International Entrepreneurship: Competing and Learning in a Flat World

Celebration of the 10th Anniversary of
Department of Management Science and Technology
Athens University of Economics and Business

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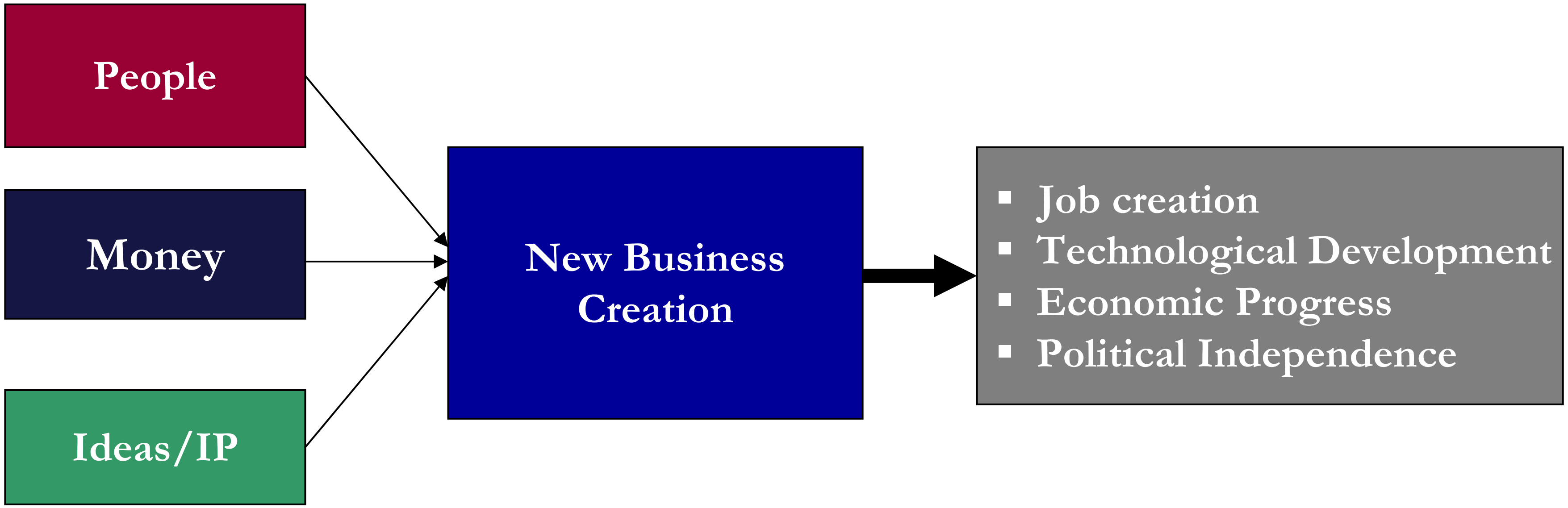
Agenda

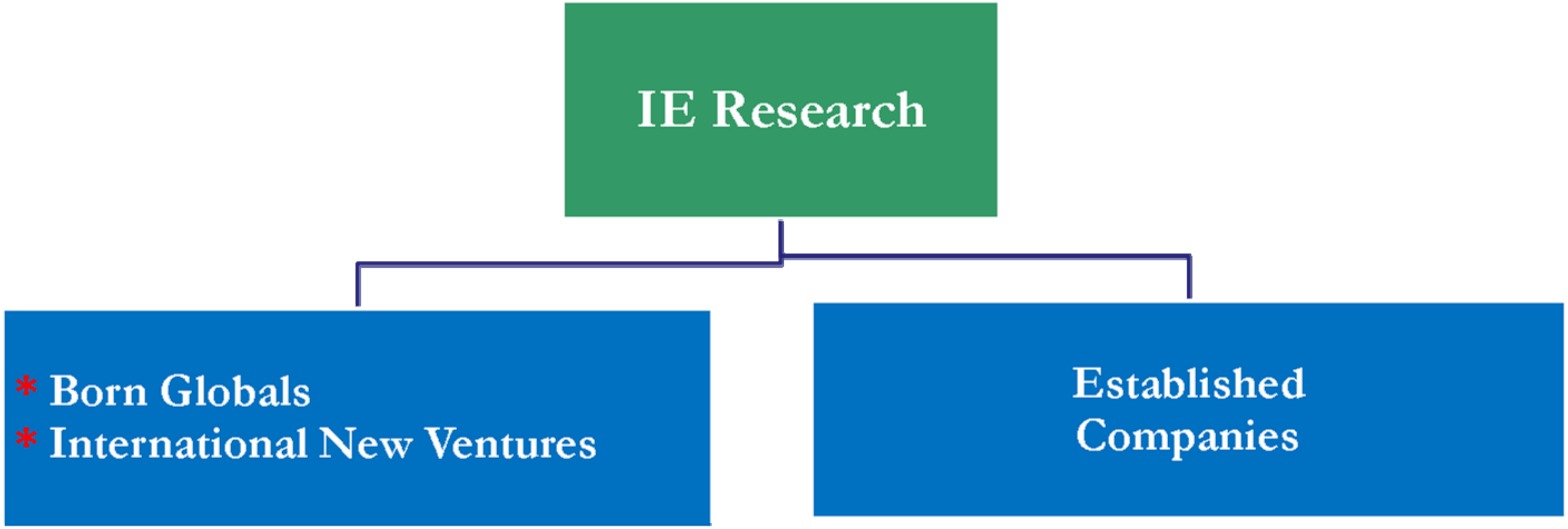
- Competition in a flat world: global innovation networks.
- International entrepreneurship reframed.
- Internationalization and new ventures:
  - Ownership & management
    - Mobility and immigration
  - Operations
  - Venture capital
- Dynamics of learning in a flat world
- Research Opportunities
- Conclusion

International Entrepreneurship is:
the movement of people, capital, ideas and intellectual property across borders to create new businesses.



