Drivers and strategies of international new ventures from a Central European transition economy*

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This paper contributes to SME internationalization theory by offering region-specific propositions on early internationalization of Central and Eastern European (CEE) firms. We suggest that special treatment of international new ventures from CEE transition economies is justified due to constraints faced by their founders, particularly not only limited financial resources but also relatively low human and social capital. We propose that some of the region-specific drivers which contribute to early internationalization involve domestic market entry barriers and arbitrage opportunities related to the higher purchasing power of consumers from developed economies. Additionally, we find that in order to overcome resource limitations, CEE international new ventures apply effectuation and bricolage to exploit controlled resources and flexibly adapt to the market situation.

Dieser Artikel trägt zur Theorie der Internationalisierung von KMU mittels regional spezifischer Aussagen über die frühe Internationalisierung mittel- und osteuropäischer Unternehmen bei. Die spezielle Behandlung der 'international new ventures' in diesen Volkswirtschaften erscheint aufgrund von spezifischen Einschränkungen für ihre Gründer, vor allem aber aufgrund von begrenzten finanziellen Mitteln und geringem Human- und Sozialkapital gerechtfertigt. Die regional spezifischen Treiber, die zur frühen Internationalisierung beitragen, schließen inländische Markteintrittsbarrieren und Arbitrage-Möglichkeiten in Bezug auf die höhere Kaufkraft der Verbraucher aus den entwickelten Volkswirtschaften mit ein. Darüber hinaus nutzen die 'international new ventures' der Region Effektuierung und Bricolage, um Einschränkungen im Bereich der Ressourcen zu überwinden, die kontrollierten Ressourcen zu nutzen und sich flexibel an die Marktsituation anzupassen.

Key words: Internationalization, International new ventures, SMEs, Transition economies, Effectuation, Bricolage

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Introduction

While the number of studies dealing with early and rapid internationalization of small and medium-sized firms has grown substantially over the past twenty years (Szyliowicz/Galvin-2010; Jones et al. 2011; De Clerq et al. 2012; Cesinger et al. 2012; Casillas/Acedo 2012), most of them focus on firms from highly developed countries, such as the US, Scandinavia, Switzerland, Canada, UK, Spain, Australia or New Zealand (Rennie 1993; Jones 1999; McAuley 1999; Andersson/Wictor 2003; McDougall et al. 2003; Rialp et al. 2005b; Coviello 2006; Gassmann/Keup 2007; Crick 2009). Studies referring to emerging economies have started appearing only recently and, in great part, they relate to the BRICs (Zhou 2007; Zhang et al 2009; Majumdar et al 2010; Naudé and Rossouw 2010; Wood et al 2011). Studies concerning early internationalization of SMEs from transition economies and particularly from Central and Eastern European (CEE) countries are still relatively few. While theory development has been regarded as a weak point of international entrepreneurship in general (Keupp/Gassmann 2009), it is even more so in the context of international new ventures (INVs) from emerging/transition economies (Che Senik et al. 2011; Kiss et al. 2012). Also research suggests that entrepreneurship and internationalization findings from more advanced economies may not be applicable in the context of emerging markets (Bruton et al. 2005; Zhu et al. 2006/2007). Two key explanations for this could be advanced: institutional differences and resource constraints, resulting partly from different institutional settings and histories.

Entrepreneurship activity in different countries is expected to differ due to differences in country institutional profiles (Busenitz et al. 2000). Comparison of country institutional profiles measured for several developed economies against three East European economies shows that the latter's institutional environment is less entrepreneurship friendly (Manolova et al. 2008). As the level of institutional development is positively related to the level of entrepreneurial international business activity (Kiss/Danis 2008) internationalization of new ventures from emerging markets, particularly into developed markets, could face high barriers (Wright et al. 2005). While overall exports from Eastern Europe to the EU have been rising since the transition started (Damijan/Rojec 2007) this could be, in large part, attributable to foreign-owned subsidiaries and larger firms. Young and small indigenous ventures face obstacles related to liability of foreignness (Majocchi/Zucchella 2003) and country-of-origin effects. As far as the latter is concerned, Sharma (2012), for example, finds that consumers from developed markets have relatively less favourable product evaluations and buying intentions in the case of products imported from emerging markets, while Koschate et al. (2012) find that this can be transformed into higher prices charged for products from countries with a favourable country of origin image. Lyles et al. (2004) found that aggressive internationalization of some Hungarian start-ups in the 1990s decreased their chances of survival. Even successful INVs from a transition economy are constrained by their local environment and seem to rely on quite different human and social capital than normally observed among INVs from developed economies (Thai/Chong 2008). As a result, the explanatory power of internationalization theories, both traditional models such as the Uppsala Model and new models concerning international new ventures, is somewhat limited if we consider markets other than developed ones (Liu et al. 2008).

Therefore there arises a question of why some eastern European firms still manage to internationalize early and rapidly, and how they achieve this. How do they deal with barriers to early (and rapid) internationalization? In our study we find that these firms are pushed and pulled towards international markets by a wide range of factors, of which some, like domestic barriers to market entry seem to differentiate these firms from INVs based in more developed markets. Our study also shows that founders of INVs from an emerging, transition economy face not only tangible resource constraints, as implied by earlier research from developed market contexts (Gassman/Keupp 2007) but also intangible resource constraints, related to their limited international (business) experience and international social capital, particularly when they are active in low-tech industries. We also find, however, that they manage to overcome their resource constraints by applying effectuation logic (Sarasvathy 2001) which involves exploitation of contingencies through experimentation and following affordable loss principles, which implies that entrepreneurs do not take risks that would be unacceptable (Sarasvathy 2001). This leads them to develop specific bricolage (Baker/Nelson 2005) strategies combining foreign market opportunities with resources at hand.

We proceed by first reviewing extant literature on international new ventures deriving our specific research questions from this theoretical overview. The second empirical section starts with a methodology description, followed by presentation of four case studies of Polish international new ventures. Cross-case analysis leads to several propositions which explicate why and how some INVs from CEE transition economies internationalize early and rapidly. The paper concludes with implications for internationalization theory and for future research on early internationalization in the transition economies context.

Literature review and conceptual framework

Internationalization has been frequently defined in line with Welch and Luostarinen (1988, p.36) as “the process of increasing involvement in international markets”. Therefore if we speak of internationalization in the context of international new ventures we refer to increasing involvement in international markets of newly established ventures, which, according to Oviatt and McDougall (1994), contributes to their competitive advantage.

Internationalization in the context of INVs can be considered not only as planned but also as emergent strategy (Rialp-Criado et al 2010). Irrespective, however, of whether we view internationalization as intended or emergent, it is a challenging and demanding strategy for company growth, particularly for smaller companies that face constraints in respect to financial resources, market knowledge and experience (Shaw/Darroch, 2004). Despite these obstacles the number of new ventures which enter international markets shortly after their inception has been found to be rising (Rialp et al. 2005a; Madsen et al. 2008).

Traditional stages models such as the Uppsala Internationalization Model (Johanson/Vahlne 1977) and Innovation-related Export Models (Bilkey/Tesar 1977; Cavusgil 1980; Reid 1981; Czinkota 1982) assumed that most companies would follow a gradual internationalization path of increasing involvement in international operations. These models explained gradual internationalization through lack of knowledge concerning foreign markets/operations and perceived uncertainty of such operations (Andersen 1993). In fact, information barriers, such as limited information to locate/analyze markets, inability to contact overseas customers and identify foreign business opportunities have been found to be substantial barriers to SME exports (Leonidou 2004, p. 286). Johanson and Vahlne (1977, 1990) observed that firms with more abundant resources may skip stages and speed up internationalization. Some of the research on early internationalization takes up this idea by studying ways in which new ventures may either obtain external resources or substitute certain resources with others, for example financial resources with network connections and knowledge.

INVs from developed economies

The environment which potentially can influence internationalization behaviour of new ventures can be divided into a number of areas such as: technological environment, socio-political environment and industry characteristics. Environmental factors such as falling trade barriers, homogenization of markets as well as developments in transport and telecommunication technologies have been regarded as crucially contributing to the phenomenon of early internationalization (Oviatt/McDougall 1994; Madsen/Servais 1997; Kuemmerle 2005; McDougall/Oviatt 2005). Due largely to these factors, cost barriers are lowered and international markets become more accessible to relatively resource-poor firms like new ventures. Information and communication technology (ICT) also plays an important role in diminishing barriers in communication. Internet and electronic mail, for instance, improve and lower the cost of communication, enabling even small firms to access and maintain close contacts with a large number of potential customers and network partners (Loane 2006). ICT is also frequently being used for market intelligence and competitor analysis. According to Oviatt and McDougall (1994), early internationalization is facilitated also by increased mobility of people which contributes to enhanced human capital. Additionally, INVs tend to compete more frequently in industries characterized by global integration (McDougall et al. 2003). As industries are becoming globalized with more and more intra-industry trading, market niches grow in number as a result of rising specialization of production.

