, and worked only with reliable, reputable companies. In cases when potential partners were not perceived as reliable with proven reputations, these managers preferred to forgo the deal.

In contrast, managers who perceived themselves to be below their reference point did not believe that reputation was an important factor when deciding on partners. These managers focused more on the area of the partner’s accessibility to the market, his sales
and service abilities, etc. These findings are in agreement with Prospect Theory and the findings of Dutton and Jackson (1987) who assert that managers who perceive themselves to be above their reference point will stress proven business practices more and will have difficulty looking at and accepting new information and indeed, a company’s reputation, after all, rests on business practices that have proven themselves. In contrast, according to Prospect Theory, managers who perceive themselves to be below their reference point will be receptive to looking at new subjects and adopting them.

This suggests the following:

F12: **Managers who perceive themselves to be above their reference point will stress the factors of a regulatory system and intellectual property protection laws when entering new markets and will enter the market as predicted by TCA theory. In contrast, managers who perceive themselves to be below their reference point will emphasize different strategic factors and will not behave as predicted by TCA theory.**

F13: **Managers who perceive themselves to be above their reference point will emphasize reliability and reputation as factors in choosing a partner in a new market in contrast to managers who perceive themselves to be below their reference point who will stress other factors such as the partner’s accessibility to the market, sales and service capabilities, and ability to 'open doors'.**
6.11 Finding 11: The description of the change over time in the pace of internationalization of BG companies

In contrast to established Stages Theory, according to which the rate of penetration is slow in the first stage and increases over time, the more the company learns about the market, according to the BG concept, the rate of internationalization is rapid from the start.

Nevertheless, despite the above discussion, studies (Chetty and Campbell-Hunt 2004; Freeman and Cavusgil 2007; Freeman et al. 2006) have found that BG companies do not behave as one bloc and some are risk-averse and behave in line with Stage Theory. According to the findings of this study, managers who perceived themselves to be below their reference point internationalized rapidly and even entered a number of markets simultaneously. In contrast, managers who perceived themselves to be above their reference point internationalized at a moderate pace and entered only a few markets in parallel.

Yet, the more time goes by and the more the managers learn about their target market, this knowledge acts to mediate their market entry pace – in opposition to what Stages Theory predicts. This phenomenon of moderation of the rate of internationalization as a result of learning about a market is described in the study done by Hsu and Pereira in 2008 on MNEs.

The moderation of the rate of internationalization stems from the mistakes and failures that BG companies make in the process of internationalizing (Ellis 2008). The managers’ contacts and networks enable the company to accelerate its internationalization pace because these function as shortcuts into the market; they are, however, not based on market research, checking out and exploiting of all existing
options – which leads to mistakes and failures (Arnold 2000; Crick and Spence 2005; Burgel and Murray 1998).

Our findings show that the process of market entry actually comprises two stages: in the first part a distributor/partner is chosen. This part includes, among others, market research in order to find a distributor, due diligence of potential distributors, a negotiation process and contract signing. The second part comprises the process of getting established in the target market, including the process of working with the distributor.

According to our findings, for managers who perceived themselves to be below their reference point, the first part of the process, choosing a distributor, was very fast, and most of its stages were skipped. The choice was not made on the basis of market research or checking of existing market options. The striving for quick achievements in order to show investors a quick return resulted, in many instances, in hasty and flawed choices (Burgel and Murray 1998).

Acceleration of the first part impacts negatively on the second part, and de facto, because of the inappropriateness of the distributor or the business failure in other cases, the process lengthens. In effect, the rapid market entry of the companies damaged the quality of the process and many companies indeed entered a large number of countries but they did not achieve anything significant in these countries. The more the managers learned about the market and amassed experience in international markets, the more they checked out options among potential distributors in the market – resulting in the first part of the process being longer because the managers no longer skipped stages, but this led to the second part – the getting established in the market and performance levels – being faster and better.
Among the managers who perceived themselves to be below their industry reference point and those who perceived themselves to be above their reference point no essential differences in the pace of market entry over time were visible. Moreover, in two cases, the pace slowed over time. The difference is in their time constants; given that the managers who perceived themselves to be above their reference point were risk-haters, their initial market entry pace was slower than the second group of managers (below their reference point). Nevertheless, despite this, managers who perceived themselves to be above their reference point did not behave according to Stage Theory that predicts that the entry pace will increase over time, and their entry pace slowed with time.

The above discussion suggests the following:

F14: The pace of internationalization of BG companies slows over time, with the managers’ increasing knowledge of the markets acting as a mediating factor.

F15: The more markets BG companies enter, the more time they will devote to checking out the market, which will lengthen the time it takes them to enter the market but which will also improve their business performance over time.

**6.12 Summary**

The research findings constitute a contribution to the accumulated body of knowledge regarding the internationalization of BG companies. This chapter presents a discussion of the research findings as well as relates these findings to the previous literature and earlier work in the area.

The discussion comprises three sections:

1. The relationship between the manager's perception of his position vis-à-vis the industry reference point and his perception of the different parameters of risk, innovation and proactivity in the internationalization process, and consequently, his
management of the areas of product development and adaption to different markets, joint learning and risk management, when internationalizing.

2. The relationship between the manager's perception of his reference point and his choice of entry mode strategy.

3. The change over time in the pace of internationalization of BG companies.

The chapter begins with a discussion of the findings related to the manager's position vis-à-vis his reference point and his perception of the subject of risk, innovation, and proactivity in the internationalization process. These findings are in line with Prospect Theory and the findings of Fiegenbaum (1996): when managers believe they are below their industry reference point, they perceive new subjects as opportunities and will be risk-seekers, proactive and innovative. In contrast, managers who believe themselves to be above their industry reference point perceive new subjects as risks, and will be risk-averse, conservative and reactive in their internationalization process.

As an outgrowth, we link the manager's perception of his position vis-à-vis his industry reference point and his management in the area of risk management, joint learning, product adjustment and strategy and innovation in business models, marketing and distribution channels and product development. Our findings indicate that managers who perceive themselves to be below their industry reference point display innovation when developing business models, marketing and distribution channels and product development and adjustment and share their knowledge with partners. Nevertheless, they demonstrate low awareness of risk management.

In contrast, managers who perceive themselves to be above their industry reference point focus on the organization's existing technology and marketing and distribution channels and avoid adjusting their products and sharing knowledge with distributors. On the other hand, they adopt an active risk management strategy.
Later on in this chapter we will show the link between the manager's perceptions of his positive vis-à-vis his industry reference point and his choice of entry mode strategy. Our findings indicate that a number of differences exist between managers who perceive themselves to be below their industry reference point and managers who perceive themselves to be above their industry reference point. Managers who perceive themselves to be below their industry reference point use positioning strategies but use TCA or institutional strategies little, if at all. In contrast, managers who perceive themselves to be above their industry reference point use TCA or institutional strategies but will use positioning strategies little, if at all.

The two types of managers (above and below their industry reference points) use network strategy and RBV, but each group uses different factors within the theories. In RBV – managers who perceive themselves to be below their industry reference point use its strategic capabilities, in contrast to managers who perceive themselves to be above their industry reference point who use tangible assets. In network strategy – both groups of managers use Personal Network, Use of Advanced Technology and Client Followership, but managers who perceive themselves to be below their industry reference point use, in addition, a multiple entry mode strategy and partnerships collaboration.

Based on these findings, the next section will discuss the research contribution to the accumulated knowledge in the field, the various academic and managerial implications, the different research limitations and offer suggestions and directions for future research.
Chapter 7

Conclusions and recommendations

7.0 Introduction

This study reflects original research that integrates, for the first time, insights from the fields of behavioural economics and IB. This study chose an interdisciplinary approach that combines Prospect Theory and theories from the fields of entrepreneurship, IB, market relations, industrial economics, RBV and institutional theory, to help understand the pace of internationalization, the process of choosing foreign markets and how internationalization strategies are selected, over the lifetime of BG companies. In addition, this research contributes to the limited number of studies in the BG field, both in terms of expanding the research scope and the focus of existing studies on a limited number of countries.

This chapter aims to clarify the contributions this study makes to the accumulated knowledge in the field. It begins by validating the research aims and findings, as well as illustrating the main contributions of the research to theory and practice. Following this review, the chapter discusses the academic and managerial significance of the research, in addition to its limitations. Finally, we discuss and suggest a number of proposals and directions for future research.

7.1 Research aims

The central aim of the research was to develop a theoretical framework that explains managers’ decision making processes on the eve of internationalization and that enables the study and analysis of managers’ choices of different entry modes and why and when
they prefer to use certain strategies as opposed to others in the internationalization process.

In contrast to other studies in the IB field that used the company or the industry as the unit of analysis, this investigation uses the entrepreneur/manager as the unit of analysis. In addition, this research takes the field of behavioural economics as its starting point in the examination, in contrast to leading paradigms in the IB field, which centre on neoclassical economic theories. This study argues that the research in BG companies uses theories from traditional research areas of IB, which prevented advancement in understanding of the phenomenon (Zahra 2005). Consequently, in order to circumvent this obstacle here an interdisciplinary approach that integrates a behavioural economics approach with theories from the fields of IB, market relations, industrial organization, and RBV, as well as institutional theory was adopted. Moreover, the use of a combined approach bridges the gap between the different theories in the area, each of which offers a limited perspective on the process of internationalization (Zahra 2005). The internationalization process is complex and takes into consideration many factors, and hence, mandates a comprehensive theoretical framework that can explain, from the perspective of the manager, when and why he or she chooses certain variables and not others.

From the above discussion, we can derive the following research objectives:

- To examine how management choice of reference points influences their strategic choice behaviour regarding accepting risks, adopting innovation and being proactive.

- To examine how management choice of reference points influences their behaviour in relation to the pace of entry into foreign markets and the process of choosing markets.
Conclusions and recommendations

- To examine how management choice of reference points influences the decision making processes in relation to choosing a market entry mode.
- To develop a theoretical framework that can help explain the relationship between senior management choice of reference points as a factor affecting their decision making process in relation to choosing a strategy for foreign markets.

7.2 Research contribution

The research makes a number of important contributions to study of the IB sphere, and particularly to the areas of research and theory relating to the internationalization of BG companies, which is a relatively new field of knowledge. Today there is no comprehensive theoretical framework explaining the way BG companies internationalize and the reasons they choose one strategy or tool over another when entering foreign markets. The present research attempts to establish a conceptual model that describes the way managers who internationalize make their decisions. It does so by importing a new discipline from the field of behavioural economics into the IB area, which is deeply wedded to the tradition of neo-classical economics, and integrates it with existing strategies in the area to create a conceptual model that, hopefully, mediates between traditional IB research and the BG research stream.

In this context, the present research integrates a number of research fields ─ IB literature, literature from the entrepreneurial field, and behavioural economics and decision making literature ─ as well as combines different theories in order to attain one integrated perspective.

Given that the theory in the BG field is still in its infancy, this study may be perceived as a stage in the formation of a theory of BG internationalization. The next section in this chapter illustrates the different contributions made by the present research.
7.2.1 Contribution 1: Combining behavioural economics and prospect theory in the IB and BG literature in order to explain the internationalization of companies

This is the first study of its kind that combines Prospect Theory, which comes from behavioural economics research, and IB research, and in particular the research stream focused on BG companies.

The golden age of IB research occurred in the 1970s and 1980s. During this period, two leading paradigms were founded and these are still the most prominent ones today in the IB area. The first school of thought was the transaction cost/internationalization of multinational enterprises (MNEs) developed by Buckley and Casson (1976), Hennart, (1977) and Rugman (1981), who were inspired by the research of Williamson (1975).

The roots of this model lie in traditional neo-classical economic theory that asserts that decisions are made on the basis of full information about the markets and by comparing the return on investment among different markets.

The second school of thought was developed by a group of Scandinavian researchers who hypothesized that uncertainty avoidance is the factor that determines the stages in companies’ internationalization processes. This approach is known as the theory of stages because of its incremental nature. Organizations, according to this theory, first internationalize in countries that have a culture similar to that of the organization’s home country and only after additional learning do they internationalize in countries whose culture is more dissimilar to their home country. This theory also is rooted in traditional neo-classical economic theory that asserts that organizations will aspire to minimize risks and assume risks only if high returns are anticipated.

An additional important research stream began in 1994 with the papers of Oviatt and McDougall that described the new phenomenon of companies internationalizing at a rapid pace beginning with their creation and generally even before establishing
themselves in their local market. These companies have been given the sobriquet Born Global (BG). The rapid internationalization of BG companies, described in the literature, contradicts the IB based theories reviewed below. Nonetheless, the accumulation of studies in the areas provides a much more complex picture. The behaviour of some companies indeed challenges IB theory whereas there are also entrepreneurial companies that are run as if they were traditional risk-averse companies.

Following over four decades of research, plentiful empirical evidence has emerged that contradicts the ways that traditional companies are believed to internationalize – according to the theory of stages or TCA theory. In recent years many researchers have tried to resolve this contradiction by integrating theories from other disciplines, theories such as RBV, network and systems theory. The original proponents of the traditional theories also offered solutions. For instance, Johanson and Valena (2008) tried to integrate network theory into the theory of stages in order to fit the theory to the 2000s. Buckley and Casson tried to make TCA theory fit by combining it with the systems approach; however, all the approaches that were tried related to the original theories as their starting point and set out from there. They simply tried to modify, improve and make them fit the existing reality by forcing them onto other approaches. Buckley himself (2002) criticized this phenomenon (even though he participated in it) and said that during its successful period, IB research not only imported concepts and paradigms but also exported them to other research areas, which does not happen today. Wilkins (1997) claimed that if IB remains an interdisciplinary mosaic of different approaches without an identifiable unifying theory, it is liable to become “no field at all” (p. 180).

It is interesting to test this assertion against the description of Thomas Kohn who claimed that only rarely is information that does not agree with one of the theories used to refute it. What actually happens is that the information is given ad hoc explanations
and scientists interpret them in ways that do not contradict the prevailing paradigm. Gradually, more and more information, which the prevailing paradigm is unable to interpret properly, accumulates. When this happens, a new paradigm is proposed.

IB theory is based on neo-classical economic theory. This approach, based on rational decision making, risk and uncertainty aversion (aiming for symmetry in information), gives only a partial explanation of the ways in which companies decide to internationalize, and the how they choose markets – two of the biggest questions in the area (Buckley and Casson 2002). This approach has difficulty handling the complexity of managers’ decision making in this area, and therefore, is a poor predictor of a company’s success or failure when internationalizing.