International Entrepreneurship (IE)

the "process of creatively discovering and exploiting opportunities that lie outside a firm's domestic markets in the pursuit of competitive advantage…"



Types of International New Ventures [INVs]

# of International Activities Coordinated	# of Countries Involved: Few	# of Countries Involved: Many
Few	Import/ Export Start-Up	Multinational Trader
Many	Geographically Focused Start-Up	Born Globals

Oviatt & McDougall, 1994

Changing Patterns of Global “Trade”

Destination	Venture Country of Origin	
	Advanced	Emerging
Advanced	#1	#3
Emerging	#2	#4

#s 1 & 2 : the traditional focus of study
4 : Less studied
3 : Growing Interest

Emerging Economies

- Emerging economies
  - 80% of the world population
  - 20% of worldwide wealth
  - Focus on catching up & economic development
  - Wealth accumulation is rapid.

Some Illustrative Trends

- 2571 new ventures [Companies less than 6 years of age]
- This represents 21% of firms targeted in:

  - Argentina
  - Belgium
  - Brazil
  - China
  - Czeck
  - Finland
  - France
  - Germany
  - India
  - Poland
  - South Africa
  - Sweden
  - UK
  - US

Target Markets: First 5 Years [n=2571]

Destination	Country of Origin	
	Advanced	Emerging
Advanced	42%	11%
Emerging	23%	24%

of Country-Markets Entered within the First 5 Years [n=2571]

Destination	Country of Origin	
	Advanced	Emerging
Advanced	1.9	2.4
Emerging	4.1	2.7

Country of Origin & Sources of Revenues: First 5 Years [n=2571]

Destination	Country of Origin	
	Advanced	Emerging
Advanced	57%	22%
Emerging	43%	77%

Manufacturing Locations: First 5 Years [n=2571]

Destination	Country of Origin	
	Advanced	Emerging
Advanced	60%	19%
Emerging	40%	81%

Marketing & Distribution: First 5 Years [n=2571]

Destination	Country of Origin	
	Advanced	Emerging
Advanced	55%	38%
Emerging	45%	62%

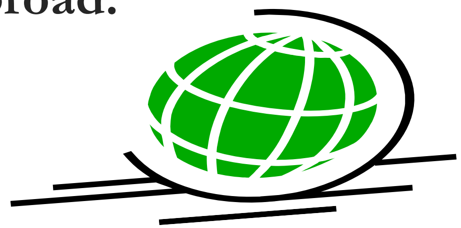
% Foreign Ownership: First 5 Years [n=2571]

Destination	Country of Origin	
	Advanced	Emerging
Advanced	17%	3%
Emerging	12%	15%

Multinational Corporations (MNCs)

Basic Statistics

- Over 77000 parent MNCs with 770,000 affiliates
- Responsible for:
  - 50% of world GDP.
  - 75% of world commodity trade
  - 80 % of world technology transactions
- Many MNCs conduct a high % of their R&D abroad.



MNCs Help Promote Local Entrepreneurship

- Local entrepreneurship= creation of new companies *and* expansion of existing ones.

How do MNCs Stimulate Local Entrepreneurship?

- **Demonstration effect**
  - Locating unfilled market needs
  - Legitimizing
  - Promoting Vicarious learning
- **Creating a cadre of potential entrepreneurs**
  - Socialization (via training)
  - Learning by doing
  - Employee exits & Connections

Different Types of Local Entrepreneurship

Dimension		Absorptive Capacity	
		Low	High
MNC Knowledge Flows	Tacit	Copycats	Competing
	Explicit	Ancillary	Symbiotic

[11 Countries, 89 MNCs, 1307 new ventures; 291 closely linked to MNEs]

Different Types of Local Entrepreneurship

Dimension		Absorptive Capacity	
		Low	High
MNC Knowledge Flows	Tacit	Copycats [28 to 33%]	Competing [02 to 07%]
	Explicit	Ancillary (46 to 31%) ↓	Symbiotic [23 to 29%]