Another environmental characteristic, which may contribute to early internationalization, is the availability of external sources of financing, in particular venture capital (Fernhaber et al. 2007).While access to external financing may increase the likelihood of successful internationalization, some firms manage to internationalize shortly after inception despite limited access to financial resources, perhaps because their key competitive advantage is based upon knowledge (Gassman/Keupp 2007). In fact, as Gassman and Keupp (2007) suggest, the scarcity of tangible resources may be beneficial to INVs and could encourage them to devise innovative ways in which they could circumvent their 'liability of smallness'.

In the case of new/young ventures, the management of the company and the decision making is typically in the hands of the founding entrepreneur/s. Therefore much of the attention in the INV stream of research has been devoted to examining founding entrepreneur's characteristics. According to Jones and Coviello (2005), key dimensions by which the entrepreneur develops internationalization are his/her international orientation, human capital and social capital.

Entrepreneur's international orientation can be interpreted as the value attached to internationalization and perceptions regarding costs and benefits of this process. Other related concepts overlapping with such view of the international entrepreneur are the entrepreneur's global vision (McAuley 1999), global orientation (Rennie 1993), or global mindset (Nummela et al. 2004) which are generally understood as perceiving the world as the market and aiming to enter international markets from the outset. According to Nummela et al. (2004), as a result of the founder's global mindset a company can reach a large number of partners and customers abroad as well as derive a greater part of its sales from foreign markets. As this global vision or mindset may result in greater commitment to internationalization at the early stages of company existence (Gabrielsson et al. 2008), researchers seek to find the roots of such international orientation among entrepreneurs.

The entrepreneur's global mindset may be related to founder's human capital (Nummela et al. 2004) which encompasses different elements such as: industry and/or business-related experience, international experience, foreign language skills, managerial and entrepreneurial competences as well as some psychological traits, like a need for achievement (Jones/Coviello 2005) or locus of control (Lee/Tsang 2001).

McDougall et al. (2003) find that entrepreneurs who start INVs display higher industry experience than those who establish domestic ventures. It is argued that such experience may increase the ability to spot opportunities and compensate for liability of newness related to international activity. Zucchella et al. (2007), on the other hand, do not find significant effects of previous industry experience for internationalization precocity but find such effects for previous employment in family firms. Perhaps this divergence stems from the different country contexts of these studies and therefore in other country contexts other types of experience might be more important.

While the relationship between industry experience and early internationalization receives mixed support, international experience of the INV entrepreneur-manager is consistently linked to his/her international orientation (Madsen/Servais 1997; Oviatt/McDougall 1997; Crick/Jones 1999; Andersson/Wictor 2003; McDougall et al. 2003; Zucchella et al. 2007). Accordingly, international experience of the entrepreneur-manager is another important factor which allows new international ventures to skip internationalization stages. Reuber and Fisher (1997) find that international experience of the management team, understood as work experience outside the home country and experience in international sales, is an important factor affecting international expansion of SMEs. Due to such experience, the firm is more prone to use foreign strategic partners and less prone to delaying foreign sales. Similarly, Bloodgood et al. (1996) find that international work experience of board members at high potential new ventures greatly contributes to their internationalization.

International experience of the founder and management team could be related to other factors usually regarded as facilitating early internationalization such as knowledge of foreign languages (Ibeh 2003; Zucchella et al. 2007). Such experience could also generate business contacts and enable entrepreneurs to utilize other firms' resources in the process of early internationalization (Madsen/Servais 1997). While quantitative empirical comparisons of domestic and international new ventures generally show that international experience significantly contributes to INV formation (McDougall et al. 2003; Zucchella et al. 2007; Spence et al. 2011), it seems that certain sources of this experience could be more important than others. Zucchella et al. (2007) find that the above-mentioned relationship is positive in the case of international experience gained from previous trade activities or from working for a multinational firm but are either weak or non-existent for other sources of international experience like internships, business travel, personal life experience, education, participation in conferences, trade fairs, etc. Thus it seems that not just any experience but mostly the one related to prior business experience in the international arena may facilitate early internationalization.

Research on SME internationalization (Coviello/Munro 1995) and INVs in particular (Johanson/Vahlne 2003; Sharma/Blomstermo 2003; Blomstermo et al. 2004; Coviello/Cox 2006) indicates that international social capital displayed by company founders facilitates the internationalization process. International networks help founders of INVs identify new business opportunities and affect the order of foreign market entry (McDougall et al., 1994). They enable firms to acquire market knowledge, identify key customers and possible funding sources as well as strengthen R&D activity (Loane/Bell 2006). Through networks firms may acquire resources that cannot be purchased due to financial constraints or a very small scale of operations (Oviatt/McDougall 1995; Gassmann/Keup 2007). While the role of international network ties for SME internationalization is generally uncontested, some studies indicate that a significant proportion of INVs have to build completely new networks because existing ones are not adequate to the needs posed by internationalization (Loane/Bell 2006).

Our review has shown that certain capabilities embodied in INVs' founding entrepreneurs may be crucial for their early internationalization. Therefore there arises a question as to which of these capabilities are displayed by international entrepreneurs from transition economies. Do they display the same capabilities which are normally related to successful founders of INVs in developed contexts?

Despite limited tangible resources INVs are highly competitive in international markets (Knight/Cavusgil 2004). They derive their competitive advantage from unique resources, organizational capabilities and strategies (Oviatt/McDougall 1994) stemming, for example, from the knowledge-intensity of their products/processes (Bell et al. 2003; Oviatt/McDougall 2005; Gabrielsson et al. 2008). Competitive advantage in hi-tech industries is usually related to unique know-how while in more traditional industries it is related to knowledge-intensity of products, which consists of applying knowledge "in order to develop new offerings, improve productivity, introduce new methods of production, and/or improve service/delivery" (Bell et al. 2003, p.349). Depending on the type of industry, the main source of competitive advantage may be related to technology, design, product or know-how (Gabrielsson/Kirpalani 2004). Unique competencies constitute a basis for differentiation strategies (Gabrielsson et al. 2008) which have been found to prevail among born global firms as compared to cost leadership seekers (Bloodgood et al. 1996; McDougall et al. 2003; Knight/Cavusgil 2005). Comparing INVs with new domestic ventures, McDougall et al. (2003) find that the former differ from the latter in terms of stronger reliance on differentiation by means of product innovation, quality and service, rather than lower costs. Knight and Cavusgil (2005) find a somewhat more balanced role of generic strategies, as they find that while successful born globals may apply differentiation, focus and cost leadership strategies, firms which rely mainly on cost leadership at the expense of the other two competitive strategies do not perform as well. As both of these studies compare generic strategies in developed market contexts, it remains uncertain whether same results would apply to INVs from others, particularly transition markets. Numerous studies indicate that INVs follow a focus strategy, concentrating on niche markets spread all over the world in which they can better leverage their limited resources (Knight/Cavusgil 2004; Zucchella et al. 2007; Gabrielsson et al. 2008). Accordingly, focus strategy has been found to be positively related to INVs performance (Knight/Cavusgil 2004) and internationalization precocity (Zucchella et al. 2007). As the focus strategy stems from a limited resource base of the firm (Mintzberg 1988; Kotha/Vadlamani 1995), one should reasonably expect that resource-poor new ventures to generally follow this particular competitive strategy.

INVs may leverage both prior international market knowledge of their founder/s, as discussed above (Zucchella et al. 2007) as well as learning capabilities developed in the domain of foreign markets (Chetty/Campbell-Hunt 2004; Weerawardena et al. 2007, Zhou et al. 2009). Ability to acquire market knowledge faster than more traditional internationalizing firms can be ascribed to their learning advantages of newness (Autio et al. 2000) or to a more entrepreneurial (proactive, innovative, and risk-taking) orientation of the firm (Knight/Cavusgil 2004; Zhou 2007). Foreign market knowledge acquisition can be also related to new ventures' ties with foreign customers, distributors and suppliers (McDougall/Oviatt 1994; Coviello/Munro 1995; Madsen/Servais 1997 ; Yli-Renko et al. 2002 Sharma/Blomstermo 2003; Gabrielsson/Kirpalani 2004).