We are, for the first time, proposing a new paradigm for the IB field: a behavioural economics approach, and in particular, our model uses Prospect Theory (Kahneman and Twersky 1976). Behavioural economics also takes into account non-rational behaviour and hence is more likely to better suit the complex reality of internationalization decision process that involves many variables. And specifically the research stream focusing on BG companies.

Many researchers (Freeman and Cavusgil 2007; Oviatt and McDougall 2005; Knight and Cavusgil 2004) claim that entrepreneurs who start new business may be among the most likely people to hold biases about risk, primarily in the way they estimate risk-return relations. In addition, we must remember that entrepreneurs do not only work in BG companies and managers with entrepreneurial personalities can be found in the management line-up of MNE companies or any other type of company. Therefore, examining and predicting the decision making processes of managers via the lens of the neo-classical paradigm creates a blind spot for research in the area. It is an effective
prognosticator only for managers who are risk-averse; only then does it align itself with existing theories.

In contrast, Prospect Theory expands the lens we use to examine the phenomenon of internationalization and consequently enables a broader understanding of it. The insights this theory engendered enabled us to predict when managers will be risk-haters and hence behave as envisaged by the existing theories in the IB area and when managers will be risk-seekers and prefer risky projects with anticipated low returns (Fiegenbaum, 1996).

Accordingly, we assert that behavioural economics facilitates broader insight and observation of the phenomenon of internationalization. As such, behavioural economics can serve as a unifying theory resolving the seeming contradiction that has arisen in the literature between companies (regardless of whether they are traditional or BG) that operate in opposition to the dominant theories in the literature – that is, entrepreneurially and risk-seeking, innovative and proactive – and companies (regardless of whether they are traditional or BG) that are run according to the theories in the area and are risk-avoiders.

7.2.2 Contribution 2: Unit of analysis – Managers / entrepreneurs vs. companies / industries

This study is one of only a few in the area of IB literature that uses the manager/entrepreneur as the unit of analysis. Moreover, it would appear that Reference Point Theory has implications for research in the IB field simply because it focuses on the individual as the unit of analysis. Researchers from different disciplines – economics, finance, organizational theories and others – have looked for ways to understand the relations between industries and their environment, to enhance organizational strategy and performance. The hypothesis was always that the state’s,
industry or companies structural elements are key factors that have to be considered. The present study asserts that in addition to these factors, the individual’s reference point, and by extension the individual’s attitude toward risk, represents additional elements that affect the firm’s performance. Hence, analyzing the individual’s reference point enriches the IB literature and bridges the gap between economics (which is at the foundation of IB literature) and psychology.

Traditionally, IB research has used the company/industry or state as the unit of analysis. According to Crick and Spence (2005), one limit of the theory of stages is its use of the organization as the unit of analysis and not the individual within the organization, for example, members of the company’s senior management, given that the organization’s size does not matter or how many levels of managerial hierarchy it has. The bottom line is that decision making is executed by a limited number of senior organizational managers (Pepper). This fact is especially true for BG companies, which are mainly technological start-up companies managed by an entrepreneur or a small team of entrepreneurs, and accordingly, a deep understanding of the accelerated internationalization process of BG companies requires understanding the entrepreneur’s decision making processes. The latter knowledge will explain why managers make different strategic decisions in what appear to be similar situations and circumstances (Fiegenbaum, 1996).

Historically, research in the IB field, which began with David Ricardo (1817) and continued through to Leontief (1953), focused on international trade among states (FDI), with the state as the unit of analysis. This approach changed in 1960 with the research of Hymer who moved the IB research focus from the state as the unit of analysis to the company. The IB research of the 1970s and 1980s, which laid the foundation for development of the leading paradigms in the sector even today, focused
on the company and industry as the unit of analysis. Buckley and Lessard (2005) claimed that there is insufficient IB research analysing managers’ perceptions, in contrast to the abundant research focusing on the company and industry as a unit of analysis, and that researchers must relate to this lacuna. According to Sullivan (1994), attitudinal dimensions of managers are an insufficiently studied area within the IB field. Other researchers called for more study of the issue of being and “quotation”.

At the end of the day, each decision is examined through the lens of the manager, and therefore, the understanding of the way decisions are made at the managerial level enriches the IB literature by demonstrating how the strategic behaviour and performance of the company are affected by the reference points adopted both consciously and unconsciously by managers. Consequently, the mental map of managers may be moved in the directions the organization wants through adjustment of the individual’s reference point.

**7.2.3 Contribution 3: Description of the change over time in the pace of internationalization of BG companies**

According to the theory of stages, companies internationalize incrementally in the markets nearest to them culturally, and the more they learn about the target market, the more they deepen and accelerate the pace of penetration (Johanson and Vahlne 1977). In contrast, the research on BG companies describes entrepreneurial companies that rapidly accelerate the pace of their internationalization and operate in contradiction to the established theories in the area (Malhotra 2003). Nevertheless, aside from the initial insight regarding rapid internationalization from the moment they are established, there is barely any discussion in the literature about the change in the pace of internationalization of these companies over time.
If we follow the logic of the theory of stages, the pace of market penetration of BG companies should accelerate over time, yet in reality, we find the opposite happening. Entrepreneurial companies, as time passes, become established and develop bureaucratic organizational configurations that typify traditional companies (Freeman and Cavusgil 2007), and therefore, as a result, the pace of internationalization should slow. As noted, the literature has little to offer in response to this inconsistency.

This research is among the only ones that discusses the change in the pace of internationalization of BG companies over time. Its findings are grounded in Prospect Theory. According to our results, managers who perceive their companies to be below their industry reference point internationalize rapidly and even enter a number of markets simultaneously. In contrast, managers who perceive their companies to be above their industry reference point internationalize at a moderate pace (in line with the established theories in the IB literature) and enter only a few markets.

This insight that describes the initial market entry mode is consistent with the research literature that depicts BG companies as both risk seekers and risk avoiders (Chetty and Campbell-Hunt 2004; Freeman and Cavusgil 2007; Freeman et al. 2006).

However, our findings show that the more time that elapses, managers learn more about their target market and this knowledge acts to moderate their pace of market penetration. This contradicts the predictions of the theory of stages. This phenomenon of internationalization moderation, the result of learning about the market, is described in the study by Hsu and Pereira (2008) conducted among MNEs; however, as far as we know, there has been no research in the area that related to BG companies. The present study constitutes an addition to the body of knowledge in the area.

The moderation in the pace of internationalization stems from the many mistakes made by BG companies and their failures during accelerated entry into new markets. What
enables this accelerated internationalization is the establishment of personal contacts and the managers’ networks that serve as shortcuts to market entry but that are not based on market research and investigation and utilization of all existing alternatives.

Our findings show that the market entry process actually comprises two stages: the first part is the stage when a partner/distributor is chosen. This stage includes, among others, market research to located a distributor, due diligence of potential distributors, negotiations and signing of contracts and more. The second part is the process of getting established in the target market, including the process of working with the distributor.

We found that companies that perceive themselves below their industry reference point, the first stage of the process progresses rapidly. These companies skipped most or all of the process stages, which impacted on the second stage of the overall process. This slowed the process and sometimes even resulted in the company failing to enter the market. Over time, the organization gained experience in internationalizing in different markets and the process of learning about international markets resulted in moderation of the pace. Nevertheless, this moderation was expressed mainly in the first part of the process, which is prolonged, and consequently, companies put more emphasis on the parts of the first stage, and accordingly the second stage will shorten, that is, getting established in the market more quickly and performing better.

These findings have practical significance, given that the effect of the manager’s perception and the way in which he or she perceives the organization vis-à-vis the industry reference point of his or her specific market may result in a change in the pace of internationalization, more focus on the first stage of market penetration and in the number of target markets simultaneously approached, that might decrease the failure rate.
7.2.4 Contribution 4: The link between managers’ perception of their position relative to their industry reference point, and the level of innovation adoption when choosing a business model, and developing products and new distribution channels

The present research is one of only a few to link managers’ perception of their position relative to their industry reference point and the rate at which they adopt innovation, the level of adoption or creation of new business models, choosing innovative distribution channels or the rate of new product development.

The literature in the area of BG companies is at the crossroad between the entrepreneurship and IB domains, and describes entrepreneurial companies that internationalize rapidly, exploiting their technological advantage. However, beyond the description of the behaviour of these companies as being innovative, proactive and risk seeking (Freeman and Cavusgil 2007), there is barely any mention of these companies being innovative in their choice of business models or new distribution channels when internationalizing. Moreover, a survey of the literature in the area produce in the years 1994-2011 shows that researchers in this domain refer to innovation as technological or product innovation only. According to researchers in this field, technological innovation is a motive for rapid internationalization. However, the literature does not discuss the ways in which entrepreneurs leverage their technology as a means for creating new markets for their products through innovation that goes beyond product innovation – in other words, business innovation, which is expressed in creating new niches, new distribution channels, variety that is product variety and new business models.

In addition, the literature in the area of entrepreneurship and development of innovative products describes two types of companies – one technology or product companies versus companies that unceasingly innovative, both in terms of technological development and bringing new products to the market and in terms of business
innovation (development of business models, distribution channels and more). Nonetheless, today there is no coherent theory in the area of entrepreneurship that explains why and under what conditions certain entrepreneurs will be “one time innovating companies” and others will be continual innovators.

7.2.4.1 New product development

According to our findings, managers who perceive themselves as above their industry reference point will feel that they must protect their company’s technological assets by both patenting the innovations and continually enhancing the existing product technology. This finding is in line with the research by Fiegenbaum (1999) who showed that managers who perceive themselves as above their industry reference point focus on protecting the existing state of affairs, and consequently, these managers enter an unending vicious cycle of enhancing the existing product where they do not see the need to develop other products and technologies, beyond the original technology they developed. As a result, these companies become one technology/product companies.

This finding accords with that of Hamel (2001) who claims that most technological start-up companies are one-time innovators. In contrast, managers who believe themselves to be below their industry reference point did not try to protect their existing technology and did not relate to the technology as the main motive for their success. Consequently, they are free to innovate and allocate resources for developing additional products and technologies. These findings are significant both on a research level and on a practical level. Analysis of the individual’s reference point, and as a result, his or her attitude to innovation and risk may impact on the organization’s resource allocation for new product development and as such on its performance. Accordingly, using the reference point may enrich the research in the domain of entrepreneurship and product development.
7.2.4.2 Development of business models and innovative distribution channels

According to our findings, managers who perceive themselves as above their industry reference point related to the technology upon which their company is based as the main factor for their success, and they, therefore, dedicated themselves wholly to this technology in terms of economic and managerial resource allocation. Yet these same managers were risk-averse in regard to innovation on a business level and avoided trying to enter a market through new distribution channels or by developing new business models, which they perceived as risky. These managers were conservative in their style of management and tried to annex existing infrastructures in terms of distributors, marketing channels and business models. In contrast, managers who perceived themselves as below their industry reference point did not believe their technology was the reason for their success and were, consequently, freer to seek risk in everything concerned with their business management, which included development of new business models and trying out distribution and marketing channels outside of the core of the existing industry. These findings are in line with Prospect Theory.

To the best of our knowledge, today there is no research in the area of internationalization of companies that has examined whether entrepreneurial companies innovate beyond product innovation. In other words, no one has looked at whether they innovate in terms of business models, and development of innovative strategies for finance, distribution and marketing. The actual description of BG companies as innovative, risk-seeking and proactive assumes some type of innovation, but as mentioned above, there has not been sufficient research on the subject. Hence the present findings constitute a contribution to the body of knowledge in the area and they are important both on research and practical levels.
7.2.5 Contribution 5: A theoretical framework that links managers’ perception of their position relative to their reference point and their internationalization style

The present research is the first of its kind to offer a unifying theory that explains the gap that has arisen in the IB literature between the way BG companies and traditional companies internationalize. In addition, the research literature in the field of Born Global describes two types of companies: BG companies that from the moment they are founded, internationalize rapidly, without establishing a local market position, and BG companies that internationalize incrementally. The latter’s behavior is similar to that of traditional companies (hereafter called traditional Born Global companies). This study is the first that attempts to explain the gap between the way Born Global and traditional Born Global companies internationalize.

, and as such, constitutes a contribution to knowledge. The established IB theories do not explain the way BG companies internationalize. Furthermore, in the last four decades many empirical studies have emerged that contradict the theory of stages and the TCA theory also in regard to the way traditional companies internationalize. Research has shown that traditional companies also internationalize rapidly, skip stages of the process and behave like risk seekers.

In our opinion, there is no contradiction between the two ostensibly different types of companies (traditional vs. BG). Rather, the difference between the two types of behaviour lies in the managers, given that their decisions are made mainly on the basis of their assessment of the risk-return ratio, and managers-entrepreneurs are found in both large, established companies and start-up companies. The reverse is also true – risk-averse managers are found in start-up companies as well as large, established companies.
Today, examination of and prediction about the decision making of managers regarding internationalization is done using the lens of the two leading theories belonging to the neo-classical branch of economics that champions risk aversion. Therefore, these theories will only predict the behaviour of one type of manager – the risk hating manager.

The use of Prospect Theory means taking one step backward in order to widen our observation field to include more information about internationalizing style of companies. Broadening our survey of the field enables us to take into consideration two types of behaviour – risk hating and risk seeking.

Managers who perceive themselves to be above their industry reference point will be risk-avoiders, which behaviour agrees with the existing theories in the literature. Managers who perceive themselves to be below their industry reference point will be risk seekers – which behaviour is in line with the BG literature.

So the use of the theoretical framework of Prospect Theory in order to explain the way companies internationalize resolves the contradiction between entrepreneurial companies (BG) and traditional companies (MNEs), as reflected in the literature. Our findings are significant both theoretically and practically. Analysis of the reference point represents an additional way to influence the firm’s management and hence its performance and potentially can broaden IB literature.

7.2.6 Contribution 6: A comprehensive theoretical framework that links the perception of BG company managers’ reference point to the market entry mode style and shows how they choose entry tools and strategies and establish themselves in foreign markets

The research literature in the BG domain related to strategies used by companies internationalizing mostly integrates one or more central theories. The two central theories found in the BG literature explaining internationalization and foreign market
entry are network theory and RBV theory (Freeman and Cavusgil 2007; Freeman et al. 2006; Johanson and Vahlne 2009). A small number of studies in the area use additional theories such as institutional theory and industrial economics theory (Peng 2008). As a result, most studies in the area explain the market entry strategy of BG companies through the eyes of one leading theory. Nonetheless, among the existing studies not many have tried to construct a comprehensive theoretical framework that can explain when and why companies use one theory as opposed to another and when they use a number of theories in combination and which theories.