- Five Years ago
- Current

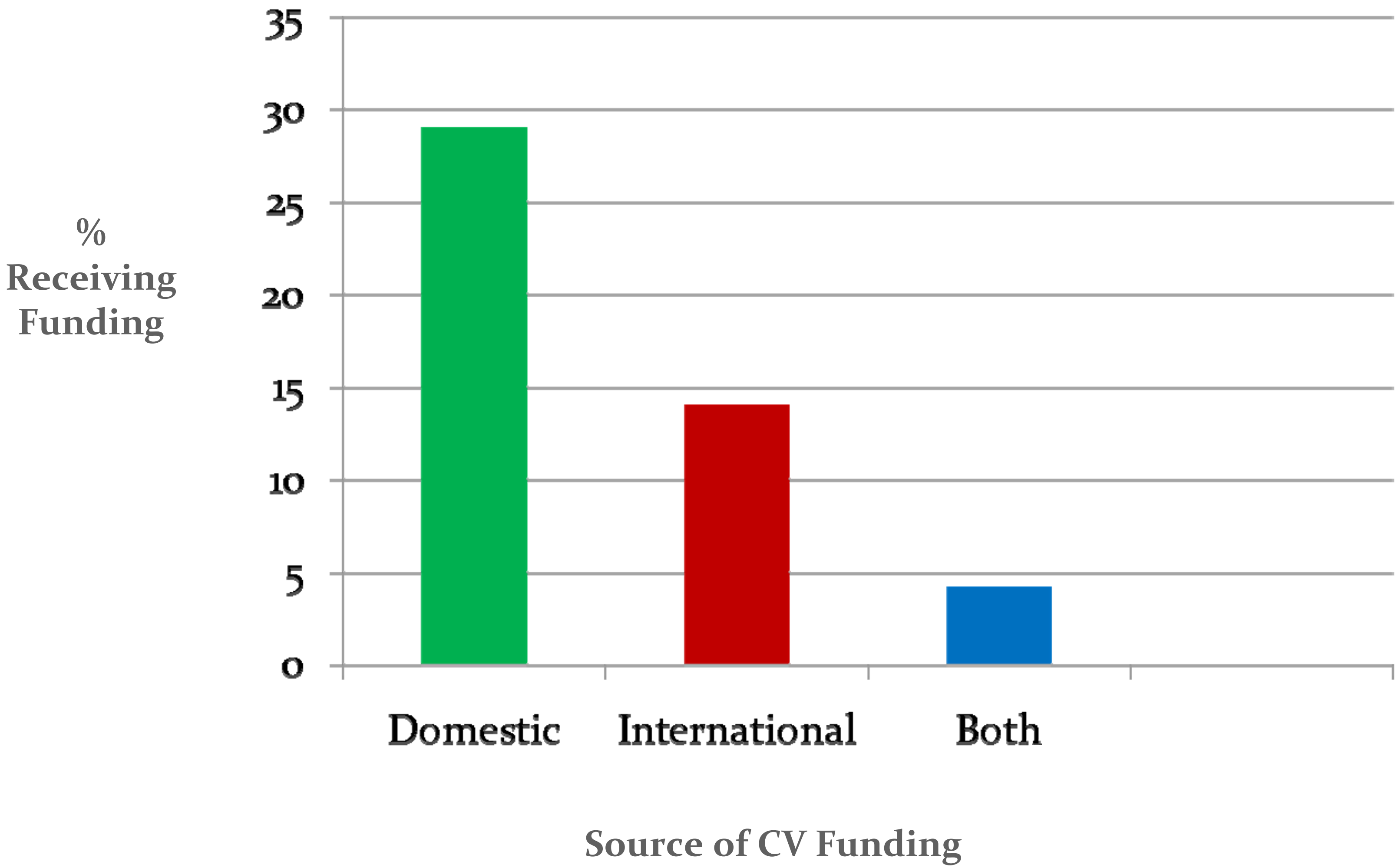
Internationalization of Venture Funding

Internationalization of Venture Capital Funding

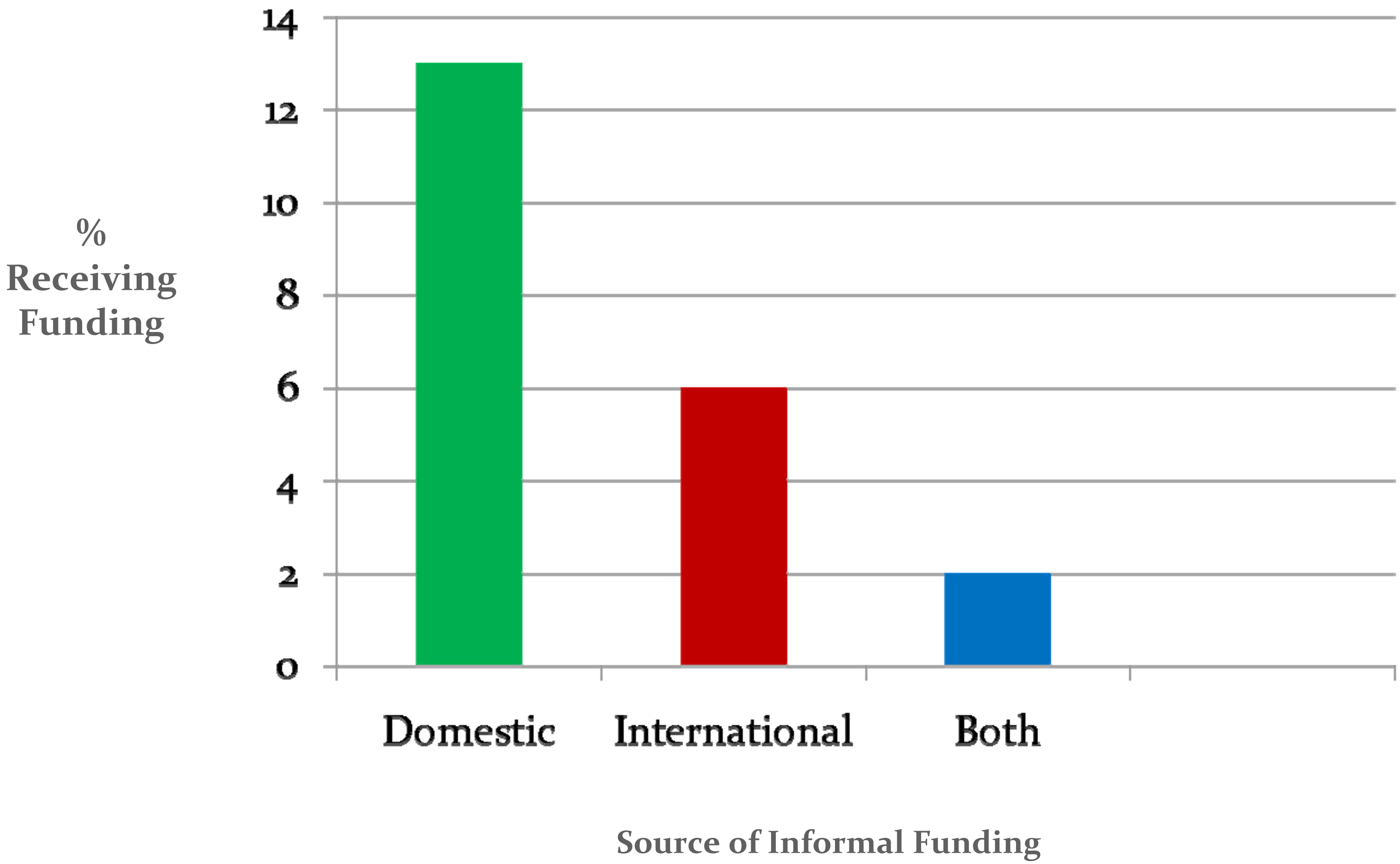
- Cross-border VC has increased from 15 % (in the early 1990s) to >40% in 2008.
  - VCs from other countries are active in funding start-ups, even in the US.
  - VC flows from countries with high-end human capital.
- High tech industries receive lion's share of VC deals
- Most VC deals are "local;" distance is negatively associated with deal value.
- Closer social ties (e.g., language) is positively associated with deal value.
- Key (net) importers of VC include: France, Israel, Canada, India & PRC (the largest net importer after 2003).