ICT technologies offer a cost-effective means of accessing foreign market knowledge. On a more general level, application of these technologies may constitute an integral part of INV internationalization strategies. The Internet facilitates gathering of information on foreign markets and customers, improving market intelligence and competitor analysis (Quelch/Klein 1996; Loane 2006; Nieto/Fernandez 2006). Nieto and Fernandez (2006), for instance, find that internationalization of Spanish SMEs is positively influenced by its e-commerce activities. According to Loane (2006) a quarter of studied firms, particularly in the B2C area, used the Internet as a distribution channel. The Internet can also moderate both liability of foreignness and resource scarcity experienced by young firms, thus greatly contributing to their faster internationalization (Arenius et al. 2006).

As the literature discussed above has shown, international new ventures, although in general relatively less endowed with resources than MNEs, derive their competitive advantage from a mix of resource combinations, related to human, social but also financial capital and from strategies based on these resource combinations. Access to resources instrumental for early internationalization may, however, differentiate not only INVs from MNEs but may also may differ among INVs (Crick 2009).

INVs from Central and Eastern European (CEE) transition economies

Although the process of economic and institutional transition in CEE has led to substantial changes and convergence of the institutional and economic environments toward Western European standards, still differences in terms of institutional environment can be observed. For example, recent surveys of entrepreneurship behaviour (European Commission 2009) indicate that the index of entrepreneurial climate is on average lower in CEE transition economies, than in Western Europe. The same research indicates also that entrepreneurs in CEE can rely less frequently on entrepreneurial family traditions and are on average younger, and therefore also less experienced than SME founders in Western European countries. Such differences could be ascribed to the fact that only since the 1990s has entrepreneurship been officially recognized and encouraged in these post-communist economies. Availability of venture capital and stock market financing which is related to the level of financial market development, is lower as a rule in transition economies than mature markets and constitute a restraint for new ventures in these markets (Bruton et al. 2005). In fact, according to Eurostat (2009) data, early stage venture capital investments in transition economies, including Poland, have been much lower than average among the 'old' 15 European Union countries.

As argued in the preceding section INVs from developed economies strongly rely on the international experience of their founders and managers. These may, however, not be as easily available to transition economies, which for the most part remained fairly closed to the world until the end of 1980s or even into the 1990s. If international network connections stem from international experience, then companies whose founders display limited international experience may be expected to be poorly equipped with such connections (Thai/Chong 2008).

Accordingly, entrepreneurs and new ventures in CEE emerging and transition economies can be expected to be relatively less endowed in critical resources and as a result may apply different growth strategies. Research indicates for example, that the availability of seed/startup venture capital in countries such as Poland, Hungary or Czech Republic is very low (OECD 2009). Although research on internationalization barriers for Central and Eastern European SMEs is scarce, existing studies (Mockaitis et al 2007; Svetlicic et al 2007; Korsakiene/Tvaronaviciene 2012) indicate that lack of financial resources and knowledge about foreign markets constitute major barriers to internationalization. According to Korsakienne and Tvaronaviciene (2012), Lithuanian SMEs much more strongly than Norwegian ones stressed difficulties in accessing financial resources as well as startup costs as barriers to internationalization. Ruzzier et al (2007) found, in turn, that while there exists a significant relationship between certain dimensions of human capital (for example international orientation and risk perceptions) and internationalization of Slovenian SMEs, some other elements of human capital such as work experience and international networks, were not related to internationalization. As the explanation of these findings may be related to the legacy of the Iron Curtain which prevented individuals from free movement across border, similar phenomena could be expected in CEE countries other than Slovenia. Furthermore, new models of new venture internationalization in transition economies (Kiss/Danis 2010) suggest that domestic networks may be, up to a point, more important for internationalization speed of new ventures from transition economies than international ones. Transition economies tend to be viewed as countries which compete through low costs, particularly low labour costs and not through hi-tech leadership, which so often is associated with INVs in more developed economies.

Thus, research concerning the economic and institutional environment in emerging transition economies as well as research concerning INVs and entrepreneurial internationalization indicate that drivers of early internationalization identified in developed economies, as presented in the previous subsection, might not be fully applicable to transition economies like CEE ones.

Conceptual framework: Internationalization by resource constrained new ventures from transition economies

As discussed above and confirmed in prior research, internationalizing Central and Eastern European SMEs generally encounter greater constraints as regards financial capital than larger firms from the region (Svetlicic et al. 2007) or than firms from Western Europe (Korsakiene/Tvaronaviciene 2012). Access to strategic resources, which encompass not only financial capital but also human and social capital may also depend on previous experience of the founders. For example, INVs founded by serial or habitual international entrepreneurs may have greater access to financial capital, experience, and the contacts of their founders. In less extreme cases, entrepreneurs who have gathered international business experience in their previous employment will have broader experience to draw from than novice entrepreneurs who have no prior international business experience. So how do entrepreneurs from emerging and transition economies deal with such resource limitations and how do they overcome them as they achieve early and rapid internationalization? Previous research (Zhou 2007; Zhou et al. 2009) suggested that tangible resource deficiencies can be mitigated by superior capabilities in entrepreneurial learning. Chandra et al. (2009) in a similar vein suggest that insufficient knowledge can be mitigated by risk-taking and innovation of newly internationalizing ventures. Knowledge constraints may shape interaction between the firm and its (market) environment by affecting perceived analyzability of environments. As Daft and Weick (1984) argue, analyzable environments can be discovered through systematic search, while environments perceived as non-analyzable may be enacted by means of, for example, experimentation. Such a dual approach to identification of foreign market opportunities has found support (Chandra et al. 2009).

If we consider a broader meaning of resource constraints, then we can refer, for example, to the concept of “organizational bricolage”, which suggests that resource poor firms exploit resources at hand, testing limitations imposed by resource constraints and recombining these resources for previously unforeseen uses (Baker/Nelson 2005). Baker and Nelson (2005), building on previous work by Penrose (1959), argue that bricolage understood as ‘making do with resources at hand’ (Levi-Strauss 1967) contributes to growth in penurious environments. In their view, bricolage may be related to labour inputs, material resources, customers, institutional and regulatory environment. Firms which revert to bricolage activities frequently use improvisation in their response to resource constraints. From the entrepreneurship perspective, alertness to resources may be equally important, at least for bricoleurs, as alertness to opportunities, as these are actually not separable (Baker/Nelson 2005).

A similar view on the entrepreneurial process has been offered by Sarasvathy (2001) who argues that new venture founders follow effectuation rather than causation logic. This means that they rely on an available set of means (including personality, knowledge base and networks). What differentiates effectuation from bricolage is the observation that entrepreneurs combine existing means in a way which ensures that risk is acceptable (or loss affordable to them) and aim to control, rather than foresee, the future outcomes. Thus they exploit contingencies which are unforeseeable, but controllable, for example by means of networks and alliances.

While we do not know of studies that would apply the concepts of bricolage to the study of internationalization processes and only three studies, to the best of our knowledge, have been published that apply effectuation to these processes (Andersson 2011; Evers/O’Gorman 2012; Harms/Schiele 2012) the described concepts seem to be potentially applicable to the study of internationalization from resource penurious environments. Eastern European international new ventures, as discussed in the previous section, may encounter numerous resource constraints, which makes these theoretical perspectives potentially useful in explaining their internationalization patterns.

Methodology

We have decided to apply a multiple case study methodology as our research objectives involve answering why and how some Polish new ventures are seemingly able to overcome their resource constraints and manage to internationalize shortly after their inception. In this way we seek to contribute to the theory of new venture internationalization in the transition market context with a special focus on Central and Eastern European economies. Case study methodology is regarded as an appropriate method for answering 'how and why' questions (Yin 2003). It has been also recommended as a methodology with high potential in studying topics lacking adequate theory (Eisenhardt 1989; Chetty 1996).