In other words, the use of a combined approach bridges the gap between different theories in the area, each of which offers a different but only partial perspective on the foreign market entry process, given the understanding that this process is complex and mandates making decisions on the basis of numerous variables. The present study offers, for the first time, a comprehensive theoretical framework that can explain, from the manager’s perspective, when and why he or she will choose a certain theory or collection of theories over others in the process of internationalization. According to our findings, there is a significant difference between the variables that managers use and their choice of variables depends on the manager’s perception of his company’s position relative to the industry’s reference point – managers who perceive their company as above the reference point will use a combination of variables from and in line with institutional theory, TCA, network theory (only a few variables, however) and RBV theory (primarily tangible assets). Managers who perceive their company as below the reference point will use a combination of variables from and in line with Industry Based View Theory, RBV (mainly intangible assets and strategic abilities) and network theory.
These findings are significant theoretically and practically, given that by analysing the manager’s reference point, we can see the impact of the variables he or she uses on the process of internationalization and as a result, on the firm’s performance.

Furthermore, among the studies that focus on the leading theories (network, RBV and others), researchers have concentrated on describing the strategy or tools managers take from these theories but there are no studies that explain, as part of a coherent theory, under which conditions managers will adopt certain tools or strategies as opposed to others. For example, regarding RBV theory, researchers noted the factors managers use when internationalizing (tangible and intangible assets, different types of strategic capabilities), but no one has described when and why companies choose a particular type of strategic ability over another when internationalizing. The absence of this kind of study is also found in regard to other theories such as network theory, RBV, and institutional theory. The present research contributes by being the first to explain under what conditions managers will choose to use certain factors as opposed to others in each of the above theories. It does so by linking a manager’s perception of his or her reference point and the selection of parameters when internationalizing for each theory.

**7.2.7 Contribution 7: the link between the manager’s perception of his or her position relative to the reference point and the selection of parameters when internationalizing according to Network Theory**

According to the literature, network theory is one of two leading theories (the second being RBV) used to explain the internationalization of BG companies. Freeman (2006) and other researchers (Chetty and Campbell-Hunt 2004; Freeman and Cavusgil 2007; Freeman et al. 2006) counted five key strategies in the area of networks that BG companies use when internationalizing rapidly (Personal Network, Use of Advanced Technology, Client Followership, Collaborative Partnership and Multiple Modes of
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Entry). Nevertheless, Freeman’s research and other studies in the area are satisfied with describing the strategies, and do not discuss the underlying theory and explain when and why managers prefer to use the five strategies. The present study contributes to the body of knowledge in the area by linking managers’ perceptions of their positions relative to their industry reference point and their market entry strategy choice from among those offered by network theory. According to the present study’s findings, managers who perceive themselves above their reference point will mainly use three of the five strategies, but managers who see themselves as being below their reference point tend to use all five strategies. Companies below their reference point use collaborative partnerships and multiple modes of entry – in line with Prospect Theory and Fiegenbaum findings (1999) that managers who perceive themselves as being below their reference point will be willing to share information with partners (in contrast to managers who perceive themselves as above their reference point who will block any attempt to share information, and therefore, do not use the collaborative partnership strategy), and be innovative and risk-seeking. This finding is important for research and practice since analysis of the manager’s perceived position vis-à-vis his or her reference point will enable us to understand what variables he or she considers when entering a new market, and consequently, how they will affect the firm’s performance.

7.2.8 Contribution 8: the link between the manager’s perception of his or her position relative to the reference point and the selection of parameters when internationalizing according to RBV theory

RBV theory is considered, within BG literature, to be one of the main strategies used by managers entering a foreign market (Peng et al. 2008; Zahra 2005). RBV focuses on development and exploitation of information, resources and unique abilities to enter foreign markets and the company’s internationalization (Malhotra 2003; MacKinsey
1993). The BG literature, however, does not differentiate between types of resources and capabilities exploited by companies as motivation for internationalizing and their market entry strategies. The present research is the first of its kind to examine the link between managers’ perceptions of their position relative to their reference point and their choice of different resources or strategic capabilities.

According to our findings, managers who perceived themselves above their reference point are risk-haters, and therefore, tend to use the technology they have as a competitive advantage, primarily as a defensive measure, while protecting their technology through patents. In contrast, managers who perceived themselves as below their reference point do not see technology as enough of a market advantage (because they see themselves as inferior in terms of the market), and therefore, they developed additional strategic capabilities that are beyond their original technology, in order to enter the market. They view their company’s strategic and dynamic capabilities as supporting resources and the main strength behind their drive to internationalize.

To summarize, managers who perceive themselves above their reference point mainly used tangible resources when internationalizing, in opposition to managers who perceive themselves below their reference point who used intangible resources and strategic capabilities.

7.2.9 Contribution 9: The link between the manager's perception of his or her position relative to the reference point and the selection of parameters when internationalizing according to the Industry Based View Theory

IBV is a well-known strategy in the IB literature and is based on Porter’s model of Five Forces and Generic Strategies (1980). Porter described four strategies (differentiation, cost leadership, segment differentiation, and segment cost leadership) that organizations use in reaction to competitive pressures in their environment. According to Porter, these
strategies are appropriate for any industry. The theory of stages does not attach any importance to strategy at the beginning of the internationalization process but does underscore the cultural distance from the target countries (Chetty and Campbell-Hunt 2004). In contrast, the BG approach stresses the role of strategy when internationalizing, since the focus and pace of internationalization are defined by the intention to exploit a leading position in a global niche or developing market (Chetty and Campbell-Hunt 2004). Yet, the literature that discusses the BG sphere contains evidence that companies internationalize quickly with the intention of exploiting a global niche in contrast to those that are risk-haters and do not use these strategies during market entry.

Today, the research literature in the area has no theory explaining the difference in behaviour between the two types of companies in the context of when and why certain companies will use generic strategies when internationalizing. The present study is the first of its type to examine the link between managers’ perception of their position vis-à-vis their reference point and their choice to use generic strategies.

According to our findings, companies that perceive themselves as below their reference point see themselves as being inferior to their market competitors. They are, therefore, more aware of the pressures of competition in their environment and protect themselves by entering or creating protected niches. Alternatively, these companies will choose a strategy of differentiation or cost leadership, which is designed to reduce the environmental pressures. In contrast, companies that perceive themselves as above their reference point believe that their technology, upon which their company is based, is the best in the market, and as a result, are less aware of competitive pressures around them and hence partially or entirely reduce their use of the strategies of differentiation, cost leadership or resorting to protected niches.
This finding is important for research and practice since analysis of the manager’s perceived position vis-à-vis his or her reference point will enable us to understand what strategies he or she will use when entering a new market, and consequently, how they will affect the firm’s performance.
7.2.10 Contribution 10: The link between the manager’s perception of his or her position relative to the reference point and the selection of parameters when internationalizing according to Institutional Theory

In the IB literature there is growing recognition of the importance of the institutional approach as one that shapes organizational strategy on the international level. Peng (2004) claims that an organizational perspective is one of the three most important components needed when designing an international strategy for organizations, alongside IBV and RBV. Yet, despite this, many studies on the subject fall short in their attempt to grapple with the basic questions in IB research related to motivation for choosing a certain strategy when internationalizing, and consequently, the performance resulting from this choice (Teegen et al.; Peng 2008). The present study is one of the very few that relates to managers’ choices of internationalization strategies in an institutional context. Moreover, this study is the first of its kind to examine the link between the perception of managers of their position relative to their reference point and their choice to use an institutional strategy.

According to our findings, there is a large gap in the use of an institutional strategy between managers who perceive themselves below their reference point and managers who perceive themselves above it. The former were not at all aware of the area and did not actively follow an institutional strategy and did not keep in mind institutional considerations when making decisions about market entry. Managers who perceived themselves above the industry reference point used the institutional perspective as the motivation in their decision to internationalize. These managers followed an active institutional strategy (which included recruitment of senior management staff) both in patent registration and work with regulators in each country they entered.
7.2.11 Contribution 11: the link between the manager’s perception of his or her position relative to the reference point and the selection of parameters when internationalizing according to TCA Theory

TCA theory is one of the two leading paradigms in the IB literature, with the second being the theory of stages. Both theories are based on neo-classical economic theory. Even though TCA theory enables researchers to make predictions about MNEs, there are no studies that integrate TCA with the internationalization of BG companies. Moreover, researchers claim that basing predictions about companies on TCA limits development in the area (Zahra 2005). In opposition, in a paper published in 2008, Buckley and Casson, reviewing the development of TCA theory research over four decades, related to the suitability of TCA theory to BG companies and claimed that BG companies operate as predicted by TCA theory. They called for further research in the area. However, today, we are unaware of any studies that have tried to use TCA theory to explain the internationalization patterns of BG companies. The present research is the first to look at TCA theory and examine under what conditions BG companies are managed according to the theory. Furthermore, the present research is the first of its kind to investigate the link between managers’ perception of their position relative to the industry reference point and their choice to use elements of TCA theory.

According to our findings, managers who perceived themselves above their reference point operated as predicted by TCA theory and in countries that had a strong regulatory system where intellectual property law was enforced, these managers signed franchise or licensing agreements. On the other hand, when the markets did not have an organized system for protecting intellectual property, managers who perceived themselves above their reference point in most cases deliberately chose not to enter these markets – in opposition to the theory that asserts that entry should be through a subsidiary.
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Nonetheless, given that the present research focused on BG companies, which lack the resources that MNEs have and since MNEs are the main research subject of TCA theory, this finding cannot be used to invalidate the theory. On the other hand, managers who perceived themselves below the reference point did not relate to the issue of IP patent enforcement as a factor in their strategic decision to enter a market and did not behave as predicted by TCA theory. Even in situations where the market had proper patent protection in place, the managers who perceived themselves below the reference point entered the market through a company (either a subsidiary or distributors) and not through the market as predicted by TCA theory.

In addition to the contribution to knowledge, as discussed above, these findings are also important because they reinforce the research hypotheses regarding the use of Prospect Theory as a predictor of managers’ behaviour. Managers above the reference point, who are risk-averse and behave according to the neo-classical economic paradigm, do indeed act as predicted by TCA theory.

7.3 Research implications

The present research has a number of important implications for research in the IB domain. The first implication centres on the use of the manager/entrepreneur as the unit of analysis. It would appear that the reference point theory has implications for IB research by the fact that it focuses on the individual as the unit of analysis. Researchers from different disciplines such as economics, finance, organizational theories and others have looked for various ways to explain the relations between the environment and the industry – the organization’s strategy and performance. The supposition has also been that structural elements in the state, industry or company are the key factors that must be considered. The present study asserts that, in addition to these factors, the
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individual’s reference point, and consequently his or her approach to risk, represents an additional avenue through which to influence the firm’s performance. Accordingly, analysis of the individual’s reference point is likely to enrich the IB literature field and bridges the gap between economics (which lies at the root of IB literature) and psychology.

Second, integrating behavioural economics with the IB literature offers a new paradigm for the IB field, in contrast to the existing IB paradigm that is based on neo-classical economics and takes into account rational behaviour and risk aversion. The behavioural economics approach considers both rational and irrational behaviour, in accordance with the way the individual assesses risk–chance relations. This approach widens the perspective of managers examining opportunities and enables a broader view of the internationalization phenomenon. It can, therefore, offer a unifying theory that resolves the ostensible contradiction between the literature about companies (whether traditional or BG) that behave contrary to the dominant theories in the literature – that is, entrepreneurially and risk seeking – and companies (whether traditional or BG) that behave as predicted by the theories in the area and are risk-averse.

Third, the present research is among the only ones that discuss the internationalization of BG companies over time, and offers a description of the change in the penetration process of these companies over time. The study shows that, with the passage of time, the process of learning about the market tempers the pace of internationalization. Nevertheless, the moderation is expressed in the first part during two stages of penetration (the first stage is the research stage and the second stage is the getting-established-in-the-market stage). Moderation of the penetration process is in line with Prospect Theory and has research significance since it offers an additional index beyond cultural difference for determining the pace of market penetration over time.
Fourth, the present research is the first that links managers’ perception of their positions relative to the reference point and the pace at which managers adopt innovation, at the level of adopting or creating business models, at the level of choosing innovative distribution and marketing channels, and at the level of developing innovative products. To the best of our knowledge, today no study in the area of internationalization of companies has examined whether entrepreneurial companies innovate beyond product innovation; that is, do they have business innovation or develop innovative strategies for financing, distribution and marketing? The very description of BG companies as innovative, risk-seeking and being proactive presupposes this type of innovation, yet, as mentioned above, there has not been sufficient research on the subject. Consequently, analysis of the individual’s reference point, and as a result, of his or her approach to innovation and risk, presents another way to influence the firm’s performance and enrich the literature in the area.

Five, the present research is the first of its kind to propose a unifying theory about internationalization of both entrepreneurial and traditional companies. Today, examination of and prediction about managers’ decision making regarding internationalization is done through the lens of the two dominant theories that belong to the neo-classical school of economics that champions risk aversion. Therefore, these theories will only predict the behaviour of one type of manager – the risk-hater.

The use of Prospect Theory means taking a step back in order to broaden our perspective when examining the internationalization of companies. It enables us to consider two types of behaviour – risk-hating and risk-seeking. Accordingly, using the theoretical framework of Prospect Theory in order to explain the internationalization of companies resolves the ostensible contradiction between the literature about entrepreneurial companies (BG) and traditional companies (MNEs). These findings are
significant for theory and in practice; analysis of the individual’s reference point represents an additional way in which to influence the management, and hence the performance, of the firm, and can potentially broaden the IB literature.

Sixth, the present research is the first to propose a comprehensive theoretical framework that can explain, from the manager’s perspective, when and why he or she will choose a particular theory or group of theories over others during the internationalization process. According to our findings, there is a significant difference between the variables managers use and the choice of which variables to use depends on the manager’s perception of his or her position relative to the industry reference point. Managers who perceived themselves as above the reference point used a combination of variables from and in line with institutional theory, TCA, network theory (only some variables) and RBV theory (primarily tangible assets). In contrast, managers who perceived themselves as below the industry reference point used a combination of variables from and in line with the Industry Based View, RBV (mainly intangible assets and strategic capabilities) and network theory. Hence, the present research opens up for use a wide range of additional theories and strategies and enables a more coherent look at the process of internationalization.