Aizenman & Kendell, 2008; Gompers & Lerner, 2001; Guler . 2003, 2005, 2007, 2008; Lerner, 2001; Patricof, 1989; Wright et al., 2005)

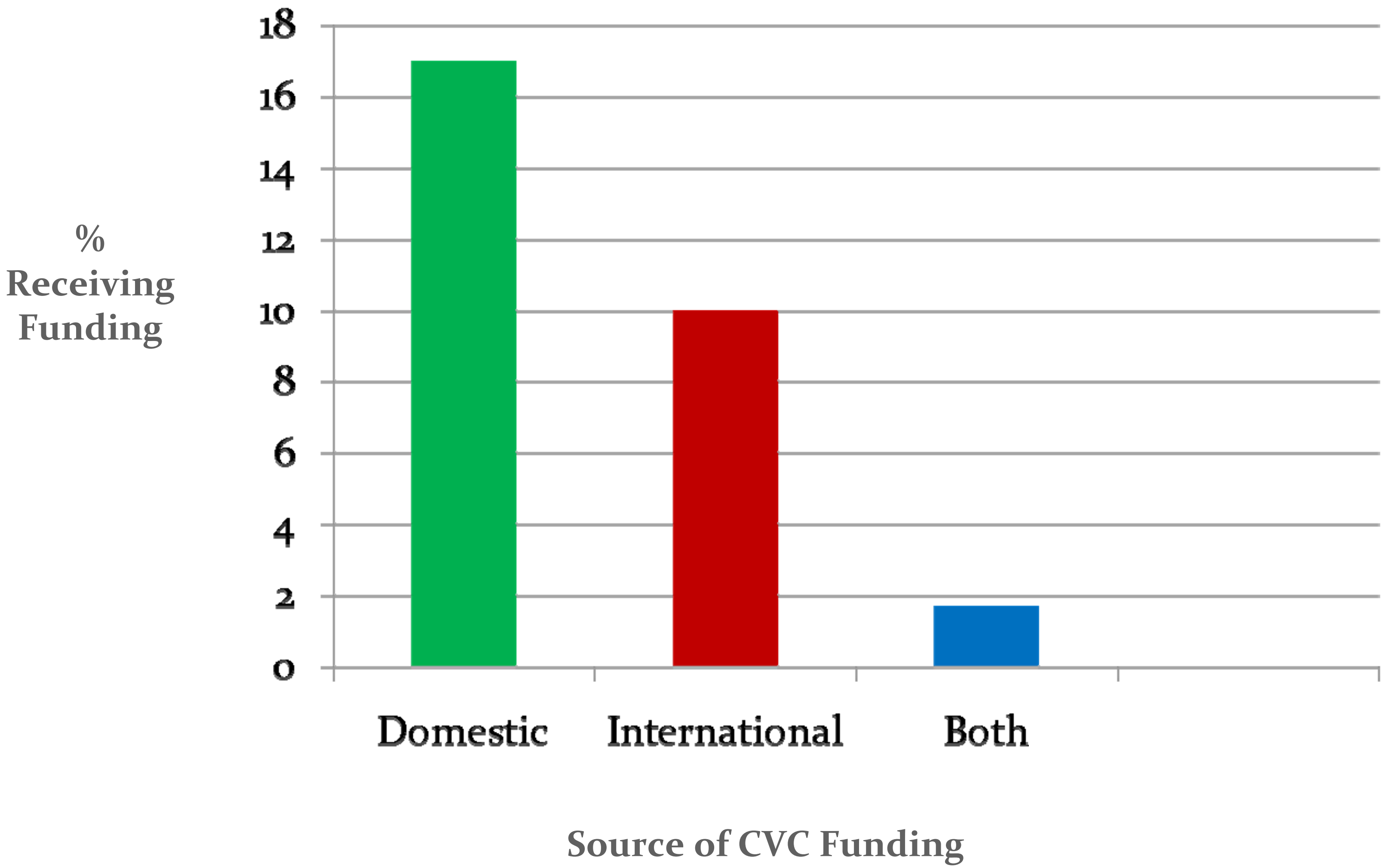
Internationalization of Traditional Venture Capital (CV) [n=2571]



Internationalization of Informal Funding [n=2571]



Internationalization of Corporate Venture Capital (CVC) Funding [n=2571]