We purposefully identified firms for this study through press search and personal contacts as these were the only available sources of information on early internationalizing firms in Poland at the time of our study. Purposeful selection should not, however, constitute a problem in our research setting as Eisenhardt (1989, p.537) notes that random selection of cases is “neither necessary, nor even preferable”, particularly when case analysis is intended to extend existing theory. We identified four cases of new Polish SMEs which can be described as extreme cases of early internationalization, as all of them exported within the first year since establishment and their export intensity exceeded 50% in the first two years of operations. Three of these firms were identified through press articles which dealt either with early internationalization cases among Polish firms (two cases) or financing of hi-tech companies (one case). Contact with the fourth firm was highly ‘recommended’ by one of these three previously selected entrepreneurs. Application of this snowball sampling enabled us to use literal replication. Thus altogether we studied four cases, in compliance with Eisenhardt's (1989) recommendation that studies based on 4 – 10 cases have the best theory building potential. Both companies and their founding entrepreneurs constituted our unit of analysis, as in the case of new ventures it is impossible to separate the founding entrepreneur from the firm. The study of the pre start-up phase by definition focuses on entrepreneurs as during this period the ventures do not exist. In turn, the study of new venture growth also involves the company in question.

Firm selection followed literal replication logic insofar that all selected firms were relatively young (maximum 6 years old), small in terms of employment and turnover, and highly internationalized, using exports as the dominant entry mode. Two of them were B2C firms from the toy industry representing the low-medium tech sector while the other two were active in global hi-tech B2B industries. Following Bell et al.’s (2004) research on SME internationalization in knowledge-based and traditional industries we expected that the two hi-tech firms should display different internationalization patterns and mechanisms than the two firms active in the toy industry. Key differences were expected to emerge mostly due to different knowledge content of products, different type of customers’ needs and different levels of endowment with international human and social capital. Thus, our choice of case firms involved both literal and theoretical replication. While on the one hand all our firms were international new ventures, on the other hand they differed along theoretically justified dimensions.

Data were collected from various information sources, such as press articles, companies’ websites, semi-structured interviews with the managing founders of the four firms and in one case, additional written information provided by the company owner. Formal company reports were not available due to the small size of all these firms. We conducted interviews in 2008 and 2009. Each of the interviews was conducted with one or more owners who founded and currently manage their ventures (see Table 1). All interviews lasted between 60 and 120 minutes, they were recorded on a digital voice recorder and subsequently literally transcribed.

Table 1: Sources of information about case firms

Company	**Tele**	**Infro**	**Dice**	**Base**
The number of interviews	1	1	2	1
Number of interviewed persons	1	1	1	2
The role of the interviewed person(s)	Leading founder (co-owner) and simultaneously the managing director of the company	Founder (sole proprietor) and simultaneously the managing director of the company	Founder (sole proprietor) and simultaneously the managing director of the company	Co-founders, who jointly own and manage the company
Other sources of information about case firms	- one press article from a specialized industry journal, - company web site	- one internal document, - one press commentary published by the founder - web resources concerning the firm and its competitors	- numerous press articles about the company and the founder, - web resources concerning the firm and its competitors	- one press article concerning successful internationalization of small Polish firms, - company web site

All interviews included questions regarding key issues such as: scope and timing of internationalization, reasons for rapid company internationalization, including business drivers and personal motivations and inspirations, entrepreneurs' characteristics, with a special emphasis on prior business experience and international exposure, sources of competitive advantage of the firm and last, but not least, ways and mechanisms of entering foreign markets. The following sections show the most important findings concerning these dimensions within and across the four firm cases (see also Table 2).

Table 2: Basic data on analyzed firms

	Tele	Infro	Dice	Base
Company data				
Industry,	Hi-tech/R&D	Hi-tech/R&D	Toys	Toys
Product/customer	services for mobile telecoms	optoelectronics measurement equipment	accessories for role playing games	accessories for role playing games
Year of official setup	2004	2002	2004	2006
Turnover	between 1 and 5 million USD	between 1 and 5 million USD	less than 1 million USD	less than 1 million USD
Foreign sales (%)	80-90%	Over 90%	Over 80%	Almost 100%
Number of foreign markets served	12 (Europe, US, Asia)	20 (Asia, Europe, US)	Over 10 (US, Western Europe)	11 (mainly Western Europe)
Number of employees (including company founders)	12 outsourcing of certain functions	8	3 outsourcing is substantial	5 + 7 part-time

Case studies

Due to confidentiality concerns expressed by the interviewed executives, we substitute the real names of the four Polish firms with the following fictitious names *Tele*, *Infro*, *Dice*, and *Base*.

Tele provides highly specialized repair services of base stations to mobile telecommunication providers. It was established in 2004 and right from the inception became international, as the very first order was obtained from a foreign customer. By mid 2008, the firm had managed to sell its highly specialized services to 10 other European countries, plus the US and Taiwan, obtaining 80-90% of revenue from exports.

The idea of setting up *Tele* and its original services came from the current CEO of the firm who, since 2001, has been running a small consulting firm serving the international telecommunications industry and involved four colleagues representing complementary experience and skills. While serious discussions about setting up the firm started at the beginning of 2003, the company came into existence in 2004 only after the four co-founders had developed the software tools needed for their core activity and the first customer's order had been already won.

Infro offers highly specialized measurement equipment for the optoelectronics industry. It was established in 2002 and by mid 2008 it had sold its products to more than 20 countries worldwide. Exports constitute almost 100% of its sales. While its key customers are located in Asia, it sells also to Europe and North America. *Infro* was founded by a university professor with no prior business experience. Prior to starting the company, *Infro's* founder tried to commercialize his technical knowledge and experience in the field via cooperation with other existing domestic and international firms but these attempts were unsuccessful. The founder thus did not set out with a clear plan to set up an INV but rather he reached this after unsuccessful attempts with other alternatives.

Dice was officially established in 2004 although the idea originated around 2001. The company produces original, high quality accessories (mainly dice) for role playing games (RPGs). *Dice* was conceived of by a student who in 2001 was a recent high-school graduate working at a bank. At that time he regarded production and sales of accessories as a source of extra income that supplemented his salary. Due to *Dice* founder's youth, he had neither prior international work nor business experience and so internationalization was not initially envisioned by him.

I have never thought that I would sell somewhere else than in Poland. I had no idea that there exist companies that make millions of dollars on (selling) such models (for Role Playing Games) ….

First sales took place on the Polish Internet sales auction-platform Allegro. After a period of experimental sales through this auction-platform the company was officially established which enabled broader expansion via its own web page. Within one year of inception the company entered the German market, initially through E-bay and then again through its own web page. The next stage involved rapid expansion to other markets. Exports rose from 60% of sales in 2005 to over 80% in 2008. Roughly 50% of exports go to the American market and the other 50% to a number of European markets, of which Germany, France, UK and Italy are the most important. In spite of the fact that *Dice's* sales have been rising dynamically in the last several years, by 2009 they still represented a little less than half a million USD.

Base, like *Dice*, competes in the toy industry, producing accessories for RPG games, although of a different nature than those produced by *Dice*. The company started out officially in 2006 but the business opportunity, i.e. the first idea that it is possible to make money from RPG accessories, emerged earlier, in 2001. First sales were carried out through Internet platforms such as E-bay. Although there were some attempts to sell products in Poland, conditions offered by the domestic market were unattractive and the founders decided to go to international markets. The firm sells to Germany, France, Spain, and on a smaller scale to UK, Sweden, Denmark, Holland, Italy, and Austria.

Base was established by two men who had known each other for over ten years. Both had some prior exposure to model building and role playing games but had no prior business experience or formal business education. Company beginnings were preceded, as in case of *Dice*, by a stage of experimenting with production and sales of accessories on a hobby-like basis. It took them almost six years of such work with other people in dynamically evolving teams, before they decided to set up a new venture as partners.

Cross-case analysis and discussion

Impact of Market, Technology and Institutional Environment on Early Internationalization by SMEs from Transition/CEE context

Two of the four firms under study (*Tele* and *Infro*) are hi-tech firms in which R&D plays a very important role. They are active in globally integrated markets, where products require adaptation to specific customer needs but these have little to do with country-specific characteristics. For these firms the domestic Polish market was definitely too small to support the necessary investment in R&D, although this push factor was stronger for *Infro* than for *Tele* (see Table 3 for summary of early internationalization drivers). This is in line with previous studies indicating that high knowledge content of products/services will require or at least contribute to creation of INVs (Fernhaber et al., 2007; McDougall et al., 2003; Spence and Crick, 2006). *Dice* and *Base,* despite being active in a relatively traditional, low-tech industry, are also knowledge-intensive in their segment (accessories for RPG). In their case, knowledge content is generated primarily by advanced design of their products and also involves certain technologically advanced production processes as well as innovative marketing and sales strategies. These two firms are also active in a niche but globally integrated market. Although they could perhaps survive from purely domestic sales, as their relatively lower investment in R&D does not necessarily force them to internationalize, their development would be very constrained if they did not pursue foreign markets. Thus the need to achieve a sufficient amount of sales to cover high R&D expenses or other product development costs as well as domestic market constraints, to a greater or to a smaller extent, pushed all of the studied firms to internationalize.

