Young Firm Internationalization: Five Survival Secrets

Any firm that's tried to expand abroad knows the promise of booming sales in new markets can also bring critical new risks. What characterises companies that survive the adventure of expanding beyond their home? This is the focus of original research recently published in the International Small Business Journal by R. Coeurderoy of ESCP Europe and BMI founding partner Louvain School of Management in Belgium with M. Cowling and G. Murray of the UK's University of Exeter Business School and G. Licht of Germany's Centre for European Economic Studies.

Experience and past research show that internationalisation is a double-edged sword. The benefits of exploiting new markets come with additional risks and costs that are hard to plan. It's not just about figuring out how to transfer your home-based competitive advantage to foreign markets. You also have to quickly get new knowledge and skills to manage logistics, labour, etc. in unfamiliar territory, to assess exposure to economic conditions in a broader context and to defuse potential threats such as intellectual property theft. In general, being 'foreign' sharply increases the challenge of being 'new' to a market.

Prof. Coeurderoy and his co-authors examine some 600 young firms (5-11 years old) from the UK and Germany in new technology fields. Surveys explore the firms' international experiences, focusing on how survival rates during foreign expansion relate to the (a) knowledge-intensity of operations, (b) relationships with customers and others, and (c) commitment to foreign markets in terms of revenue share, number of markets and entry model. Controlling for factors such as company size and managers' international experience, they obtain statistically significant results with practical managerial implications. We summarise some of their most interesting findings in the following five recommendations:

1. All or nothing – choose one. Firms that centre their strategy on international expansion and, conversely, firms that clearly choose to prioritise the home market, are more likely to survive than firms internationalising on a limited scale, according to this study. At least for young firms, it seems trying to balance attention between home and foreign markets means splitting management and other resources, with the risk that neither will get enough.

2. Don't rush to put boots on the ground. Companies that enter foreign markets by direct exporting, using a foreign distributor or using a foreign agent are significantly more likely to survive that those that set up foreign subsidiaries or rely on licensing. Young firms probably shouldn't initially burden themselves with big sunk costs when agents or distributors with local market knowledge and incentives can usually sell more there and channel the most useful information back from customers to the producer.

3. Build a safety net of relationships. Having interdependent relationships, with customers especially, increased survival chances for these companies. Mutual obligations and complementary resources create common interests that motivate partners to help you.

4. Don't put all your foreign eggs in one basket. Survival probabilities for the firms in this study increased as they were able to extend operations across additional countries, with the most significant beneficial effect linked to each of the first four countries entered. The authors note that this is consistent with the logic of risk diversification. It also may reflect a 'learning-by-doing' process, where entry into successive international markets is easier and less costly than entering previous ones. Results also showed lower survival for firms whose first foreign market was the USA, suggesting it is more risky to begin internationalisation from markets that are especially tough, even if they offer big opportunities.

5. Keep up R&D to keep your advantage. One of the key findings is that firms which constantly engage in research and development activity are much more likely to survive than those who do R&D only occasionally. This is consistent with theories that investments in knowledge help newly internationalising firms develop and adapt. It shows that exploiting knowledge resources to create and maintain competitive advantage is of great importance for international success.

By Bryan P. Bradley, BMI, based on: Regis Coeurderoy, Marc Cowling, Georg Licht and Gordon Murray. Young firm internationalization and survival: Empirical tests on a panel of 'adolescent' new technology-based firms in Germany and the UK. International Small Business Journal, 2012: Vol. 30, No. 5, pp 472-492.

Regis Coeurderoy is Professor of Strategic Management and Entrepreneurship at ESCP Europe and the Louvain School of Management in Belgium. After leading LSM's Centre of Research in Entrepreneurial Change and Innovative Strategies, he is now Director of the Institute for Innovation and Competitiveness at ESCP Europe. His research interests centre on international entrepreneurship and the governance of innovation.

Marc Cowling is Professor of Management at University of Exeter Business School. His research centres on the economics of small business with a strong interest in the econometric evaluation of public policies.

Georg Licht is Head of the Department of Industrial Economics and International Management at the Centre for European Economic Policy (ZEW) in Karlsruhe, Germany. His interests focus on how government may intervene effectively via economic policy instruments, particularly in the key areas of innovation and R&D.

Gordon Murray, Emeritus Professor of Management at the University of Exeter Business School, has conducted policy research and evaluations on the financing of early-state entrepreneurship and innovation at the request of governments including the UK, Australia, Denmark, Finland, Ireland and New Zealand. He created the original Anglo-German Foundation long-term study of internationalising businesses in 1997.