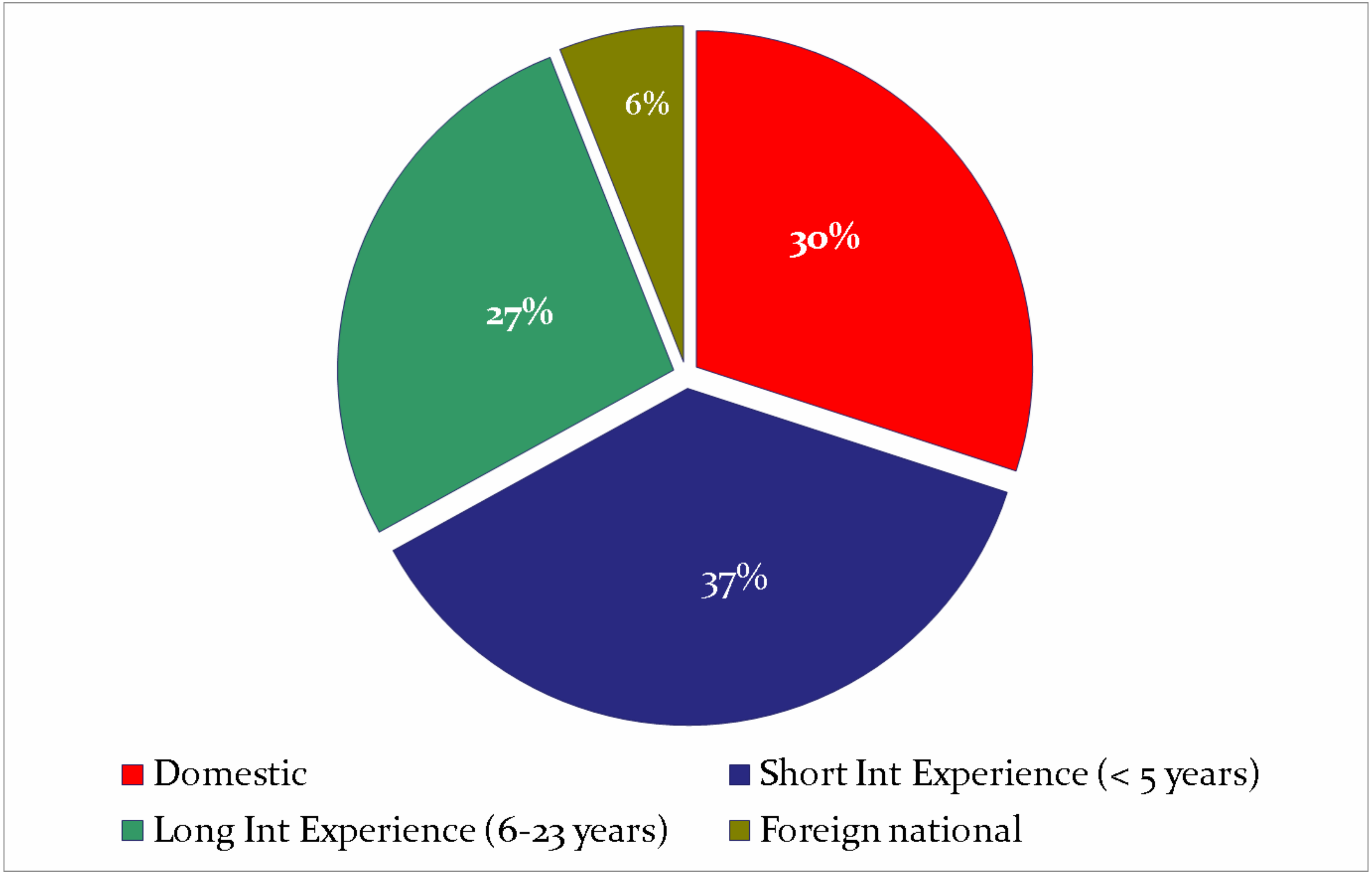
Mobility & Immigration

- **Employee mobility & immigration provide the intellectual and human capital necessary to start and grow new businesses.**

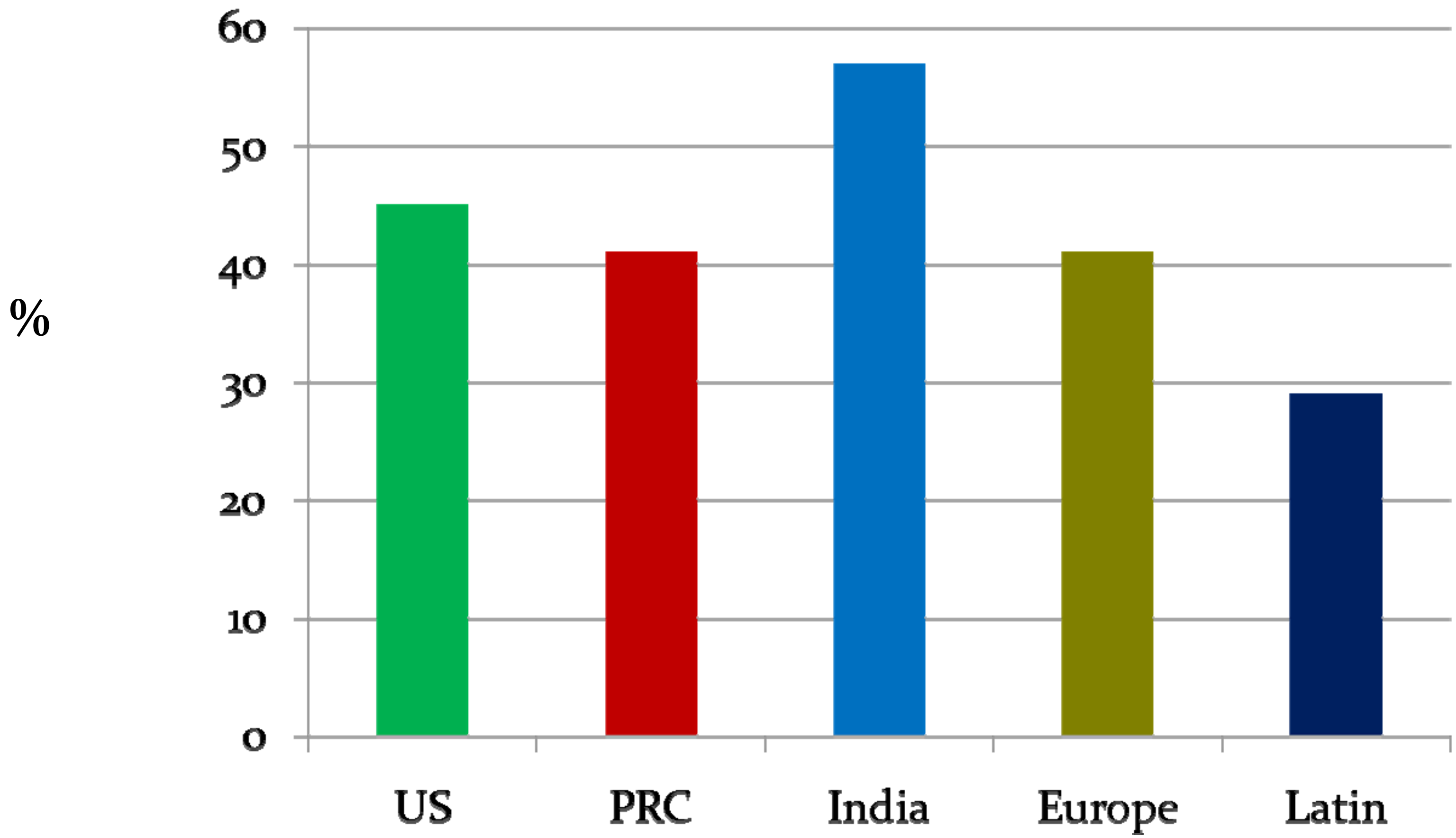
Movement of People: Mobility & Immigration