Table 3 Summary of key data pertaining to early internationalization drivers in studied firms

	Tele	**Infro**	**Dice**	**Base**
		The Environment		
Push factors	Too small domestic market as compared to R&D outlays; Negative country-of-origin effect at home	Domestic market almost non-existent	Relatively small domestic market	Relatively small domestic market; Unfavourable conditions offered by local distributors
Pull factors	Globally integrated market; few direct competitors	Globally integrated market; few direct competitors	Higher margins in globally integrated markets	Higher margins in globally integrated markets
Barriers/facilitators	Shortage of capital; access to EU funds	Shortage of capital; low acceptance in academic circles	Internet facilitates foreign sales	Internet facilitates foreign sales
		The Entrepreneur		
Entrepreneur's background	6 years work experience of which 3 in international telecom services	Researcher with no business experience;	Student, father entrepreneur	Hobbyists with neither business education or experience
International experience and sources of global orientation	Prior international business assignments	Post-doc job in South Korea; International scientific conferences	No international contacts	Inspiring encounter with a British MNE owner (hobby-related)
Social capital of the entrepreneur at start-up	Close links between 4 founders, a moderate number of weak ties with potential customers	Links with domestic Polish University and South Korean University (first substantial order)	A few valuable domestic ties (founder's father, another entrepreneur, interpreter)	Strong links between two founders; Contacts with domestic RPG community

The Firm				
Pre start-up phase	At least 1 year	At least 1 year	3 years	Less than 5 years
Pre start-up learning and experimentation	Development of the key product First business contacts via another firm of one of the founders	Development of the key product; Unsuccessful attempts to commercialize the know-how	Development of products, and experimental sales via E-Bay	Development of products and experimental sales via E-Bay
Post start-up externally-oriented learning	Participation in trade and business fairs; Cooperation with a partner from Taiwan; Cooperation with local university	Market and product related learning from international customers; Cooperation with university and distributors	Learning via internet and via traditional means like trade fairs; Active networking in the RPG industry	Learning via internet and via traditional means like trade fairs
Strategy – key dimensions	Niche strategy Leadership in development of a new industry sub-segment, Price differentiation	Niche strategy Technological leadership and Price differentiation	Niche strategy, Leadership in product design, Accessing strategic resources via licensing ,	Niche strategy Leadership in product design, Accessing strategic resources via licensing
Product knowledge content	Very advanced, unique hi-tech knowledge	Very advanced, high tech knowledge	Advanced design; advanced production technology, innovative marketing solutions	Advanced design; Proprietary production technology,
The role of the Internet	Web page (exclusively in English) – generated some of business contacts	Web page (exclusively in English) – generated majority of enquiries	First sales carried out through internet platforms; still important	First sales carried out through internet platforms; still important

At the environmental level, our research also revealed other push factors to be at play. For *Tele,* winning foreign contracts turned out to be easier than winning domestic ones at the start-up phase. This was attributed by the founder to, on the one hand, negative country-of-origin effect which was greater domestically than abroad, a phenomenon noted previously in emerging markets (Okechuku/Onyemah 1999), and, on the other, to non-transparent decision-making on the part of potential domestic customers. Potential domestic customers displayed limited trust in *Tele's* services until they had been tested and positively accepted by foreign customers. Tele was thus legitimized in the domestic market by its export success. In turn, *Base* found that domestic distributors had greater demands in respect to trade credit and were less cooperative in receivables management than foreign ones.

"... such specialized services are unique on the market and I say ... Polish mentality goes today in such a direction that we respect anything which is foreign and what's not ours. So it was easier to sell abroad these first services and not in Poland, so for four years we have had 90%, 80-90% of our revenues from exports…" (Tele)

"... We tried selling it in Poland, went around the shops but it looked as usual here, everyone wants to get trade credit, after it gets sold one has to bother them to get paid, so in any case it was hard and discouraging…"(Base)

Both *Tele* and *Base* eventually started selling at home but they conducted their first substantial transactions with foreign and not domestic customers. For Infro the Polish market remained non-significant and only occasional small transactions were conducted domestically.

Dice and *Base* were additionally pulled towards international markets because international customers were willing to pay higher prices for their products than locals. This finding also corresponds to other recent reports of early internationalization by transition economy firms producing hi-end, expensive products (Thai/Chong 2008). Thus, one could expect that transition economy firms targeting niche markets with rather expensive products will tend to be drawn to international markets soon after their inception due to potentially higher margins to be made abroad than domestically.

All our firms benefited from ICT technology using it extensively for communication with foreign customers and to some extent for market research, customer acquisition and relationship management. For *Dice* and *Base,* E-Bay constituted not only a sales platform but also a powerful market research tool. Their first sales, still before official start-up, occurred via this Internet-based platform which made them relatively easy and cost-efficient.

"... and then with other colleagues (we thought) of doing something internationally. And here the first stage was E-bay…"(Base)

"... E-bay was always such a scout dog for me…" (Dice)

As neither Dice nor Base founders had any international (business) experience this was the easiest way to assess foreign market potential and execute transactions. Only once this market research had shown encouraging results, the entrepreneurs aimed at creating their own e-shops. All of the interviewed entrepreneurs acknowledged the instrumental role of the Internet and other information-based technologies for learning about the potential target markets, promoting their firms in a better way, lowering transaction costs, and acquiring new customers. As Infro's founder commented:

"... through our web page they learned that such a company exists and that it has equipment, which is unique equipment…" (Infro)

Thus, the technological environment served also as a pull factor for our INVs and no specific disadvantage as compared to INVs from developed markets could be observed in this respect.

None of the firms had access to venture capital and starting (seed) capital available to the founders was quite limited. Although two of them, *Tele* and *Dice*, successfully applied for EU funds, which improved their expansion potential, they had to rely in their daily activity on sales revenues. Actually, the use of such EU funds temporarily increased liquidity difficulties due to an uncertain time lag between investment outlays and their reimbursement. *Infro,* on the other hand, experienced problems in applying for R&D funds due to negative perceptions that the local academic community displayed towards linking research work with business activity by Infro's founder. It is not clear if such negative perceptions were merely a coincidence or perhaps a negative institutional heritage typical of transition, post-communist economies.

Our firms faced evidently limited financial resources due to underdeveloped local market infrastructure for venture capital. In this sense, the level of institutional readiness of the domestic versus foreign environment was lower. Other than this, however, institutional factors generally did not play a key role in these firms' early internationalization, although Poland's entry into the EU in 2004 did facilitate some export transactions to this large common market and offered some additional opportunities for capital base strengthening.

Concluding, the external environment was characterized by several factors that either pushed these firms to search for customers abroad or somehow pulled them to international markets. Push factors could be divided into the expected, such as small (at least in relation to necessary R&D investments) domestic market size and the unexpected, such as negative country-of-origin effect and relatively higher domestic transaction costs. Pull factors involved not only the globally integrated nature of the world market but also the facilitating role of ICT technology and superior market conditions abroad. However contrary to expectations, institutional factors did not seem to have substantial impact. If we compare our findings with the dominant view of early internationalization drivers, exemplified by McDougall and Oviatt (2005), we observe that Eastern European INVs can experience two context-specific driving forces. These are push factors related to domestic entry barriers and pull forces related to arbitrage opportunities stemming from differences in the level of production costs and purchasing power levels in developed versus transition economies. Therefore we posit the following:

> P1: Early internationalization in CEE transition economies is driven not only by push and pull forces observed in developed markets but also by context specific market forces related to domestic market entry barriers and foreign market arbitrage opportunities.

Impact of entrepreneur's profile on early internationalization by SMEs from transition CEE countries

At the time of company formation, our new venture founders had already substantial achievements in terms of product design but their international and business-related experience was rather low, although, as expected, hi-tech venture founders displayed higher international experience as compared to low-tech founders. The leading founder of Tele had a certain level of international business experience as by the time of its founding he had been running for three years another small firm with international operations. The founder of Infro had some international experience although derived mostly from his academic career and with only occasional connections to business. The founder of Dice had no international experience at all while in case of Base, the entrepreneurs' international exposure was related only to their private life experience. As a consequence of limited international experience, the founders of Base and particularly of Dice had limited knowledge of foreign languages.