Additionally, in the studies in which researchers focused on a leading theory (network, RBV, IBV, TCA and institutional theory), they concentrated on describing a strategy or tools managers took from the theory but did not explain, as part of a coherent theory, under what conditions managers adopt certain tools or strategies in opposition to others. The present study contributes in being the first to explain under what conditions managers will choose to use certain elements and not others of one of the above mentioned theories. It does so by linking managers’ perception of their industry
reference point and their choice of parameters for internationalization from one of these theories.

7.4 **Practical implications**

By signalling of the important indicators, an organization’s management fixes its industry reference point. Given that Prospect Theory proposes that the organization will avoid risks if it feels it is above its reference point and will seek risk when it feels it is below its reference point, the organization’s strategy, and as a result, its performance will be determined by the reference point it adopts, consciously or unconsciously.

Accordingly, by management of its reference point, the mental map of the organization’s members may be prodded in the directions the organization wants. In this way the organizational culture can also be changed – into being innovative and risk-seeking or risk-averse – and the behaviour assimilated by the managers.

Furthermore, the reference point theory can be used as a diagnostic tool for checking the organizational culture and strategic behaviour as well as an aid in managing internal organizational proficiencies and assets, in addition to exploiting the opportunities that arise in the external environment. Consequently, management that is aware of its reference point, we believe, can influence the way the organization assumes risk and its level.

The findings of the present study show the link between managers’ perception of their reference point and the pace of market penetration, the number of markets that are entered and which parameters from the available strategies are chosen for the penetration. This study is the first to offer a model that relates the manager’s perception of his or her reference point to his or her strategic management and adoption of a set of specific strategies when internationalizing.
Likewise, BG companies do not normally have many assets and when they internationalize, they stretch their resources to the limit. According to many studies, internationalizing is a risky undertaking for small companies and often ends up in failure, which may even mean the closing of the company. Therefore, adopting the model as a management tool that can help manage a firm’s abilities and internal assets as well as exploit opportunities will facilitate the improvement of BG company performance when internationalizing, and consequently, increase the diffusion of technology among markets and raise economic competition in global markets.

7.5 Research limitations

The limitations of a qualitative research include the researcher’s subjectivity, the analysis process, the quality of the cases, and the scope of the phenomenon under study. The researcher must make every effort to provide data about the research design and the analysis process, understanding the importance of replication of an additional number of cases in other markets and industries, with the objective of reinforcing the typology and building a conceptual framework, in order to assist future researchers who may perhaps examine the typology or broaden it.

The researcher here recognizes that qualitative research is liable to provoke issues of validity, reliability and generalization. The followings explain in detail the steps taken by the researcher to improve the “trustworthiness” (Lincoln and Guba, 1985) of the study:

**Process of validating the research**

Validation means repeatedly going back and forth from induction to deduction, between the data and our conceptual perspective. In qualitative research the researcher is required to preserve the chain of evidence along every step of the study. The researcher
here. Saved all the recordings of the interviews and every other relevant information (Miles and Huberman 1994). The researcher must also safeguard all documents, memos, and diagrams created during the analysis. The chain of evidence comprises pieces of data from the raw stage of collecting data up to the final findings and conclusions (Yin 1981). An analysis process composed of a number of stages enables the researcher to question himself also. Retaining the documents of each stage of analysis allows the researcher to examine to what degree he has been faithful to the data received from the informants and locate potential sources of errors. The validity of the method and interpretation is verified by a rigorous process of examination and building anew of the way through which the researcher believes he has reached them. Maintaining the chain of evidence enables the researcher to consult with his supervisors and other colleagues. The consultation process makes the information accessible to other researchers and describes the way in which the interpretation was performed in order to transforms the research process into an open process.

**Reliability of the research**

In order to meet the criterion of reliability, the researcher should reveal to his colleagues how the research was conducted and how decisions were made (Yin 1984). This challenge was met by having three formal and open stages of data collection and analysis, as follows:

1. Creating a data repository: the researcher developed a data repository that can be presented at any time, to enable other researchers to check the sources of information on which the study was based.

2. Preserving the analysis documentation: the process of analysis in this research has three phases. Each analysis phase mandates its own unique diagrams and logs. The documents of each phase containing the analysis categories and their content were kept...
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so that researchers will be able to recreate the analysis process, and thus check the research reliability.

(3) Presenting the chain of evidence in the final report: The report includes a lot of information consisting of citations related to the subjects under discussion. In addition, the report notes the circumstances under which the material was collected and shows a logical linkage between data collection and the research questions. The objective is to enable other researchers to follow the process through which conclusions were drawn at each research stage. By presenting empirical support for the categories by way of the citations and explaining the analysis process, readers will be able to judge for themselves the strength of the research claims (Dey 1993).

Generalizing from one case to another
The perception of generalizing from one case to another requires adapting the significance of the ability to generalize to the process in which we are examining to what degree the situation under study matches other situations in which we are interested. It seems as if a general agreement exists that, for qualitative researchers, the ability to generalize means to see the similarity between the situation under investigation and other situations to which we are interested in applying the perceptions and conclusions of the research (Schofield 1989). This type of generalization is closer to Stake’s (1995) viewpoint regarding the naturalistic generalization that focuses on applying findings of one research to a similar situation in order to reinforce the understanding of the latter situation. Generalizing from one case to another generates a discussion between the analysis of a certain case and the broader audience of cases. This process allows us to not to forecast but to anticipate what is likely to happen in similar cases (Lincoln and Guba 1985). The readers of the research are liable to find that certain aspects of the cases, and not necessarily the cases as an entirety, are applicable to new
situations that are relevant to them. In order to help the readers, the researcher here supported this process by providing rich and detailed descriptions of the cases under investigation.

**Generalizing to a population**

The quest to find some degree of generalization from a sample to a large population constitutes a limitation of qualitative research. The greater the number of cases, the greater the potential, we assert, to generalize to a wide population. We believe that we can show that some characteristics of the thirty-two informants are similar to other cases – which raise the opportunities for generalization. Relating to the cases under investigation in the context of categories increases the research’s potential to be generalized from a case study to a population. Thus, the objective is to find a certain group of characteristics and similar lines between the cases studied and cases relevant to one’s readers, which they are trying to understand (McClintock et al. 1983). Attempts to strengthen the ability to generalize from a sample to a population in qualitative research always have problems. The search for similarities between the cases under investigation and other populations has advantages (Strauss and Corbin 1990), but, in general, qualitative research samples are not large and questions remain about how they were selected (Firestone 1993). It is evident that every generalization depends on defined conditions, and the similarities between the cases under investigation must meet these conditions (Strauss and Corbin 1990). The validity of generalization regarding a population grows as the number of cases being studied increases. In our research we examined thirty-two cases, from nine different industries. Given that Israel is a country of immigrants, the thirty-two informants represent seven different nationalities – which increase the range and strengthen the ability to generalize. Nevertheless, despite this,
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this type of generalization (from a case to a population) has not been examined in positivist terms, but only in special terms belonging to constructivist-qualitative research.

As mentioned above, BG is still a new field of inquiry whose theory is as yet in its infancy. This area also suffers from the fact that it lies at the crossroad between the IB discipline and entrepreneurship. However, it is still examined using traditional IB theories – which limit its growth. This fact motivated the researcher to take an exploratory approach in order to develop a deep and holistic understanding of the phenomenon. This approach required the researcher to expand the scope of the research and conduct a comprehensive literature review covering a number of research disciplines. Nevertheless, even though the research attempted to meet the demands by preparing a diverse literature review from the fields of behavioural economics, IB, entrepreneurship and strategy, and searched for different types of information, both from primary and secondary sources, it cannot be claimed that the research involved in preparing the present thesis embraced all the different topics related to this perspective.

Within this context, time and financial constraints were the main limitations.

An additional limitation is that that the present research could not be classified as a dyadic study, of a buyer—seller, given that it focuses on the seller’s perspective only. The researcher acknowledges the fact that dyadic data would have presented a richer picture of the process of internationalization but considering the main objectives of the research, this is not a deficiency that affects or harms the final research products.

A research further limitation is the SBE (small business enterprise) designation. There is little agreement regarding what defines an SBE and clearly this term has a large number of definitions due to the great range of small businesses, in different markets. The
present research adopted the European definition of an SBE and used it for the purposes of the study.

7.6 Suggestions for future research

We now attempt to suggest interesting research opportunities generated by the present research. Some of the opportunities are direct extensions of the research reported on here, whereas others are based on ideas that arose while conducting the present research. These ideas arose from the confluence of reading peripheral literature from the disciplines studied or while conducting formal or informal discussions with other researchers.

First, the present research is limited to Israel, and therefore, similar studies of BG companies in other countries should be conducted in order to investigate and validate the internationalization process according to the reference point theory. Likewise, they should include a broader range of industries.

The present study focused on technology start-up companies that have been dubbed BG. Future research should focus on different types and sizes of organizations. Future studies should also examine the internationalization process of different companies such as SMEs, MNEs, and traditional service companies etc. Given that the theory proposed here asserts that there are no “different types of companies” and that the internationalization process depends on the individual’s point of reference, studies such as these should provide strong validation of the reference point theory.

An additional direction for future research is to examine the suggestions discussed here empirically. While we supplied theoretical claims for each proposal, a future empirical study could investigate to what degree the relations assumed here are valid.
An empirical study would also enable quantification and refinement of the model, which will be able to examine the relation between the position of managers’ reference points and their performance, and can, therefore, serve, in the future, as a diagnostic and managerial tool.

The model that was presented in this research should be expanded. We stressed the structure and strategy of the reference point but additional work is needed to develop understanding regarding what determines and to what degree companies’ prefer certain strategies (or certain factors within the strategy) over others. Likewise, we hypothesized that companies that use a combination of more than one strategy will achieve the preferred performance as opposed to companies that use the reference point theory or a single strategy, as well as, the link between the reference point and the optimal quantity (the correct balance) of strategies that are used in order to maximize performance. Questions of this type can only be answered by empirical studies.

This study focused on and examined the leading internationalization strategies in the IB literature (IBV, RBV, TCA, network and institutional), with the objective of combining them with the reference point theory to create a typology. Future research could, however, import strategies that could be examined using the reference point theory such as theories from the field of game theory, system theory and the like.

Behavioural economics is an area attracting a lot of research. In our study we used Prospect Theory, which examines risk assessment according to the individual’s reference point. However, recent developments in the field of behavioural economics facilitate refinement of the model by future use of additional variables in the decision making process that will enable more complex “slicing” of this process beyond its reference point.
As mentioned above, the present research focused on the seller’s perspective only. Future research that concentrates on dyadic relations between the seller and the buyer will present a richer picture of the internationalization process.
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Appendix I: Research Questionnaire

SEMI-STRUCTURED INTERVIEW

General:
1. Gender ___________
2. Age ___________
3. Position _______________________________________________________
4. Management experience __________________________________________
5. International experience __________________________________________
6. No. of markets that have been exposed to _______________________________________
7. Ethnic Origin _______________________________________________________

Interview Questions:
1. Describe the reasons for expanding your business abroad?
2. What made you choose this specific market / country?
3. Internationalization is a risky move, describe the competitive advantage: product innovation, innovative business model, cost leadership etc. that made you choose this strategy
4. Describe your strategic entry mode (agent, JV, alliance, subsidiary, etc.).
5. Do you have a structured process for choosing your partner?
6. If you do, please describe it.
7. How/where did you meet your partner?
8. What kind of a market research if any have you conducted for the pre-entry of your first market?
9. Did the market research change with following markets, and in what way?
10. Do you see any differences in entry pace with time, please describe?
11. How much time does it take to get established in a new market?
12. Did you see changes in amplitude, if yes at what stage of the entry?
13. Did you internationalize in a sprinkler or waterfall strategy?
14. How did it change with time, if at all?
15. Please describe your unique company capabilities.
16. How would you position yourself compared to domestic competition?
17. Would you perceive yourself below/above your industry benchmark?
18. How would you position yourself compared to international competition?
19. Would you perceive yourself below/above your industry benchmark internationally?
20. Did you have any business contacts overseas previous to the internationalization process?
21. Did you make any adoptions (product, strategy, business model, etc.) during your first market penetration?
22. If so please describe.
23. Do you see any changes through later market entries?
24. If so, please describe.
25. How would you define your exposure to foreign markets (resources, intellectual property, currency, etc.)
26. Have you used any hedging strategy, from the entry to date?
27. Did you develop any learning mechanism or knowledge transfer with your international partner, from the entry phase to date?
28. In the partner selection process, what degree of importance would you give to his technological capabilities?
29. What kind of capabilities are you looking for when choosing an overseas partner?
30. What kind of tangible capabilities?
31. What kind of intangible capabilities?
32. Please share any special insights that you have acquired.
Appendix II: Sample Executive Interview

COMPANY A – FOUNDER INTERVIEW

1. General Questions

Age: 37

Origin: Germany, Poland, Lithuania and Russia

Seniority: 10 years

International experience: 8 year

Markets you have penetrated: Western Europe, East Asia, Japan, Korea, USA, Australia. Everywhere except the Middle East.

2. What made you penetrate the specific markets: We had a very opportunistic approach, going to Europe because of it's proximity to Israel. After a while I moved with my family to the United States to be next to other markets, therefore our next market was the United States. Now that we have grown we also become a bit more calculated and analytical, we check the advertising in each market, who are the operators in every market and then decide where to go. That's why we decided to go to India and Japan and not to China. So as we matured, we started thinking more logically.

3. Penetration abroad is dangerous, what strategic advantage / business model or any other advantage made you choose this course? You see it as a risk to get into the international market? I think the main reason that Israel is a superpower in hi tech is because we have no choice, we don't have enough of a local market. I can go to Orange & Pelephone and cover the whole market in two days, it's all over, where do I go from there? So the reason that we're much more successful than the Indians and the Chinese is because in Israel when you develop a product you have to go with it abroad, if you develop a product in India it will take you 20 years to wear out the domestic market before you move on to the foreign market. So it's not a risk, it's a reality & it is necessary. What is our advantage when we go there? I think our main advantage is the speed of our work, the capabilities to cope with changes & our tendency to take risks, which is more difficult for our competitors in other countries. You know our biggest competitors are the giant companies like Amdocs, IBM and Google who can not take
risks, but I can take risks, I can do a trial with Vodafone on a product that is not even a back up, so I can reach the market two years ahead of the others, and if I do it carefully enough & with wisdom I will win and that is also our big advantage, getting into the market ahead of others because we took risks & we did things that our competitors wouldn’t do.