- Employee Mobility:
  - Immigrant Skilled Labor
  - International Experience
    - Abroad
    - With Foreign companies but in domestic market
- Immigration
  - Sometimes, out of necessity
  - Some countries "skim" the best talent, attracting the best trained immigrants
    - These are the ones who create high potential, high growth companies.

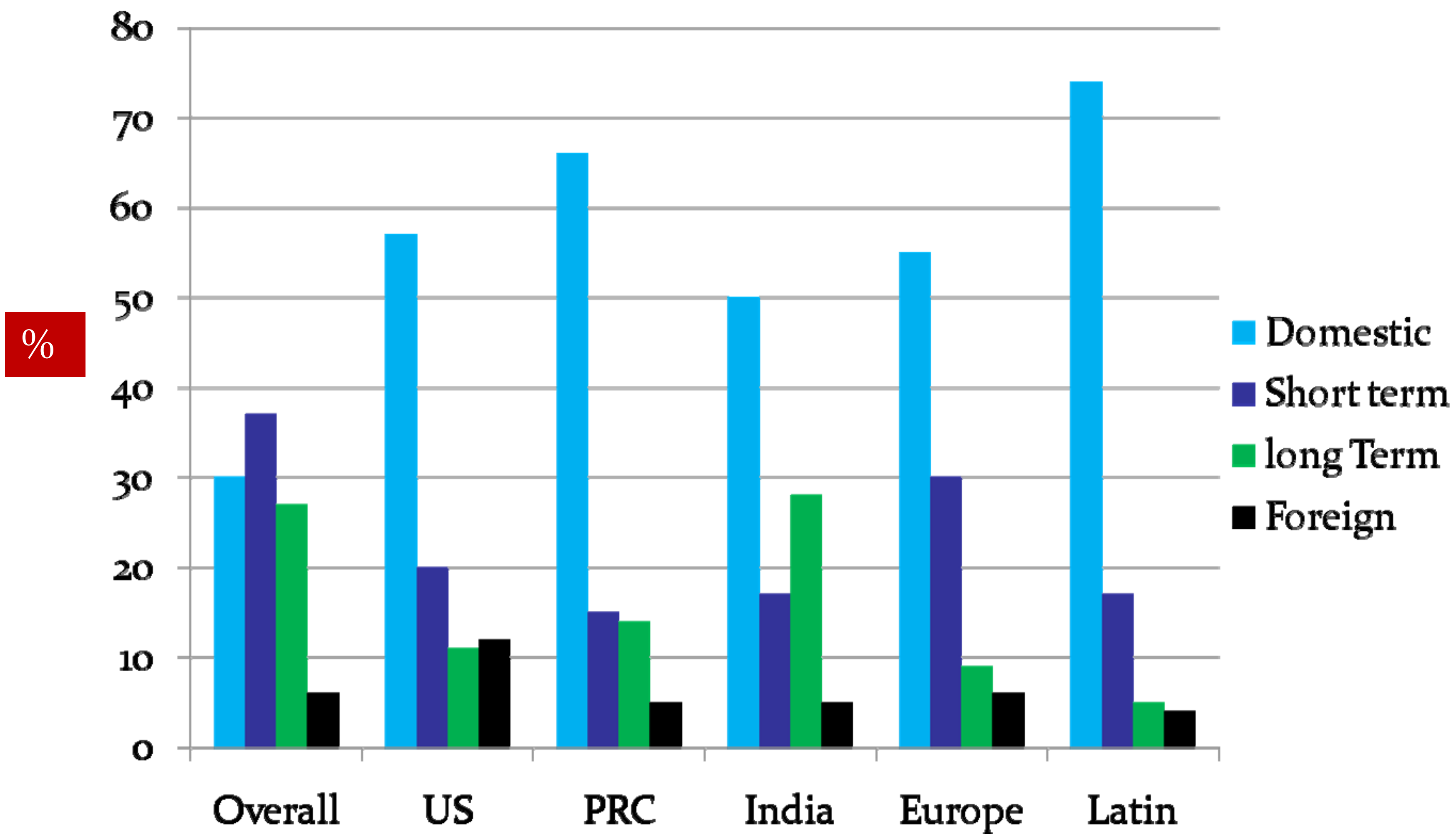
Founders of Born Global Ventures



Ventures with TMTs With >1 Members with international experience (n=2571)



International Experience Founders of Born Globals [n=2571]