"... I was 18 at that time and no, I knew nothing, I knew only how to use a computer. That was all. .... I did not even speak English, but I used my wits to get these English and German language auctions…" (Dice)

Limited international business experience can be regarded also as the main reason for the generally quite low international social capital of these entrepreneurs, at least at the time of each company inception, although again hi-tech founders had greater international social capital than low-tech founders. The leading founder of Tele relied initially on the information about potential customers derived from his earlier business, while in case of Infro, the first substantial contract was obtained due to prior Korean contacts of the founder. In the latter case this was, however, a onetime event without direct consequences for business development. Again, the founder of Dice had no prior international contacts while Base founders benefited indirectly from one private contact. Founders of Base and Infro admitted, however, that the few international contacts they had did have a positive impact on their international orientation.

One could argue that their mental maps (cognition) in respect to internationalization were somehow affected (Wiedersheim-Paul et al. 1979; Zahra et al. 2005; Acedo/Jones 2007; Butler et al. 2010) as they were inspired by meetings with foreign entrepreneurs with a history of successful internationalization and as a result revised their views concerning international expansion (Zahra 2005). In both cases these contacts were valuable insofar that these entrepreneurs started their ventures with highly positive perceptions of the value of internationalization even though they did not yield specific business opportunities (apart from first contract of Infro).

"... (A Polish immigrant entrepreneur running a business in the US and UK) showed me that what I already do (designing toy models and their small scale production) can just as well bring good profit. He showed me E-bay, these trade fairs, all this industry and I said to myself, why not? And I came back home excited and started selling the idea..." (Base)

"... It was probably 1999, I had met many Western business people before but this man (an Israeli entrepreneur encountered by Infro's founder) made a sensational impression because he was not a salesman, he had the knowledge, he was a researcher before... but he had this technical (applied) knowledge which exceeded all that I knew… and he told me that they sell worldwide… and this was something that inspired me very much, I wanted to be like him…" (Infro)

Thus, while past research has regularly shown that international business experience (McDougall et al. 2003; Zucchella et al. 2007), as well as related language proficiency (Ibeh 2003) and internationally developed social capital (Johanson/Vahlne 2003; Sharma/Blomstermo 2003; Blomstermo et al. 2004; Coviello/Cox 2006) on the part of the INV founders in highly developed economies largely facilitate early international expansion, our results seem to indicate that these factors should not be regarded as indispensable for early and rapid SME internationalization from emerging transition economies. Our findings are consistent with recent research from other, less industrialised, transition economies, such as China (Liu et al. 2008) and Vietnam (Thai and Chong 2008) which also show that indigenous entrepreneurs display little international experience or international social capital at their first internationalization step. As a result it can be reasonably expected that similar constraints will affect also entrepreneurs from other transition markets, particularly from low-tech sectors. Therefore we posit the following research proposition:

> P2: Founding entrepreneurs of international new ventures from CEE transition economies typically display low levels of international (business) experience and international social capital.

Making with resources and networks at hand

The case firms started with very little financial resources of their own. As Dice founder recollected, initially Dice images were the result of simple scanning, because

“at that time there were no digital cameras and if there were then they cost some 5000PLN (1200Euro) – an amount beyond imagination...”

Similarly the Infro founder initially developed his devices in his private flat while Base founders, before finding their current location in the science park, considered renting a 20m^2 large garage when their activity could no longer operate at home. Their growth was internally driven and they could not rely on external funds, till the moment that EU funds for SMEs became available. As Tele’s founder noted:

“We knew that setting up a limited liability company is not like setting up a private proprietorship as my first company, so we realized this and waited for the right moment ... and once we found the first customer, he was a sort of source of funds, and once he was there we took these formal steps to start the business’

So, one way or another, company founders relied on what was available, whether this meant the first customer, or very basic equipment as in the case of Dice, or private flat as in case of Infro etc.

In a similar vein, our case entrepreneurs and their firms relied on ties at hand. While entrepreneurs’ international ties at the time of their business idea conception or even business start-up were relatively few, they seemed to benefit more from their earlier domestic ties. In case of *Tele* the most important ties initially were those that led the four founders to jointly develop their first product. In case of *Dice*, the founder could rely on a group of local people who complemented his competences in terms of technological skills (founder's father), business, language and IT skills. These people were instrumental in designing manufacturing technology, consulting on business ideas, supporting foreign sales and e-commerce. *Base* founders co-operated prior to company start-up with different people involved in designing and business development, although with rather mixed results. *Infro's* founder used contacts that he made during the time when he tried to start business in the domestic market as well as his university connections to find subcontractors and, to a lesser degree, obtain first sales.

“... No one is a jack of all trades and (we) managed to find three and then four people to open the company which required very broad knowledge from electronics, software development, microwaves ... Each of us deals with a different segment of our business putting a lot of trust in the other three... “ (Tele)

"... We started as six, i.e. first the two (current owners) then an additional four persons joined, then we parted ... next we took two more people ... I admit honestly they helped us a lot ... but then frictions started..." (Base)

Our findings in respect to the relevance of domestic networks are consistent with Manolova et al.'s (2010) findings concerning the relevance of domestic networking for new venture internationalization from similar transition economies. While foreign ties were of minor importance initially, particularly for the low-tech ventures, all our firms developed these international ties as they progressively grew. Some of them were weak ties established with their customers or distributors. In a few cases they generated referrals, as in the case of *Base* which benefited from retail customers' referrals to commercial customers (mainly shops). Stronger ties were developed by *Tele* and *Dice*. In the case of *Tele,* cooperation with a local technical university largely contributed to product development while cooperation with a Taiwanese partner was regarded as key for entering this and potentially other Asian markets. *Dice* developed very strong ties with its US-based distributor. *Dice* aimed also to develop closer ties in the RPG industry in order to obtain licensing rights that would allow the firm to introduce new accessories accompanying established brands of other firms. In both of these cases these strong ties involved relatively distant partners and markets and actually allowed these two firms to access resources such as distribution capability or strong brands, which were otherwise inaccessible. Thus, our findings in respect to networking activity of Polish INVs are in line with this stream of research from developed economies (Loane/Bell 2006) which shows that a certain part of INVs actually start without a well-established international network and build it thereafter only as their international presence is developed.

All of the interviewed entrepreneurs acknowledged the key role of ICT and the Internet in particular, for learning about the market, promoting their firms, lowering transaction costs, and acquiring new customers. Such findings are in line with current research on the impact of the Internet on internationalization (Loane 2006; Nieto/Fernandez 2006; Mathews/Healy 2008). *Tele* received several inquiries through their web page. *Infro* was approached by several distributors also through its web page. The particular importance of e-commerce is visible in the case of *Dice* and *Base*. E-Bay or similar platforms constituted their first sales channel and the place where pre-start up experimentation occurred. The Internet was not only a market-space that allowed them to push through their products at low transaction costs but also one of the means of searching the market and managing their brand. Customers won by these means, at least in case of *Base*, served as the first contact with non-virtual shops and other larger customers. In turn the Internet was readily available and did not require any special ties or past business experience. Interestingly, the case firms did not use MNEs as another potential sales channel, as suggested by

Gabrielsson et al. (2008). While this could be attributed to industry patterns, in our opinion, the more likely explanation is the lack of ties between indigenous small firms from transition economies and MNEs.

Accordingly, the Internet has had a profound impact on all studied firms' early internationalization strategy. Actually, in the case of *Dice* and *Base* their internationalization would have probably not occurred without it. It seems that in the absence of international experience and internationally established networks at the time of new venture creation, firms from transition economies may leverage the Internet technology to overcome liability of foreignness. Perhaps this could be explained by the functional character of Internet relations which reduce risk of cultural misunderstandings (Etemad et al. 2010). This critical role of information-based technologies may be then particularly important for firms especially constrained in terms of their financial and (international) social capital resources. Presumably, this is very likely to be the case in most newly internationalizing firms from transition economies. Accordingly, our last research proposition (see Figure 1 for a synthesis of cross-case analysis) is the following:

> P3: INV's from CEE transition economies will try to compensate for their inherent lack of financial resources, international (business) experience and international social capital by applying bricolage, relying on available low-cost resources, such as the Internet and domestic ties, before acquiring resources with greater potential for internationalization, such as foreign ties.