4. Are you working with distributors / partners? Our model is that we actually reached the market when mobile advertising did not exist before us. There are a lot of companies that are good in advertising but never turned on a cell phone and you have companies like Compass Lennox. These firms know everything about cell phones but never sold an advertisement in their life. Hence this is what brought us the idea, the strategy that we need to sell ourselves, we can't use other channels, and we can't use others. I cannot go to Comverse or Nokia and tell them 'Let's sell mobile advertising', they can't, they know how to sell their stuff. I also can't say now to WBP to sell for me mobile operators, they do not know even how to do it. This created a situation in which we are all alone. Even if we would like to do collaborations, there is no one, so it forced us to set up overseas sales force and recruit people abroad.

5. So you are like a Greenfield, you open a sales force - we are not really a Greenfield, because there existed advertising and mobile but no player from the two markets knows the opposite market. You know, in the past we've been looking to recruit mobile advertising executives, there aren't any, you have ad people who do not know how to turn on a cell phone and I'm not just saying this, or the cellular people that never in their life have seen an advertisement. You have no integration between the two. As far as the integration is concerned, yes we are a Greenfield, so we had to assemble it ourselves.

6. How do you choose the sales force, I guess it should be a local sales force, what I mean is, do you send an Israeli? Describe the process: Our perception is that as Israelis we know how to develop technology, we're not as good at sales and that's why it's better to have a local sales force. After all it's more convenient for a German to buy from a German, for an Italian it's more comfortable to have a drink of wine with another Italian while they close the deal. People are more comfortable conducting business with their own kind. Hence we hire local staff only. Besides me we do not have any other
Israelis placed aboard. In the U.S., Europe & Asia all the staff is local. The way that we have recruited is: since we're lucky that our partners are very large global conglomerates located all over the world, for instance one of the largest investment firms has an office in London, another one has an office in Tokyo, (ahhh..) and another one in the U.S, they basically help us recruit the best local talents, and furthermore, our investors have big enough names that enables us to acquire the really good talents. One of the problems of many Israeli start ups is that someone who was vice president of marketing at Google will not come to work for an Israeli start-up that is an investment of Pitango & Evergreen, this just won't happen. On the other hand, he will come for a Israeli start up if it's an investment of Sequoia, Vodafone & Telephonica which are multi-national companies. Consequently the privilege of working with these large firms is two fold, not only that their capital moves projects along much quicker, their strength lies in the fact that they attract high quality caliber staff.

7. I just came from a meeting with someone who told me that most of his contacts he meets in all kinds of conferences. Is that correct for you too? Meeting people is not difficult, there are good people everywhere, and you can find them on the street, in the supermarket & in conferences. The problem is to convince them to invest in you, to help you build a substantial company. You know I can tell you, one of our employees in the U.S. is a guy named Roger Wood; Roger, in his previous position was the CFO of Reebok. Reebok's CFO would not join an Israeli start-up; then again he would join Sequoia's start-up. Finding the best names in the business we are all good at, you can search them on Google, you can go to conferences and they will be listed there as Key-Speakers, but you will not be able to recruit them. Our operations manager in Europe today is Patrick Paudy, Patrick was a former President of Alcatel Mobile, and then he was the chairman of M.E.S. He's not exactly the type that would be working for an Israeli start-up. He's an anti-Semitic French man who is willing to work for Axel which is the strongest foundation in Europe. Therefore, finding the right people is very easy. You know, you just need to tell me what field you're interested in, do a quick Google search and you'll find 10 key people in the field you're searching in. They won't answer your phone calls if you don't have a real international representation which is why from the first day, Company A didn't raise Israeli funds. There are no Israeli investors in the company; all of them are strong and powerful Americans and Europeans.

8. So basically what you're saying is that if you want to enter the international
market and you value yourself, you bring in partners (with all due respect to Israelis, who have connections to basically all parts of the world they cannot possibly reach the level of contacts that can be found globally. Correct me if I'm wrong. Look, when Sequoia invests in you and when Michael Moritz shows interest in your products, you know Mike Moritz was the one that discovered Eric Schmidt, chairman of Google as well as Jerry Yang, CEO of Yahoo. He can also discover the next big name, connect with anyone in the industry and convince them to join in. It's enough to say you know Michael Mortiz and all of a sudden everyone is listening. When you're just an Israeli Start Up that sold only 2 million dollars, no one can predict your future. Just try picking up the phone and calling Google's VP of marketing, it's challenging enough just to try to convince him not to hang up the phone on you much less to get him to join in your venture. I'm not even talking about convincing him to meeting you, just listening to you for the first minute of the call will not happen. It's not that Evergreen & Pitango and Genesis are not good, they are great (ahh...) they are great for only a certain type of company that is looking to develop technology and less in the need of marketing buzz. If you're a company like Company A, an advertising firm & not a technological one, you need the shinning brands like Sequoia and Excel and the likes of Vodafone and Telefonica. You know now, that we've become bigger and more powerful, I will happily work with Israel because they have the right technological contacts and have the willingness to help, lots of willingness, but recruiting key investors is not its force.

9. What kind of market research did you conduct when you first penetrated the market; I believe initially that was the European market? There was not too much to check, since we were the first in this area we didn't have the privilege to see what others were doing, we couldn't see anything. The only test we did is a geographical one; it was a pointless test that checked where most of the cellular operators are located in Europe. We found that the headquarters of Vodafone, Telafonica, T-mobile and Orange are in Central London and that was the only reason we decided to choose London as our first market. Excel that was headquartered in London, invested in us and allowed us the use of their offices in the beginning.

10. What kind of market research do you conduct today when first researching the possibility of penetrating a certain market?
Nowadays the first test we perform is to check which advertising is done in that particular country. Since our income is generated from advertising, I base my business model on the advertising aspect. For example, in China, that is an amazing and enormous country, they invest $1 per person per year on advertising while in the USA they invest $1000 per person per year, so China is just not a relevant market yet. Consequently the first test is to check if there exists relevant advertising in that particular country. The second test is to find out if the operators have the willingness to cooperate, if they are very conservative or not conservative. While the first check, a. It's much more powerful; part b checks the economical situation in the country. For example, it wouldn't be advisable to even attempt to penetrate into Spain today because of the current recession, c. Regulation: there are states where operators are not allowed to advertise. Why? because those are the laws. In the beginning we enter cautiously, for example, now we've penetrated Japan but initially we flew to California and conducted business there, we had no local person in Japan and only after we saw some signs of potential we hired someone local that worked for us only one day a week. When the potential signs increased we hired him to work 5 days a week and added another person as well. Today we're already opening an office and soon we'll have 15 employees. However, note that we did not take a risk; we did not jump into sending 15 people to Japan to work on Japanese high salaries in order to see what will happen. Very carefully and slowly….you know…there's time. It's true, you're always thinking that your competitors are moving faster than you, in most cases they are just as distressed as you, if not more so. They also don't have too much money to throw away. You must take the right steps, cautiously and slowly!

11. So today if I sum up what you're saying, as time passes, each additional market penetration becomes slower, the more you learn and absorb the slower you tend to penetrate new markets. It's not necessarily slower, but rather more cautious. You know in the beginning when we entered London, we hired a person before we saw what was really happening and then we hired another two people to help him. Today I would not do that: A. because I don't need to do that anymore (ahhh…) B. There is a global recession and my prices, I'm not concerned about these matters, they won't affect me and I have more time to work by myself. C. We know how to conduct research, you know, when we started in the beginning when we hired Patrick, the guy I mentioned in London, he was the company's sixth employee, we did not even know how to do the
research, I did not know what the operators London wanted or needed or how to acquire the data. Today we have more tools at our disposal to acquire the data; today we are connected to the key people in the world that can help us understand, i.e., there is an advisory board among other things, once you begin first start with the research.

12. What are the capabilities that make the company unique

I think what distinguishes us from our competitors, is our focus, we made a decision on our first day and stayed loyal to our aim, we concentrate on only one thing - mobile advertising and mobile operators, that's it. Our competitors got very confused, some of them did mobile advertising but also for cellular operators and also not for cellular operators. Also for Vodafone but also against Vodafone, this does not work. Vodafone does not forgive. Others said, well, mobile advertising is a lot like advertising on IP TV so let's also advertise on IP TV, (good for them) (Ahh…) We were the only ones focused and that's what saved us. When your competitors are Yahoo, Google, Qualcomm, Ericsson or Nokia, as a startup, if you're not focused, you do not exist, they will devour you. So we focused on only one thing. I have now nearly one hundred people who do only one thing from morning to night: Vodafone, Telefonica, Cellular operators, that's all. I had a conversation with Jerry Yang, the Yahoo CEO before he was replaced (ahh…) I had several conversations with him at some point he got mad at me because we caused him a lot of damage in the market and he began to call us the 'operator bitch' this term is correct and I'm very proud of it. We wanted to turn this into our brand company name. The Operator Bitch, that's what we are, we do only one thing but doing it the best and that's all that we know to do. So the DNA of this company was built according to this philosophy, the company's activity and effectiveness was based upon this therefore I now can get support the operators in a way the other competitors cannot. I have the suitable technology exactly for what is necessary, I have support exactly for what I'm doing and I have the understanding of exactly what I'm doing.
13. In terms of strategic capabilities/the company's core capabilities for example there are companies with very strong logistic capacity. For instance Teva is very proud of her capability of reaching each point of sale within 24 hours. There are other companies in which the coordination among the units is what gives them such a high strategic capability. What would you define as the capabilities of Company A, which gives you your strategic advantage besides your focus?

I think our main advantage is our understanding of cellular technology and advertising. I don't know if you remember there was a former basketball player for Maccabi Tel Aviv, Moti Haroesty, he became a lawyer. The joke was, he was the best basketball player of all the attorneys and the best lawyer of all the basketball players and a failure in both. Therefore we are the best players in advertising among the cellular companies and the best cellular players among the advertisers and we're good at both. That's what we know to do and that's our strategic advantage, we understand the two markets we are in, not one, but both of them. Sorry I'm hard on you, but actually you gave me the same answer as with the focus...that's our focus, that's our advantage. Look, I'd love to tell you that we have an amazing ability in professional service, but you know Comverse eats us alive on the professional service aspect, or that we have amazing SI, service integration. Amdocs eat us alive in this field. There is no place I can tell you I have an absolute advantage, I have relative advantage in several places and that's what distinguish us. In advertising we can't compare to Yahoo. In telecom we can't compare to Amdocs, you know, I can not compete with them at their own game, I can only compete in the new field that we built ourselves & invented for ourselves which is the mobile advertising field.

14. Would you say that at first we talked about the speed of the market, which is one advantage, the ability to dare.. it helped at first, today you no longer have that? Today my clients include all the Vodafone Group, all of the Telefonica Group, today I should be a real Telco grade, they are not ready for speed, and you can not present them with an incomplete product. This helped me with the initial penetration. We were a start up of five idiots in Israel and we were willing to take risks no one else was willing to take, you know, we had no reputation that could have been destroyed, so we had nothing to lose (laughing )...today this is not the case, we are under the auditing of the largest companies in the world. I can not be as fast as I was. Yes, we are more flexible and, yes, we know to develop faster, but it does not really matter, you know that the
operators do not need it fast. Today when an operator conducts a bid he intends to use it in another two years, resulting with enough time for everyone to continue developing. Our advantage today is our knowledge and our branding. We set the standard in mobile advertising today. You know you can consider this as our strategic assets, the fact that Vodafone and Telefonica both invested in us. First time in history that these two work together – this is what set us as the standard, which is our advantage, we've become the standard of this industry. (Ahhh…) Another advantage now that I think about it, our expenditure structure, you see our offices, they're cheap, they're easy, I can afford to set my prices lower than my biggest competitors and still be profitable, it's a real advantage. I can charge my operator 2 million dollars and still remain profitable. For $2 million Comverse can only cover the travel expenses of their entourage. You take advantage of this? I'm not taking advantage; I've already set the standard. I've left the price war already, but yes, it's some sort of bargaining chip in negotiations, I can always say, guys, I'll always will be cheaper from them, no matter what happens I will be cheaper, I'm not going to fly 200 people for a meeting.

15. How would you position yourself in respect to your competitors in Israel? Our competitors have changed over time, when we started, our competitors were start-ups like us, over time because we seized most of the best markets we raised more money, we have become the leading player, now I cannot think of even one start-up which can compete with us, it's just not relevant. We are now trying to buy up some of the smallest of them. In the beginning I was battling the start ups (ahhh…) just an anecdote, the first RFP that Vodafone sent out to the market, they sent it to 178 companies. Everyone said they're cellular advertising. It was amazing, I was at a conference in Vegas when a taxi driver told me he was going to set up a mobile advertising start-up, he did not know what I do. Everyone was into it, cable infrastructure companies said they do mobile advertising. So at first we were in competition with other start-ups and afterwards came a wave of the Internet giants, Google, Yahoo, Microsoft, AOL decided that were entering the arena with all their might. And suddenly they became our competitors; we placed ourselves against as the operator bitch. You know, we came to the operators and told them, Google and Yahoo don't only want the money for mobile advertising, they want user experience, the moment I install Yahoo go on my Blackberry, I don't know if you know it, it's a Yahoo application that supplies all the services; the video services I receive through YouTube, and my image became yahoo mail and my IM became yahoo
Appendix II: Sample Executive Interview

chat. There are no operators seen here. On the phone you seen written Blackberry, inside is written Yahoo, there is no operator listed, he becomes a real dump pile. During that time we had a PowerPoint presentation which we called the FOG (the fear of Google). We simply came to the operator and explained to him, listen; we're going to eat you for lunch. Surprisingly when Vodafone and Telefonica invested in us they published a headline in the Financial Times that I was so proud of, my mother even more so. The newspaper posted a huge photo of me with the headline stating that Vodafone and Telefonica are investing in Company A because Company A is the principle weapon against Google. So we were able to position ourselves differently from our internet competitor's web while they retired from this arena. They tried, so Microsoft had two contracts and Yahoo had two contracts. We had already received these contracts, they left the market. Now there is the third wave of competition which we now have to deal with; they are the telecom players, Amdocs, Comverse, Open Wave, Accent, IPM, HP, Ericsson, Nokia Siemens, Qualcomm, Motorola, everyone suddenly entered this market, Oracle, Cisco, all entered this market and decided that this is the strategic market for them, they don't even know to explain why to themselves but this has become their strategic market. Against them our fight is quite simple, We understand advertising, they do not. Amdocs developed a beautiful system, they invested some 400 human-years to develop a mobile advertising system, a really great system, a true gem, only this is not the way advertisers work, so no advertiser would agree to use this system and they were forced to fire their staff and invest in Company A in the end. I'm assuming the same thing will occur to the other player in the game. They don't understand the purpose of the advertising and that's how we position ourselves against them. So I cannot tell you that I'm better, or I'm worse, no I can't. You know when Nokia Siemens go somewhere, who am I to them? But we are able to position ourselves and with our ability to focus, with our specialization, that's our only weapon. We are better than the Internet players because we understand the mobile industry and we don't compete against the operators. We're better than the infrastructure manufacturers because we also understand advertising and we've already proven ourselves because we have set the standard. You know I had a conference where I sat (ahh…and ...) I sat on the panel and the moderator asked me something about the product that Amdocs is developing. I told said: 'look, in the past I was a copywriter for an advertising firm for JWT and afterwards for Tamir Cohen. I explained to him that Osem, they mainly produce salty snacks in Israel, at one point they attempted to market
chocolate in the country, (this is a true story…) in 1997 they set up focus groups. They brought Nestlé’s chocolate from Switzerland and we just wrapped it in Osem's packaging. The chocolate is great. Each group, one after the other, all the testers said the same thing: 'the chocolate is good but it's a bit too salty and floury'. So I said: 'maybe Amdocs's product is good but it's a bit too salty and floury'. You can, they are a billing firm, nothing will help, billing and advertising are two completely separately fields, just like chocolate and pretzels; they are just not the same. And this is how we position ourselves against them, that we do something a little bit different and that's our specialization, that's our DNA.