Immigration & Entrepreneurship

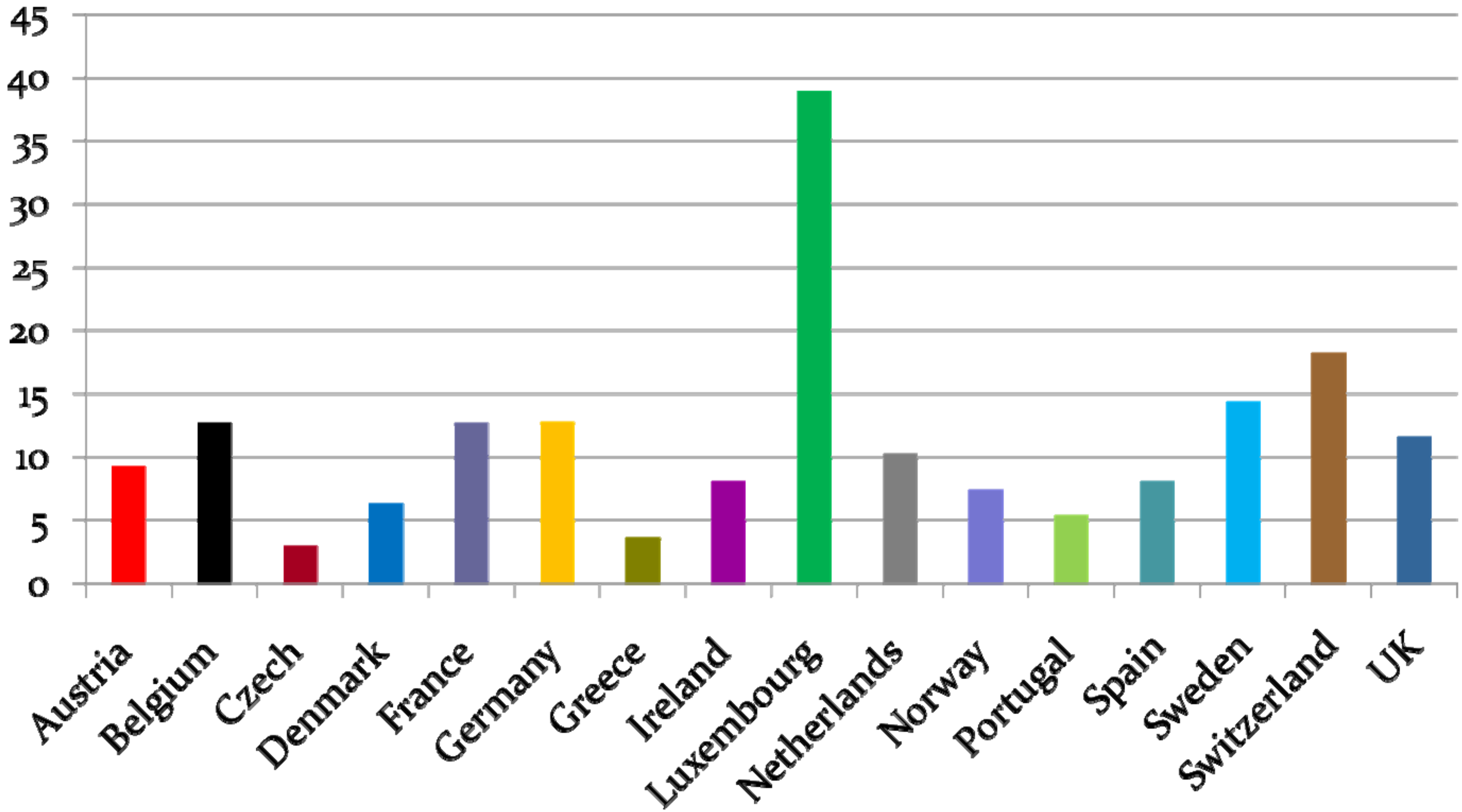
- Immigrants create more new jobs than native US born, according to the GEM database.
  - 25% of US-based tech companies created between 1995-2005 had one or more foreign-born founder(s).
    - This rate was higher in the Silicon Valley (=52%)
  - Immigrant founded companies produced $52 billion in sales (2005)
    - Same companies hired 450,000 employees.
  - Most founders came to the US for study (52%); only 1.6% came to create businesses.

Immigration & Entrepreneurship

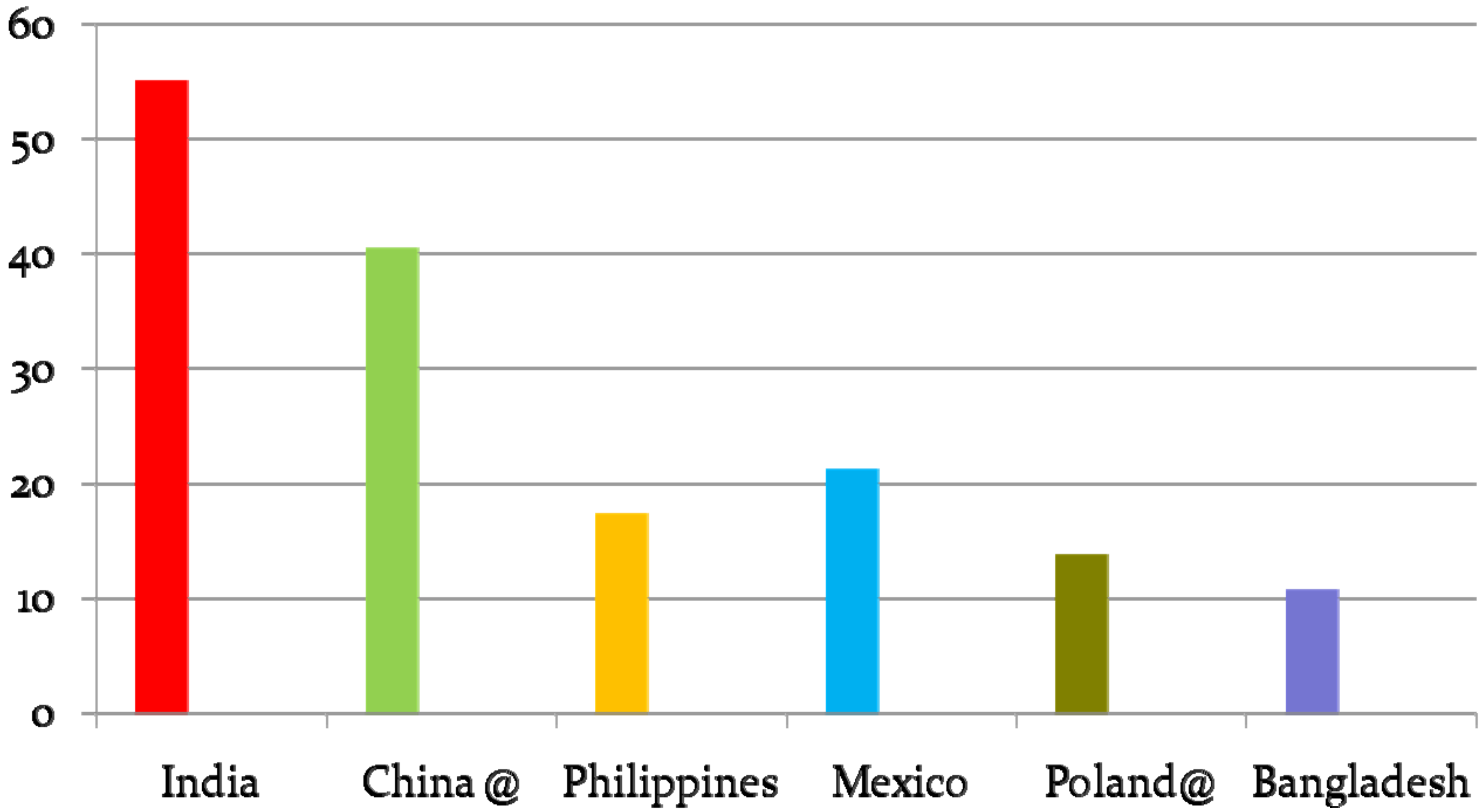
- FDI flows follow immigration routes: immigrants serve as linking pins and conduits for the flow of capital.