Effectuation-based logic of early internationalization by SMEs from transition/CEE contexts

We find that our case entrepreneurs managed to initiate rapid internationalization right after inception despite limited tangible resources, little international business experience and small foreign networks. They were conscious of their actual capabilities and searched for business opportunities where they could leverage them, initially at home but then internationalizing shortly after inception, once this turned out to be the most suitable course of action for exploiting their unique resources and identified market opportunities. They all went through a pre-start up experimentation phase lasting from one to several years before they officially established their ventures and started exporting. It is not possible to draw definite and statistically generalisable conclusions from our four cases but those investigated Polish entrepreneurs with less international and business exposure (for example Base founders) took a longer time to experiment before the company start-up than their somewhat more experienced counterparts (Tele).

"… One could see that it was going well with these measurement systems, it was not perfect, it was still in its infancy, still almost research toys but it got a

chance. And then I started making Polish industry interested… but because there was no interest on the part of industry and as far as foreign firms were concerned… their interest was limited to testing what we could do …. I came to a crossroad… decided to try and open my own, completely independent company…" (Infro)

"… So we started selling through E-bay, minute quantities… 10 sets a month, but we could see a positive response, people from around the world saying 'wow you have nice products and I would love to buy it … We found there (on E-bay) some customers and sort of started building a brand name ….but it was not enough to keep a regular firm going … so one of the partners opened sole proprietorship to be able to represent us officially and then there came the stage of calling on Germany..." (Base)

"... (I realized) that starting the business in this field requires developing specialist software which prevented us from starting it earlier. We prepared for a year at least (before the sales started)… I started selling services much earlier. Two or three months before (establishing formally Tele) I started promoting, visiting customers, of course under the name of X (the first company of the founder), and when the first serious customer appeared we took the formal steps so that this activity would be taken over by (Tele)…" (Tele)

"… At that time Allegro (the auction platform used by the entrepreneur) was still underdeveloped …. But it was (popular) enough to gather 300 people at one auction…after one year of functioning of our Polish web page I reached the stage when I knew that we did almost everything … so he put it (on German E-bay) it got sold and a lot (of it) and within two months we decided to start our own web page (in German)…" (Dice)

They all followed effectuation logic (Sarasvathy 2001) by exploiting contingencies as they experimented with product design and sales. We link their tendency to employ these modes of behaviour with uncertainty (Chandler et al. 2011) ensuing from limited knowledge about foreign markets and limited availability and applicability of regular market research methods.

All four founding entrepreneurs were proactive and flexible in exploring business opportunities. The founder of Infro was a successful scientist who, prior to Infro's start-up, undertook several attempts at commercializing scientific findings and decided on new venture formation only once these other options failed. The founder of Dice experimented with product design and sales while still in his teens. While previous attempts with new products had mixed results, the product currently marketed by Dice turned out to show great potential during test sales on the internet auction platform, which encouraged increased commitment to its further development and following test sales on foreign E-Bay sites. The founders of Base experimented with product design and sales prior to the official start-up of the company as well as testing several potential business partners. Tele's founder leveraged knowledge derived from his first venture and close personal contacts with Tele's co-founders to develop and market a unique service before the official company launch. Thus, each of the firms was established only after successful prior experimentation with either product design (Infro), or both product design and international sales on a small scale (Dice and Base), or product design and first significant contract (Tele).

Concluding, we can propose that proactive exploration of business opportunities by means of experimenting and leveraging contingencies could substitute to some extent for limited financial resources as well as largely unavailable international social capital and international business experience. This finding is consistent with both some theoretical propositions (Weerawardena et al. 2007) and recent empirical findings (Chetty/Campbell-Hunt 2004; Chandra et al. 2007; Zhou 2007; Židonis 2007; Andersson, 2011; Evers/O'Gorman 2012; Harms/Schiele 2012).

Observed pre start-up activities could also explain how the four INVs managed to internationalize early and rapidly despite severe financial constraints and with little external funding. As a result of pre-start up experimentation all four new ventures were able to generate sales, mostly international, from the very beginning which provided resources required for financing company growth. The commitment of the entrepreneurs, in terms of investing time and money, to their new ventures was carefully rationed. Actually all of them kept their other outside employment at least until the moment when it was clear that the business concept would succeed, also in the international scene.

"... I stayed these two years at the bank but then Dice appeared… for some time it was manageable to do both things but after some time there was not a chance (to find time for both)..." (Dice)

"... Of course initially they (co-founders) hold two jobs (working for the former employer and Tele) but at the later stage it was not possible, one had to decide either the company or working for others…" (Tele)

Thus, our entrepreneurs had the option of continuing their original occupations in case they failed in their efforts to find customers for the product/service that they had developed. Only once they were convinced that their business idea would be successful did they take the risk of investing their full attention into the new venture. Also they developed their new ventures mostly on the internal revenues that these ventures generated minimizing initial investment of their own funds. They adhered therefore to the affordable loss principle, which according to Sarasvathy (2001) constitutes an inherent part of effectuation.

Consequently, we propose the following:

> P 4: Founding entrepreneurs of international new ventures in the context of CEE transition economies compensate for uncertainty stemming from lack

of international (business) experience and international social capital by following effectuation logic (experimentation, flexibility and affordable loss) around the start up phase.

Competitive strategies in the context of early internationalization from Eastern Europe

Each of the four studied firms derived its competitive advantage mostly from an innovative product or service. Tele developed unique software and has become the only independent (from other equipment manufacturers) company worldwide to offer specific repair services for mobile telecommunications networks. Infro developed proprietary technology for producing measurement equipment and accompanying software, becoming one of only a few firms worldwide that offer similar products to the optoelectronics industry. Dice and Base offer products which are unique due to their original design and, partly, their proprietary technology of production. Case study analysis showed that differences between hi-tech and toy firms in respect to knowledge content were actually smaller than initially expected and the two toy firms despite the traditional character of their industry could be classified as knowledge-intensive firms (Bell et al. 2003). Thus, all of them could be regarded as innovative firms even though this innovation leads to hi-tech products in the case of Tele and Infro and to high design products and knowledge-intensive production techniques, in the case of Dice and Base. Our findings are thus in line with the current stream of research on INVs (Bell et al. 2003; Gabrielsson et al. 2008; Knight/Cavusgil, 2004) in more developed economies that stresses the importance of product-design and technology-related innovation and knowledge as the key source of their competitive advantage contributing to early internationalization.

Also in line with our expectations, all four firms had a clearly focused marketing strategy which we link to their limited resource base (Kotha/Vadlamani 1995; Mintzberg 1988) and which, at least in some cases (such as Dice) enabled them to avoid direct competition with incumbents. Additionally, all of the firms paid a lot of attention to product quality, aiming to achieve higher product quality or service reliability than competitors. Their strategic approach could therefore be described as both focused differentiation and technological leadership which might also explain their relative success abroad (Knight/Cavusgil 2005). However, while none of the firms followed a clear cost leadership strategy the two hi-tech companies differentiated from their foreign competitors also by charging lower prices.

“We then sold to this market for some 90.000 PLN when they previously had bought similar equipment with comparable functionality for over 300.000$ - this shows what a huge difference it was” (Infro)

"Our services are cheaper by some 25-60%, which enables our customers to achieve savings of over several million dollars a year" (Tele)