16. **would you say that as opposed to the big players, you're much more focused and you're building yourself your niche.** I'm not in their league; I take myself out of the game against them. I cannot compete with Nokia Siemens, but I'm not trying to compete with them, I chose a niche that is very difficult for them to enter because of the expertise and because of the cost, we are not operators. Listen today you can begin a project with Nokia Siemens which will cost you $10 million only to sign the initial contract and then another $20 million for maintenance. Not with Company A, the market is not huge and no one knows yet if the mobile advertising arena will become a bonanza or not. This way Company A will cost you a million dollars to start, $2 million each additional year, if the market will become something huge, you can have doubts again, if we'll be good enough, leave us in the market, if we won't be good enough, take the giants, now you don't need them, I just take them off the market because now they are irrelevant, You know, they are a spaceship, I'm just a little scooter but that's good enough to get to the corner grocery.

17. **Have you customized the product/the strategy for your first customers abroad?**
Not for the first penetration because we built the product according to the first client who happen to be British. You know because we have said that there is no market in Israel so we never wrote a product whose interface is Hebrew. The initial product fit primary the European market, but of course, now as we're entering India, Japan, we must customize our product and our strategy to their specifications. Our adjustments are on the simplest levels in which the interface will be Japanese and not English. Our interaction with them is different; they expect a different type of support from what is expected in other parts of the world including the business plan. There are countries, for
example Japan, in which they would never agree to give revshare. In Europe and the U.S. I get revshare, on every dollar I bring advertisers I take my 20 cents and the rest I pass on to the operator. Japan never agreed to the revshare contrary to their culture, why? Because. Go try arguing with their customs. In India's case, I do not want revshare, they may possibly be ready to give revshare, but I'm not interested because I don't believe enough in advertising in India. I want them to give me a license that pays for my technology, thank you and goodbye. Sell the ads, and keep all the money. Hence I need to adjust my business model to the country at hand, partly because the country demands if from me and partly because I'm not interested in using this same model there.

18. How would you define exposure / risk to foreign markets (currencies, patents, property, etc.) Currencies today are not the game. Paying in any currency, I know how to convert it to the dollar or to the shekel, to whatever I want. You know, there are currency changes and all of a sudden when I'm paying salaries in Israel and the dollar crashes or the rates rises of course it has a n affect but that's not something that can't solve with a good banker who knows how to protect against such occurrences. (Amm…other risks?) Other patents, as I've told you, Company A was established as an international company, we didn't built it for the Israeli market, from the beginning all our patent requests were for all the countries in the world, the money was from foreign funds and they had their own demands. Company A was built as a global company from day one, the sixth worker we recruited was British. Everything was handled in an international perspective.

19. We talked earlier about the rate entry into different markets. How long does it take you to enter Japan from this day of you sitting here until when you can say, not only that you saw signs of potential but you actually raise the flag at the Consulate of Company A in Tokyo? Look, Japan is an appalling example; they work there at a totally different pace. From the moment we said Japan until the moment we actually start working with them, it's been two and half years. Two and a half years of another meeting and another meeting and another flight and another phone call and something else to ramble on in poor English that they don't even understand because they don't know English. You know, time after time, that's the way they work, but I like it because in spite of these two years, I've entered Japan. But Japan is one extreme
example. There is another extreme which is India. From the first session until they took the first set, India took a week, but you know they are totally superficial, hardly checked anything. All they said was if it's good for Vodafone and Telefonica it's good for us. It went really fast. It's very hard to determine here averages. In general, working with cellular operators, regardless of the market, it's a long and tiring process that starts with RFI and turns into RFP and then turns into RFQ. During the process the management team is fired eight times and you go back again to RFI. In general, a project with an operator takes about 18 months. We have found ways to shorten the process. The best way to shorten it is through investments, to take money from Vodafone and Telefonica, suddenly you're part of the family, and this shortens the process dramatically. You know until we received the investment from Telefonica we completed in RFP in Telefonica Czech Republic and then in Slovenia and then in the UK. Everything is a project. Once the CEO of Telefonica put his hand on my shoulder and told me in Spanish – you're part of the family, (it felt like the real god father this moment). Two weeks later we received a contract of all 24 countries of Telefonica and we are currently implementing two countries each month like clockwork. Same with Vodafone. We found ways to shorten the processes but overall working with cellular operators is a slow process.

20. Have you developed mechanisms of learning from your partners / distributors, (Telefonica or any other player)? Yes, for starters we have a mechanism that we have built together with them. We set up road mark meetings with our clients every two months whether he wants to or not. Once every two months we sit together to listen to his problems, explain to him what we're developing and discuss with him if he's interested in our new developments or not. We sit with all our customers once every two months; study what works and what doesn't. Furthermore we've implemented the CRM system which documents everything that happens with our clients. If there is any type of problem it will be documented, if there's any accomplishment it will also be documented. In other words, we learn from our mistakes and don't repeat them. You know, as I promised my investors on the first day, I'm going to make a lot of mistakes, each mistake will be catastrophic, but I will make it only once. The same is true for Company A. We make mistakes, every startup, every company makes mistakes, but we are learning and a mistake will not happen twice
21. Do you have someone who is in charge of all of this, someone who the Champion of this? We have a director in the support staff, which is in charge of all the documentation and all the learning processes, for better or for worse. You know we made an implementation which took a week instead of 20 days, so let's learn how to do it again.

22. When choosing a partner how much emphasis do you place on their technological capabilities? Not much, we rely on our technological ability, I need my partner to be able to open the right doors for me and that he'll have the money to pay for me and my technology. On the technological side of things, we rely on our selves, there are brilliant professionals here and we really depend on them.

23. Which capabilities are you looking for when you are looking for partners (tangible or not). When I say tangible I'm referring to logistical capabilities and abilities are more business orientated and less tangible like reputation? Look, I'd love to tell you that we choose our partners and examine them but we are just a small ant versus large elephants. It's really nice to come and say that Company A examined who suits her better, Hp said yes, so we said thanks, we're with you. We opened our legs (lol) we don't have much choice in the matter. Look, there's not much we can do about it, we're tiny in a world of huge elephants. (ahhh...) It's not that we can just choose someone, but of course if I have an offer from HP or an offer from a three men team, certainly I'll choose to go with HP because of the reputation, the power, this is the branding. But if I am currently testing for HP as well as Accent, Ericsson and Nokia Siemens I do not choose them, but rather they choose me, I have to remember that. Which is one thing that many entrepreneurs, Israeli as well as American forget. You're no longer a CTO at Comverse nor a CEO at Amdocs, you're just a little ant in the corner of the universe and you don't really interest many people. So, you're not a little ant anymore? I still am, you know that at Comverse we were going to close a deal with another company, no matter what its size, we would do due diligence. Now as Company A, I don't see myself coming to HP and telling them I want to do due diligence on them. They wouldn't even bother laughing at me, (lol) they would just disappear.
24. I would like to pass the ball on to you. In terms of all that you've accumulated and the experience that you've earned, you have at least half the experience of all the many managers that I've met and believe me, I've met so far more than 20 CEOs and VPJ. So what can you tell me, drop some insights you have acquired throughout this period while penetrating the international market. I do not think there are any really great insights and I think the main point is that one must just try. You know, as they say, the only mistake that cannot be corrected is the fact that you didn't even try to do anything. I was at a conference recently that one of our investors organized. They brought a few Israeli entrepreneurs and asked all of us what we do. You know it was amazing to see the Israelis that grew up with me on a Kibbutz who were able to respond in English in a perfect British accent, they were amazed to see they were the proper suit, but none of this really matters. I think what is so special about us as Israelis is not our astonishing sales ability, nor that we know to speak in the proper accent. It's more about our audacity and the fact that we know how to cope with the unfamiliar. Because you know, who knows what will happen tomorrow. That's our strength and when I see an Israeli entrepreneur trying to compete with an American by trying to speak with a better accent, it doesn't work. You know, I remember one of my first meetings with one of the gurus of Sequoia, he told me that my English was so bad that I must be a fantastic developer. There's nothing that can be done, that's our advantage, we know how to develop and we have the audacity and the chutzpah. I mean it in a positive way. You need to try again and again and not try to compete with the Americans and the Europeans. Don't try to challenge an American, Stanford graduate and try to sell better than him, it won't end well. You know, Vodafone, Telefonica meet every day over 1000 Americans who speak perfect English, they don't remember any of them at the end of the day, they will always remember me, for better or worse. I was at a black tie event in California, we were elected as one of the leading promising companies in California, I got there and you know I called it black tie but I didn't tell my secretary to write that in the calendar. I landed two hours prior in jeans and a t-shirt, unshaven. I walk in and I see everyone walking around like penguins. Schwarzenegger, California's governor was there and one of my investors grabbed me at the end and said: 'certainly none of them will ever forget you, if they'll talk to you is a different story. That's what special about us. I had a pretty lousy meeting with one of the most senior executives of Telefonica USA. After the meeting, (there is always an Israeli everywhere), I found the Israeli in his entourage, I asked him when he will be flying to
London, made sure I'll be on the same flight, I caught up with him in the lounge, he couldn't escape from me. I talked to him for two hours; when we finished the conversation it was clear that he would order our product. I can do this. An American would never do this, it's not in his culture. So it's worthwhile to take advantage of our Israeli culture, our ability to develop is better, our audacity, our chutzpa. in the past I tried working very hard on my English accent, now I'm actually trying to be more Israeli, you know, it requires them to listen more closely to me. If they don't listen to me they will loose me. They remember what I say better, and I think they also respect more the fact that we're different. In Japan you know, I do not do play all these games. You're familiar with the Japanese culture of giving them your business card and receiving a bow from them. We don't know how to do that, you'll always make a mistake because of this. You know if I'll give someone a business card like that and then bow and by chance he happens not to be the CEO of the Japanese firm as I'll offend him. My senior position as the CEO will not allow me to bow. There is no way I'll ever know all the rules so I'm bound to make a mistake, deal with it. I was at a meeting in Tokyo, there were 5 CEOs and 10 more marketing managers around the table. I took out my cards, put them on the table and told them to help themselves. At first they were a bit shocked; a moment later I noticed that they were all very relieved. I saw one of the CEOs open a button in his shirt and another loosened his tie. This was the most relaxed and informal meeting I've ever attended in Japan which also closed the most deals because it was no longer by protocol, it was just between people. That's our advantage, that's our only advantage in my opinion, I do not see anything else we can do better, that's the name of the game.
שלום

שמי תמיר ואני מרצה בבית ספר הבינלאומי של הבינתחומי בהרצלייה, בו אני מרצה בתחום היזמות ושיווק בינלאומי, בנוסף אני מרצה על יזמות בינלאומית באוניברסיטת שנחאי.

אני עורך סדרה של ראיונות עם מנהלים בכירים בתעשייה כשמטרתנו היא לבנות מודל מעשי לחידור של סטרט אפים לשווקים בינלאומיים על מנת לתת את חזרות ישראליות בחדירת לוה"ל.

 esi находит את חברת מנהלים בכירים בתעשיה, אני מנהלهة על יזמות בינלאומית וניהקודה תורפה שלחברה ישראלית עלPERT רأسماء על שווקים בינלאומית, השכרת תורם

לפי הת andre והחברה ישראלית זו היא נקודה תורפה והדבר המסいけ לثم השולט במחצה

ולכן

 najbliż McCartון

הموسיקליים أحمد בindsightים מקודמים או על פי פוטנציאל ההברה

הוא כי 60 – 90 דקה, ועד יהיה אנימל, אשמח להיעזר ב(OPNIKI) ודייט

בברכה

תמיר גדו

0544271014
Shalom,

My name is Tamir Gedo and I am a lecturer at the Interdisciplinary Center (IDC) Herzliya International School, where I teach entrepreneurship and international marketing courses, and at the University of Shanghai where I teach entrepreneurship.

I am conducting a series of interviews with senior industry executives, with the aim of building a practical model for startup penetration to international markets, to provide Israeli companies with tools for global expansion.

Talking to senior executives in the field, I realize that international market penetration might be a weak spot with many Israeli companies that can fail them in the stages of transition into sales.

As most technology companies in Israel direct themselves at international markets from the get go, it is not uncommon for Israeli companies to get reduced valuations as investors are familiar with this weak spot and may therefore pressure for an earlier exit, resulting in the company not reaching full potential.

The Interview takes 60 to 90 minutes and will be completely anonymous. I will be happy to consult your experience and knowledge of the subject.