- Immigrants move into and out of business ownership at much higher rates than non-immigrants:
  - Some sell the business & retire
  - Some return to their native countries.

% of Foreign Born who are Self Employed



Remittances (in US$ billion)



All data are for 2009 except those followed by@; they are for 2008

Immigration & Entrepreneurship

Native Country

- Capital:
  * Remittance
  * FDI Flow
- Skills
- Connections

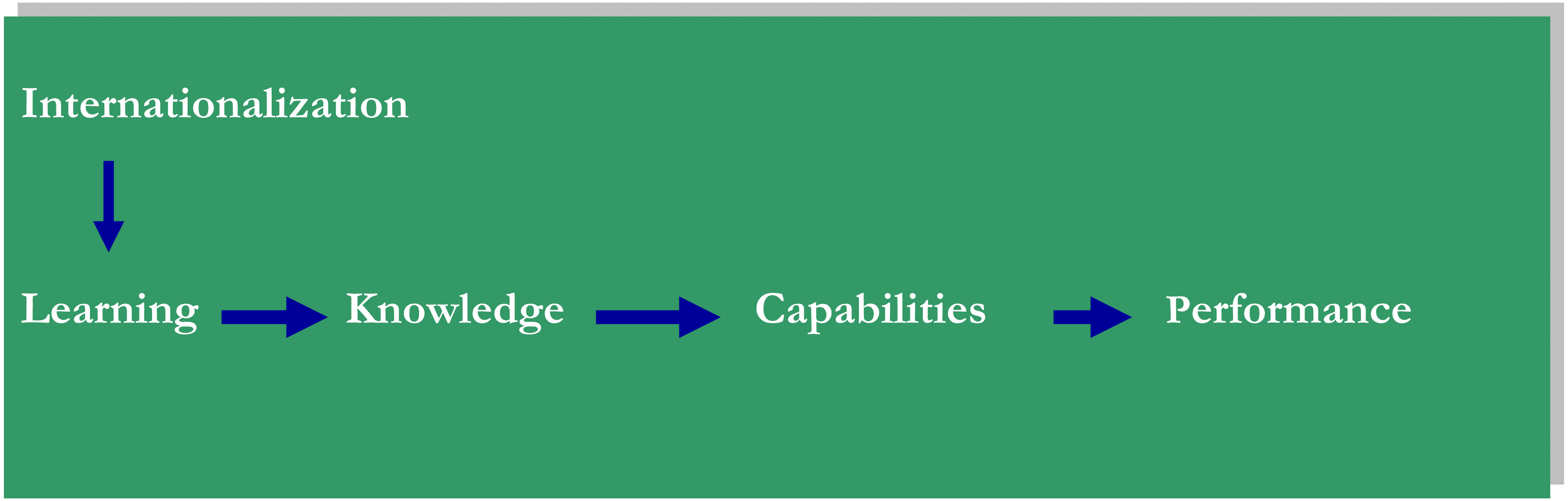
Immigrants

Adopted country

- Skills
- Capital
- Opportunities

Learning in a Flat Economy

Internationalization & Learning



Learning in International Markets

- More than technological learning:
  - Market
  - Social
  - Organizing

- Need to engage in multi-faceted learning and do so quickly.

- Multiple Sources (Other companies, MNEs, Networks)

- 3 Critical Requirements:
  - Social Capital
    - Boundary Spanning Roles
  - Absorptive Capacity
  - Knowledge Integration

Learning Advantages of Newness

- New companies have advantages over established companies in learning in international markets:
  - Unfettered by history/ inertia
  - Managers are heavily involved
    - Learn by doing
    - Learn by observing.
  - New ideas do not clash with existing power structures

Research Opportunities

- Should we rely on the free market in the creation of new firms?
  - How can we develop entrepreneurial skills?
    - How can we increase the supply of entrepreneurs?
  - What if there is market failure?
  - What is the role of (national) entrepreneurial policy?
- How can we balance social & other types of profit-seeking ventures?
- In what ways do we need to re-examine immigration policies to attract and retain talented entrepreneurs?

Conclusion

- **Better to view *international entrepreneurship* as: the movement of people, capital, ideas and intellectual property across borders to create new businesses.**

- **Newly born companies reflect the new flat world in terms of ownership, knowledge base, supply chain, management styles, and business models.**

- **These new start-ups are also the creators of change, working with other companies (new and established) to keep global innovation networks vibrant and productive.**