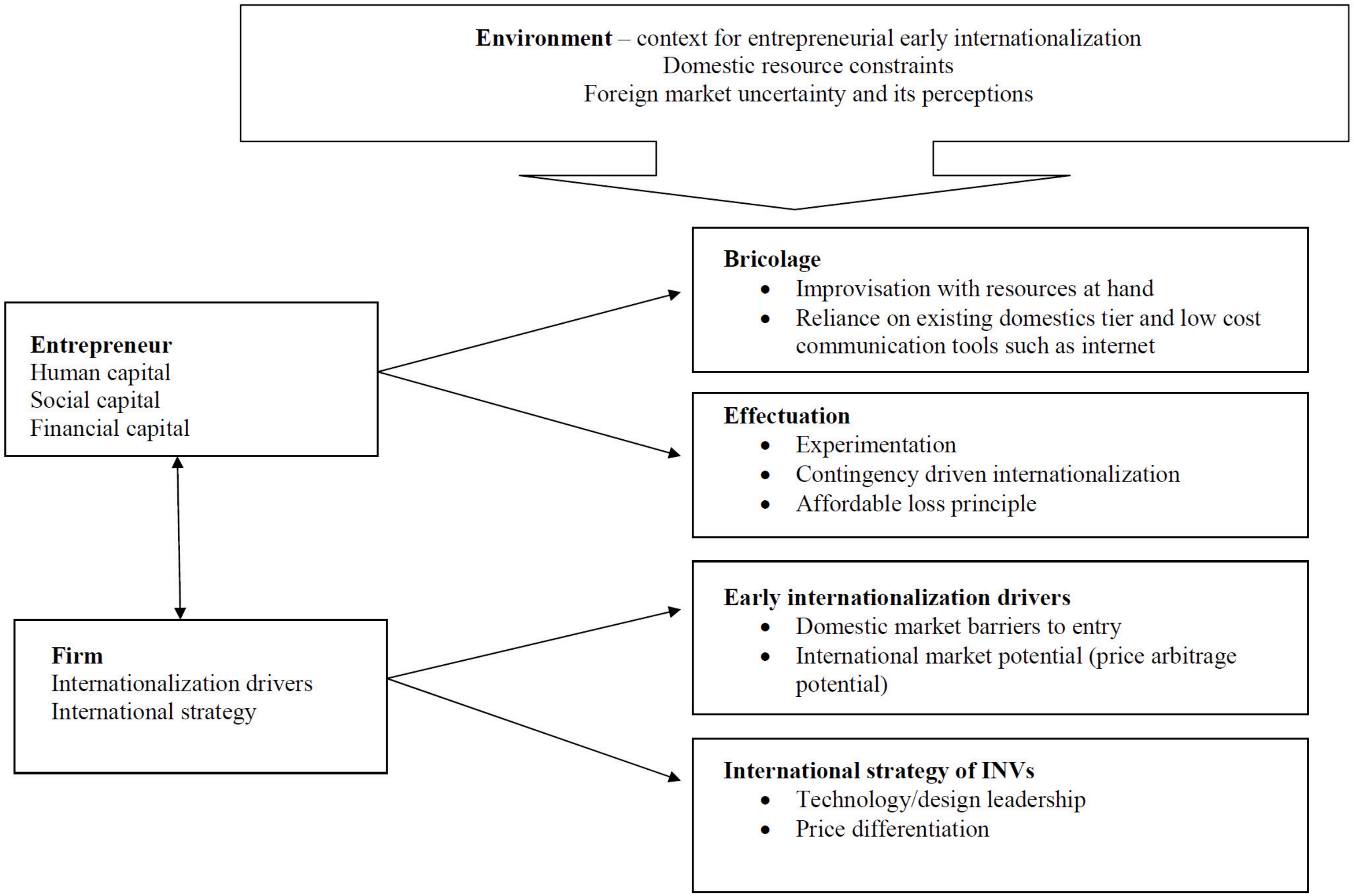
This was possible due to the location of these firms in Poland and consequent cost-based advantages, particularly related to labour. Another reason why these hi-tech firms were differentiated by price is that such firms, originating from a transition economy like Poland, suffer from negative country-of-origin effect both domestically and internationally.

"… He listened to this presentation and then asked … a simple question, has he ever heard that Poland can manufacture any advanced technology and if they cannot produce thermal imagers (etc)… then how on Earth can they manufacture good equipment for testing it" (Infro)

Accordingly, it is quite likely that hi-technology new ventures from transition economies may have to cut prices as compared to their competitors from more advanced economies whose country-of-origin perception by customers tends to be more positive.

P5: INV's from CEE transition economies, apart from exploiting their technology/design advantages, strongly rely on price differentiation.

Figure 1 Determinants of early and rapid internationalization in the transition economy context



Discussion and conclusions

This exploratory study offers some new insights concerning the INV phenomenon in the context of a CEE transition economy (Poland) by means of applying case-based research. Our study indicates that while Polish international new ventures conform in many respects to previously observed patterns, early internationalization which they display also has certain specific features. High entry barriers to the domestic market, as compared to those encountered in foreign markets, contribute to early internationalization, complementing other drivers related to a small domestic market, global market integration and attractiveness of foreign markets. As far as the institutional environment is concerned, while our case firms certainly benefited from certain developments, such as Poland's integration with the EU, their early and rapid internationalization was not actually determined by these circumstances. Finally, availability of new ICT technologies lowered entry barriers to international markets and substantially contributed to their rapid internationalization.

Our analyzed cases indicate also that entrepreneurs in CEE emerging transition economies may experience not only financial but also social and human capital constraints due to their lack of international experience and business know-how. This does not preclude, however, development of an international orientation, which emerges during the gestation phase as a result of vicarious and experimental learning nor does it preclude early internationalization as such. Our research demonstrates how constraints to internationalization can be managed and overcome, thus responding to a recent call for more fine-grained and case-based analysis of growth barriers among SMEs from transition economies (Doern 2009).

In light of international social capital constraints, our entrepreneurs tended to benefit and rely initially on their domestic networks (Manolova et al. 2010), developing international networks as they proceeded with international expansion. Insufficient international business and market knowledge seems to be compensated for by technological innovation, the preparatory phase of product development and market experimentation carried out in the pre start-up phase. All four firms were established once product development was sufficiently advanced and initial sales were ensured. In this way financial resources needed for the initial consolidation and potential downside risk were minimized. Thus our case entrepreneurs adhered to affordable loss principle advanced by effectuation logic (Sarasvathy 2001). Supporting the findings of Chandra et al. (2007), we link constraints related to foreign market knowledge, and also international networks, with uncertainty surrounding identification of international opportunities, and their exploitation. Such circumstances, of an uncertain market environment, call for action through experimentation rather than regular market screening (Daft and Weick 1984). Thus, founding entrepreneurs of international new ventures in transition economies would be expected to employ effectuation-based behaviour patterns. This would mean relying on market experimentation rather than forecasting, and flexibly adapting to emerging opportunities (Sarasvathy 2001). Early internationalization may be just as much a result of initial strategy as the outcome of leveraging unexpected contingencies.

With new ventures generally facing resource constraints and INVs from transition economies even more so (Kiss et al 2012), international growth of the latter seems possible due to the application of resource-saving strategies and operations, such as market focus, initial reliance on available domestic ties and heavy reliance on Internet-related tools. Behavioural patterns displayed in this respect by our case entrepreneurs can be described as bricolage (Baker/Nelson 2005). Transition economy entrepreneurs can be expected to be particularly prone to follow such patterns, as their experience of the economics of shortage (Kornai 1980) could contribute to high capabilities in respect to building something out of nothing. This may be a specific, regional, competitive advantage of new ventures from transition economies, which might have particularly high application in the process of early internationalization. Our explanation of how founders of INVs overcome their resource constraints adds to previous explanations involving the impact of entrepreneurial orientation on INV capability upgrading (Zhou et al. 2009) and although grounded in the transition market context, may be extended also to other contexts.

Our research shows also that while new international ventures may benefit from combining focus, technological leadership and product differentiation strategies (Knight and Cavusgil 2005), some transition economy INVs, particularly in hi-tech industries may derive substantial advantages also from price differentiation. In the case of hi-tech INVs, price differentiation offsets the negative impact of country-of-origin bias.

Our research findings are subject to certain limitations. All case firms were located in one specific transition economy – Poland. Therefore while we believe that our cases can generate propositions applicable also in other settings, such as other transition economies around the world, such generalizations should be done only with caution. Earlier studies on internationalization of private firms from transition economies suggest for example that international human and social capital constraints may in some countries, regions or individual cases be great (Židonis 2007; Liu et al. 2008; Shirokova/McDougall-Covin 2012) while in others small (Visaak 2007). Therefore further comparative empirical studies, involving for example INVs from countries at different levels of market and institutional transition as well as characterized by diverse human, financial and knowledge resource would be welcome. Such comparative studies could show to what extent diverse resource pools available to new venture founders impact on their tendency for early internationalization and their strategies for compensating resource shortages. In addition they could control for cultural differences between nations, such as for example uncertainty avoidance (Hofstede 1980) which might affect perceptions concerning foreign market uncertainty and as a result might affect firms´ reliance on the affordable loss principle. Therefore, such research should take into account variations in environmental contexts, which may appear in other different transition economies (Kiss et al 2012). Additionally, as our study is qualitative and explorative in nature it seems worthwhile testing in a more quantitative study whether INVs from other transition and emerging economies would encounter similar constraints, and would refer to similar behaviours. Particularly interesting would be testing bricolage and effectuation as the paths of reaching internationalization. Under which circumstances would these behaviour patterns prove more useful in early internationalization?

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