With respect,
Tamir Gedo

0544271014
# Appendix IV: Tables

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## TABLE 1.1: IMD WORLD COMPETITIVENESS RANKINGS – ISRAEL
### (OUT OF 59 COUNTRIES)

<table>
<thead>
<tr>
<th>Category</th>
<th>2010 ranking</th>
<th>2011 ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>R&amp;D investments as percentage of GDP</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Central bank function</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Managerial entrepreneurship</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Scientific R&amp;D</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Public spending on education</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Technology infrastructure</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Economy durability in times of crisis</td>
<td>9</td>
<td>1</td>
</tr>
<tr>
<td>Education</td>
<td>14</td>
<td>14</td>
</tr>
<tr>
<td>Transportation and energy resources</td>
<td>47</td>
<td>47</td>
</tr>
<tr>
<td>Cost of living</td>
<td>49</td>
<td>47</td>
</tr>
<tr>
<td>Internet bandwidth</td>
<td>49</td>
<td>45</td>
</tr>
<tr>
<td>Participation in the labor force</td>
<td>54</td>
<td>54</td>
</tr>
<tr>
<td>Overall ranking</td>
<td>17</td>
<td>17</td>
</tr>
</tbody>
</table>
### TABLE 2.1: AMOUNTS RAISED BY ISRAELI HIGH TECH COMPANIES ($M)

<table>
<thead>
<tr>
<th>Stage</th>
<th>Amount Raised by Israeli High Tech Companies ($M)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1999</td>
</tr>
<tr>
<td>Seed</td>
<td>63</td>
</tr>
<tr>
<td>Early Stage/R&amp;D</td>
<td>415</td>
</tr>
<tr>
<td>Mid Stage/Initial Revenue</td>
<td>278</td>
</tr>
<tr>
<td>Late Stage/Revenue Growth</td>
<td>256</td>
</tr>
<tr>
<td>Total</td>
<td>1012</td>
</tr>
</tbody>
</table>

Source: IVC Research Center
### TABLE 2.2: VENTURE CAPITAL RAISED 1995-2003 ($M)

<table>
<thead>
<tr>
<th>Year</th>
<th>Venture Capital Funds</th>
<th>Returns</th>
<th>Net Venture Capital</th>
<th>Public Funds</th>
<th>Total Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>135</td>
<td>0</td>
<td>135</td>
<td>0</td>
<td>135</td>
</tr>
<tr>
<td>1996</td>
<td>309</td>
<td>0</td>
<td>309</td>
<td>0</td>
<td>309</td>
</tr>
<tr>
<td>1997</td>
<td>620</td>
<td>(221)</td>
<td>389</td>
<td>29</td>
<td>418</td>
</tr>
<tr>
<td>1998</td>
<td>594</td>
<td>(90)</td>
<td>504</td>
<td>8</td>
<td>512</td>
</tr>
<tr>
<td>1999</td>
<td>1,552</td>
<td>(311)</td>
<td>1,241</td>
<td>44</td>
<td>1,285</td>
</tr>
<tr>
<td>2000</td>
<td>3,682</td>
<td></td>
<td>3,682</td>
<td>185</td>
<td>3,867</td>
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<tr>
<td>2001</td>
<td>1,304</td>
<td>(145)</td>
<td>1,159</td>
<td>6</td>
<td>1,165</td>
</tr>
<tr>
<td>2002</td>
<td>76</td>
<td>28</td>
<td>104</td>
<td>86</td>
<td>190</td>
</tr>
<tr>
<td>2003</td>
<td>118</td>
<td>-59</td>
<td>59</td>
<td>0</td>
<td>59</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td>358</td>
<td>393</td>
</tr>
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Source: IVC Research Center
TABLE 2.3: CAPITAL RAISED BY HIGH TECH COMPANIES 1999-2003

<table>
<thead>
<tr>
<th>Region</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Israel $M</td>
<td>1,012</td>
<td>3,092</td>
<td>1,985</td>
<td>1,138</td>
<td>1,011</td>
</tr>
<tr>
<td>U.S. $M</td>
<td>49,428</td>
<td>94,252</td>
<td>35,997</td>
<td>21,452</td>
<td>17,755</td>
</tr>
<tr>
<td>Europe €M</td>
<td>N/A</td>
<td>19,691</td>
<td>9,877</td>
<td>4,514</td>
<td>3,470</td>
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<tr>
<td>Asia Pacific $M</td>
<td>1,384</td>
<td>2,730</td>
<td>3,495</td>
<td>1,011</td>
<td>1,610*</td>
</tr>
</tbody>
</table>

*Estimated

Sources: Israel - IVC, U.S./Europe - VentureOne, Asia - Asian Venture Capital Journal
<table>
<thead>
<tr>
<th>Year</th>
<th>All Offerings</th>
<th>Venture Backed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of</td>
<td>Capital raised ($M)</td>
</tr>
<tr>
<td></td>
<td>Offerings</td>
<td></td>
</tr>
<tr>
<td>1995</td>
<td>13</td>
<td>713</td>
</tr>
<tr>
<td>1996</td>
<td>27</td>
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<td>1997</td>
<td>20</td>
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<td>1998</td>
<td>14</td>
<td>871</td>
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<td>1999</td>
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<td>2000</td>
<td>33</td>
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<td>2001</td>
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<td>1,141</td>
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<td>2002</td>
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<td>2003</td>
<td>5</td>
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<tr>
<td>Total</td>
<td>139</td>
<td>14,099</td>
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Source: IVC Research Center
TABLE 2.5: CAPITAL RAISED IN EUROPEAN PUBLIC OFFERINGS OF ISRAELI COMPANIES
1995-2003

<table>
<thead>
<tr>
<th>Year</th>
<th>All Offerings</th>
<th>Venture Backed</th>
<th>Venture Backed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of Offerings</td>
<td>Capital raised ($M)</td>
<td>Number of Offerings</td>
</tr>
<tr>
<td>1995</td>
<td>1</td>
<td>6</td>
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</tr>
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<td>1996</td>
<td>5</td>
<td>44</td>
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<tr>
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<tr>
<td>1998</td>
<td>5</td>
<td>122</td>
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<td>1999</td>
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<td>2003</td>
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<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>1,116</td>
<td>19</td>
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Source: IVC Research Center
TABLE 3.1: STRATEGIC CHOICE BEHAVIOR PROPOSITIONS

<table>
<thead>
<tr>
<th>Current situation</th>
<th>Above reference point</th>
<th>Below reference point</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Satisfied ‘Sitting on top of the world’</td>
<td>Dissatisfied ‘At the bottom looking up’</td>
</tr>
<tr>
<td>Perceived of new issues</td>
<td>Threat</td>
<td>Opportunity</td>
</tr>
<tr>
<td>(Jackson and Dutton, 1988)</td>
<td>Potential loss</td>
<td>Potential gain</td>
</tr>
<tr>
<td></td>
<td>Negative</td>
<td>Positive</td>
</tr>
<tr>
<td>Organizational processes</td>
<td>Constricted</td>
<td>Open</td>
</tr>
<tr>
<td>(Staw et al. 1981; Dutton and Jackson, 1987)</td>
<td>Rigid</td>
<td>Flexible</td>
</tr>
<tr>
<td></td>
<td>Centralized</td>
<td>Decentralized</td>
</tr>
<tr>
<td>Nature of response or behavior</td>
<td>Risk – averse</td>
<td>Risk - taking</td>
</tr>
<tr>
<td>(Kahneman and Tversky, 1979)</td>
<td>Conservative</td>
<td>Daring</td>
</tr>
<tr>
<td></td>
<td>Defensive</td>
<td>Offensive</td>
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Adopted from A. Fiegenbaum et al., 1996
### TABLE 3.2: RELATED THEORETICAL PERSPECTIVES: A SUMMARY

<table>
<thead>
<tr>
<th>Theoretical perspective</th>
<th>Reference point emphasized</th>
<th>Fundamental prescription</th>
<th>Citation</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Individuals</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Groups</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Firm-wide resources</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Capabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Industry</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Key competitors</td>
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<td></td>
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<tr>
<td></td>
<td>Suppliers</td>
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<tr>
<td></td>
<td>Customers</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Stakeholders</td>
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<td></td>
</tr>
<tr>
<td></td>
<td>Interdependencies</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Past traditions</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Philosophy</td>
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<td></td>
</tr>
<tr>
<td></td>
<td>Long term purpose</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Mission</td>
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</table>
**TABLE 4.1: SUMMARY OF DIFFERENT RESEARCH PARADIGMS**

<table>
<thead>
<tr>
<th></th>
<th>Positivism</th>
<th>Constructivism</th>
<th>Critical</th>
<th>Post Structuralism</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ontology</strong></td>
<td>Reality is an actual entity that can be known</td>
<td>Reality is created by relations between</td>
<td>Reality is structured and reproduced by</td>
<td>Reality is based on power relations</td>
</tr>
<tr>
<td></td>
<td></td>
<td>subjects according to the significances</td>
<td>participants on the basis of class</td>
<td>established through discourse and changes</td>
</tr>
<tr>
<td></td>
<td></td>
<td>that the participants attribute to the</td>
<td>power relations</td>
<td>frequently</td>
</tr>
<tr>
<td></td>
<td></td>
<td>phenomena</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Epistemology</strong></td>
<td>Understanding and senses allow us to recognize</td>
<td>Understanding of reality is subjective and</td>
<td>Reality is explicitted by understanding the</td>
<td>Knowledge of reality is based on power</td>
</tr>
<tr>
<td></td>
<td>and explain reality; findings are discovered</td>
<td>relativistic; research and writing produce</td>
<td>power relations that shape human awareness;</td>
<td>and on contextual understanding of</td>
</tr>
<tr>
<td></td>
<td>through research</td>
<td>findings</td>
<td>findings are mediated by values</td>
<td>differences; findings are tentative</td>
</tr>
<tr>
<td><strong>Methodological</strong></td>
<td>Strengthening and disproving of theories</td>
<td>Findings are produced through induction,</td>
<td>Research of the historical conditions that</td>
<td>Research of the discourse in a</td>
</tr>
<tr>
<td></td>
<td>didactically; testing the relations between</td>
<td>focusing on processes occurring in complete</td>
<td>are produced in the local context of the class</td>
<td>given historical and political context and</td>
</tr>
<tr>
<td></td>
<td>individual variables</td>
<td>social units</td>
<td>structure</td>
<td>their historical progression</td>
</tr>
<tr>
<td><strong>Research objectives</strong></td>
<td>Discovering the sources of phenomena and the</td>
<td>Understanding phenomena; giving them</td>
<td>Exposing the power structures and the control</td>
<td>Understanding the way in which humans are</td>
</tr>
<tr>
<td></td>
<td>reasons for them; predicting behaviour</td>
<td>significance</td>
<td>methods at their foundation</td>
<td>established as subjects</td>
</tr>
<tr>
<td><strong>Researcher’s position</strong></td>
<td>The researcher holds the knowledge and</td>
<td>The researcher interprets the phenomena</td>
<td>The researcher is a social critic</td>
<td>The researcher has mutual relations</td>
</tr>
<tr>
<td></td>
<td>observes phenomena from the outside</td>
<td>from the inside; he or she is close to the</td>
<td></td>
<td>with the research subjects while</td>
</tr>
<tr>
<td></td>
<td></td>
<td>events and may even participate in them</td>
<td></td>
<td>reflexively examining his or her position</td>
</tr>
<tr>
<td><strong>Subject’s position</strong></td>
<td>Provides data anonymously and has no voice of</td>
<td>Presented and even sometimes participates in</td>
<td>A subject of criticism; gets a voice</td>
<td>Presented as an agent; reality is</td>
</tr>
<tr>
<td></td>
<td>its own</td>
<td>the writing; gets a voice</td>
<td></td>
<td>presented from its point of view</td>
</tr>
</tbody>
</table>
### TABLE 4.2: PROFILE OF AVERAGE PARTICIPANT BY REFERENCE POINT

<table>
<thead>
<tr>
<th></th>
<th>Group 1</th>
<th>Group 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management Perception</td>
<td>Below R.P.</td>
<td>Above R.P.</td>
</tr>
<tr>
<td>Average Age</td>
<td>42.8</td>
<td>44.25</td>
</tr>
<tr>
<td>Seniority as Managers (years)</td>
<td>16.4</td>
<td>15.3</td>
</tr>
<tr>
<td>International Experience (years)</td>
<td>13.8</td>
<td>14.2</td>
</tr>
<tr>
<td>Numbers of Markets managers were exposed to</td>
<td>9.8</td>
<td>4.75</td>
</tr>
<tr>
<td>Number of Companies managed in the past</td>
<td>2.9</td>
<td>2.2</td>
</tr>
<tr>
<td>Internationalization time to first market</td>
<td>3 – 6 months</td>
<td>18 months</td>
</tr>
<tr>
<td>Internationalization time currently</td>
<td>9 – 12 months</td>
<td>24 – 30 months</td>
</tr>
</tbody>
</table>
TABLE 4.3: DISTRIBUTION OF THE BG FIRMS BY INDUSTRY

<table>
<thead>
<tr>
<th>Industry</th>
<th>Number of Companies</th>
<th>Total</th>
<th>Managers above R.P.</th>
<th>Managers below R.P.</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT</td>
<td>3</td>
<td>0</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Medical equipment</td>
<td>3</td>
<td>1</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Internet</td>
<td>4</td>
<td>1</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Homeland Security</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Software</td>
<td>5</td>
<td>1</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Clean tech</td>
<td>2</td>
<td>0</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Mobile</td>
<td>4</td>
<td>1</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Bio tech</td>
<td>4</td>
<td>1</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Communication</td>
<td>3</td>
<td>1</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Hardware</td>
<td>3</td>
<td>1</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>32</strong></td>
<td><strong>8</strong></td>
<td><strong>24</strong></td>
<td></td>
</tr>
</tbody>
</table>
TABLE 4.4: DISTRIBUTION OF THE BG PARTICIPANTS BY POSITION

<table>
<thead>
<tr>
<th>Position</th>
<th>Managers above R.P.</th>
<th>Managers below R.P.</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Manager</td>
<td>20</td>
<td>7</td>
</tr>
<tr>
<td>V.P. Marketing</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>V.P. Business Development</td>
<td>2</td>
<td>0</td>
</tr>
</tbody>
</table>
### TABLE 4.5: ENCODING PROCESS

<table>
<thead>
<tr>
<th>Coding Family</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Links and relations between variables</td>
<td>Causes or factors, contexts, continued reactions, conditions, joint changes</td>
</tr>
<tr>
<td>Processes</td>
<td>Phases, passages, stages, steps, circularity</td>
</tr>
<tr>
<td>Measurements</td>
<td>Boundaries, extents, polarization, delineation</td>
</tr>
<tr>
<td>Dimensions</td>
<td>Divisions, sectors, layers</td>
</tr>
<tr>
<td>Types</td>
<td>Type, shape, styles, classifications</td>
</tr>
<tr>
<td>Strategies</td>
<td>Techniques, means, manipulations, tactics</td>
</tr>
<tr>
<td>Reciprocal relations</td>
<td>Mutual influences, mutual implications, joint changes</td>
</tr>
<tr>
<td>Individual identity</td>
<td>Self image, self value, social value, identity change</td>
</tr>
<tr>
<td>Decision crossroads</td>
<td>Boundaries, intersecting points, breaking points</td>
</tr>
<tr>
<td>Means and goals</td>
<td>Goals, targets</td>
</tr>
<tr>
<td>Culture and norms</td>
<td>Values, beliefs, attitudes</td>
</tr>
<tr>
<td>Consensus</td>
<td>Agreements, contracts, consensus</td>
</tr>
<tr>
<td>Central social process</td>
<td>Socialization, cultural method</td>
</tr>
<tr>
<td>Concepts that describe theory and its quality</td>
<td>Predictive strength, integration, theoretical range</td>
</tr>
<tr>
<td>Organization and channelling</td>
<td>Structural and generalization</td>
</tr>
<tr>
<td>Unit</td>
<td>Collective, organization, cluster, family</td>
</tr>
<tr>
<td>Building blocks of the theoretical crystallization process</td>
<td>Distinguishing among concepts, problems and hypotheses so as to facilitate encoding</td>
</tr>
<tr>
<td>Models</td>
<td>The model as the basis for establishing a theory; it may be linear, panoramic, interconnected etc.</td>
</tr>
<tr>
<td>Construct</td>
<td>Supporting References</td>
</tr>
<tr>
<td>-----------------------------------------------</td>
<td>---------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td><strong>Industry based Factors</strong></td>
<td>Caves (1977)</td>
</tr>
<tr>
<td></td>
<td>Bain (1956)</td>
</tr>
<tr>
<td></td>
<td>Porter (1980)</td>
</tr>
<tr>
<td></td>
<td>Crick and Spence (2005)</td>
</tr>
<tr>
<td></td>
<td>Knight and Cavusgil (2004)</td>
</tr>
<tr>
<td></td>
<td>Johanson and Mattson (1988)</td>
</tr>
<tr>
<td><strong>Resource based Factors</strong></td>
<td>Prahalad and Hamel (1990)</td>
</tr>
<tr>
<td></td>
<td>Barney (1991)</td>
</tr>
<tr>
<td></td>
<td>Oviatt and Mc Dougall (1994)</td>
</tr>
<tr>
<td></td>
<td>Autio (2005)</td>
</tr>
<tr>
<td></td>
<td>Knight and Cavusgil (2004)</td>
</tr>
<tr>
<td><strong>Institutional based Factors</strong></td>
<td>Meyer (2004)</td>
</tr>
<tr>
<td></td>
<td>McMillan (2007)</td>
</tr>
<tr>
<td></td>
<td>Ramamurti (2004)</td>
</tr>
<tr>
<td></td>
<td>Hoskisson (2000)</td>
</tr>
<tr>
<td><strong>Internationalization (Attitudinal Dimension)</strong></td>
<td>Kahnean and Tversky (1979)</td>
</tr>
<tr>
<td><strong>Attitude of top managers</strong></td>
<td>Knight and Cavusgil (2004)</td>
</tr>
<tr>
<td></td>
<td>Fiegenbaum (1996)</td>
</tr>
<tr>
<td></td>
<td>Freeman and Cavusgil (2007)</td>
</tr>
<tr>
<td></td>
<td>Xu, Cavusgil and White (2006)</td>
</tr>
<tr>
<td></td>
<td>Oviatt and Mc Dougall (1994)</td>
</tr>
<tr>
<td><strong>Entrepreneurial Capabilities</strong></td>
<td>Weerawardena and Mort (2005)</td>
</tr>
<tr>
<td></td>
<td>Knight and Cavusgil (2004)</td>
</tr>
<tr>
<td></td>
<td>Young, Dimitratos, and Dana (2003)</td>
</tr>
<tr>
<td></td>
<td>Etemad (2004)</td>
</tr>
<tr>
<td></td>
<td>Crick and Spence (2005)</td>
</tr>
<tr>
<td></td>
<td>Oviatt and Mc Dougall (1994)</td>
</tr>
<tr>
<td></td>
<td>Miller (1983)</td>
</tr>
<tr>
<td><strong>Network based factors</strong></td>
<td>Freeman and Cavusgil (2007)</td>
</tr>
<tr>
<td></td>
<td>Oviatt and Mc Dougall (1994)</td>
</tr>
<tr>
<td></td>
<td>Johanson &amp; Vahlne (2009)</td>
</tr>
<tr>
<td></td>
<td>Johanson and Mattson (1988)</td>
</tr>
<tr>
<td><strong>TCA factors</strong></td>
<td>Anderson (1997)</td>
</tr>
<tr>
<td></td>
<td>Buckley and Casson (1997;2006)</td>
</tr>
</tbody>
</table>
**TABLE 6.2: TYPOLOGY OF INTERNATIONALIZATION R.P. AMONG B.G. FIRMS**

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Managers above R.P</th>
<th>Managers below R.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Attitude towards</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Risk Innovation and proactivity</td>
<td>Perceive new issues as risks and will be risk averse, conservative and reactive</td>
<td>Perceive new issues as opportunities and will be risk seeking, proactive and innovative</td>
</tr>
<tr>
<td>Pace of Internationalization</td>
<td>Moderate and multi-stage internationalization process slows over time, with the managers’ increasing knowledge of the markets acting as a mediating factor</td>
<td>Rapid pace of internationalization slows over time, with the managers’ increasing knowledge of the markets acting as a mediating factor</td>
</tr>
<tr>
<td>Product development</td>
<td>Will focus on protecting … and continued improvement of existing products and technologies</td>
<td>Will be involved in continual development of new products</td>
</tr>
<tr>
<td>Business models and Distribution and marketing channels</td>
<td>Rely on existing business models and distribution and marketing channels</td>
<td>Involved in continual development of business model and distribution and marketing channels</td>
</tr>
<tr>
<td>Risk management</td>
<td>Invest reserves and utilize an actively defensive risk management strategy</td>
<td>Show little awareness of risk and will not adopt risk management strategies</td>
</tr>
<tr>
<td>Product and communication adaption</td>
<td>Adopt a strategy of direct product extension</td>
<td>Will be active and flexible in their ability to adapt products for different markets</td>
</tr>
<tr>
<td>Organizational learning</td>
<td>Block access to knowledge and avoid sharing it with their network</td>
<td>Learn and share knowledge and abilities within the network, and allocate resources and develop learning mechanisms</td>
</tr>
<tr>
<td>Network evolution</td>
<td>Use only Personal Network, Use of Advanced Technology and Client Followership</td>
<td>Use Collaborative Partnership and Multiple Modes of Entry on top of Personal Network, Use of Advanced Technology and Client Followership</td>
</tr>
<tr>
<td>Resource dependency</td>
<td>Using existing technology as a driving force in their internationalization</td>
<td>Develop strategic capabilities as a driving force for internationalization</td>
</tr>
<tr>
<td>Positioning strategies</td>
<td>Be aware of competitive pressures and will use strategies of differentiation, cost leadership and focus</td>
<td>Focused on maintaining the status quo and will, therefore, use a defensive strategy and rarely use positioning strategies</td>
</tr>
<tr>
<td>Institutional strategies</td>
<td>Use many institutional factors in deciding which foreign market to enter</td>
<td>Make little or no use of institutional factors when entering a foreign market</td>
</tr>
<tr>
<td>Intellectual properties</td>
<td>Stress factors of a regulatory system and intellectual property protection</td>
<td>Will emphasize different strategic factors and rarely use factors of a regulatory system and intellectual property protection</td>
</tr>
<tr>
<td>Reputation</td>
<td>Emphasize reliability and reputation</td>
<td>Stress factors such as the partner’s accessibility to the market, sales and service capabilities, and ability to ‘open doors’</td>
</tr>
</tbody>
</table>
Appendix V: Charts

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Appendix V: Charts

CHART 2.1: ISRAELI HIGH TECH SALES AND EXPORTS ($M)

Source: Israel Association of Electronics & Information Industries
CHART 2.2: SALES BY INDUSTRY GROUP 2003 ($13,170M)

Source: Israel Association of Electronics & Information
CHART 0.1: EXPORT BY INDUSTRY GROUP 2003 ($10,870M)

Source: Israel Association of Electronics & Information Industries
CHART 2.4: AVERAGE SALARY OF SOFTWARE AND SYSTEMS ENGINEERS (US$ 2001 DATA) SILICON VALLEY VS. ISRAEL

Source: The Economist Global Salary Survey, 2006
CHART 0: PERCENTAGE OF ICT EMPLOYMENT OF TOTAL BUSINESS SECTOR EMPLOYEES (2001)

Source: Ministry of Industry and Trade

Source: Israel Association of Electronics & Information Industries
Appendix V: Charts

CHART 2.7: NUMBER OF ENGINEERS PER 10,000 EMPLOYEES (2001)

Source: Ministry of Industry and Trade
CHART 2.8: PUBLICATION IN LEADING LIFE SCIENCE JOURNALS PER 1,000 INHABITANTS (1999)*

<table>
<thead>
<tr>
<th>Country</th>
<th>Publications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>14</td>
</tr>
<tr>
<td>Canada</td>
<td>16</td>
</tr>
<tr>
<td>UK</td>
<td>26</td>
</tr>
<tr>
<td>Israel</td>
<td>29</td>
</tr>
<tr>
<td>USA</td>
<td>48</td>
</tr>
</tbody>
</table>

* no major changes were recorded

Source: Ministry of Industry and Trade
CHART 2.9: STUDENTS MAJORING IN HIGH TECH FIELDS

Source: Israel Association of Electronics & Information Industries
CHART 2.10: AMOUNT RAISED BY ISRAELI COMPANIES BY STAGE (%)
CHART 2.11: ISRAEL AND U.S. VENTURE CAPITAL FUND RAISING 2000-2003

*Amount before returns
Source: VC Research Center

*Amount before returns
Source: IVCA/Thomson Venture Economics
CHART 2.12: CAPITAL RAISED BY ISRAELI HIGH-TECH COMPANIES VS. THE NASDAQ COMPOSITE INDEX

Source: IVC Research Center/NASDAQ
CHART 2.13: CAPITAL RAISED BY HIGH TECH COMPANIES (ISRAEL VS. EUROPE)

Source: IVC Research Center, VentureOne
CHART 2.14: CAPITAL RAISED BY HIGH TECH COMPANIES (ISRAEL VS. ASIA PACIFIC)

* Asia 2003: Estimated
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FIGURE 4.1: REDUCING PHRASES, CLUSTERING AND CREATING SUB-CATEGORIES

<table>
<thead>
<tr>
<th>Intermediate steps</th>
<th>Step 2 Clustering</th>
<th>Step 3 Sub Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>Example of reduced phrases</td>
<td></td>
<td></td>
</tr>
<tr>
<td>This created a situation in which we are all alone even if we would like to collaborate there is no one, so it forced us to set up overseas sales force</td>
<td>Know how</td>
<td></td>
</tr>
<tr>
<td>You have no integration between the two ...so we had to assemble it ourselves</td>
<td>Distribution</td>
<td></td>
</tr>
<tr>
<td>Since we’re lucky that our partner’s are very large global companies located all over the world.</td>
<td>Organizational contacts</td>
<td></td>
</tr>
<tr>
<td>Their strength lies in the fact that they attract high quality caliber staff</td>
<td>Personal contacts</td>
<td></td>
</tr>
<tr>
<td>They are great for only a certain type of company that is looking to develop technology and less in the need for marketing buzz</td>
<td>Knowledge exchange</td>
<td></td>
</tr>
<tr>
<td>Because regulation there are states where operators are not allowed to advertise</td>
<td>Regulatory</td>
<td></td>
</tr>
<tr>
<td>Because this is the law</td>
<td>Legal aspects</td>
<td></td>
</tr>
<tr>
<td>We were the only ones focused and that’s what saved us</td>
<td>Strategic mind set</td>
<td></td>
</tr>
<tr>
<td>So the DNA of this company was built according to this philosophy</td>
<td>Unique assets</td>
<td></td>
</tr>
<tr>
<td>I have relative advantage in several places and that’s what distinguish us</td>
<td>Intelligible capabilities</td>
<td></td>
</tr>
<tr>
<td>We had no reputation that could have been destroyed</td>
<td>Reputation</td>
<td></td>
</tr>
<tr>
<td>Our advantage today is our knowledge and branding capabilities</td>
<td>Strategic Capability</td>
<td></td>
</tr>
<tr>
<td>I’m not in their ...., I take myself out of the game against them</td>
<td>Marketing Positioning</td>
<td></td>
</tr>
<tr>
<td>I chose a ....</td>
<td>Risk Management</td>
<td></td>
</tr>
<tr>
<td>From the beginning all our patent requests were for all the countries in the world</td>
<td>Organizational learning</td>
<td></td>
</tr>
<tr>
<td>We made an implementation which took a week instead of 20 days, so let’s learn how to do it again</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
FIGURE 4.2: CREATING CATEGORY

- Strategic Capability
- Learning Capability
- Strategic thinking Capability
- Risk Management Capability
- Synergy of Organization units
- Absorption Capabilities

Category

Sub Category

Clustering of Reduced Phrases

Core

Management perception of their company R.P

RBV
FIGURE 4.3: CREATING SUB CORE CATEGORIES AND CORE CATEGORY

Categories
- TCA
- Industry Based View
- Institutional approach
- Network approach
- RBV

Sub Core Category Level I
- Innovative approach
- Fast Int. pace
- Proactive approach

Sub Core Category Level II
- Using Product/Strategy Adaption
- Not using Risk Management Strategies
- Using Organizational Learning

Core Category
- Management Perception of their firm R.P.
Internationalization Pace decreases with time
FIGURE 6.1: TYPOLOGY

Management Perception of their company, Reference Point

Above R.P.
Risk Averse
Passive approach
Not Using Risk Management Strategies
Not Using Organizational Learning
Not Using Product/Strategy Adaptation
Not Using Organizational Learning
Institutional Approach

Below R.P.
Risk Taker
Fast Int. pace
Innovative approach
Using Product/Strategy Adaptation
Using Organizational Learning
Using Risk Management Strategies

Network Approach
RBV
Industry Based View

TCA
Institutional Approach

Reputation
Know how
Marketing
Components
Distribution
Regulatory
Legal Aspects
Ethical Norms

Advanced
Collaborative
Strategic
Unique Assets
Intangible
Tangible
Cost Leadership
Differentiation
Niche Strategy

Internationalization Pace decreases with time