IMPORTANCE OF INTERNATIONAL ENTREPRENEURSHIP

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Introduction

Never before in the history of the world has there been such a variety of exciting international business opportunities. The movement of the once-controlled econo- mies to more market-oriented ones, the advancement of the Pacific Rim and the newmarkets in the Middle East provide a myriad of possibilities for entrepreneurs want- ing to start a new enterprise in a foreign market as well as for existing entrepreneurial firms desiring to expand their businesses globally. The world is truly global.

As more countries become market oriented and economically developed, the dis- tinction between foreign and domestic markets is becoming less pronounced. What was once only produced domestically is now produced internationally. For example, Yamaha pianos are now manufactured in the United States, and Nestlé chocolate (started in Europe) is made all over the world. Invacare's wheelchairs, once produced only in the United States, are now made in Germany and China. This blurring of national identities will continue to accelerate as more products are introduced outside domestic boundaries earlier in the life of entrepreneurial firms.

Since the mid-1990s, organizations have been attempting to redefine themselves to be truly global. The pressure to internationalize is being felt in every type of organi- zation: nonprofit and for-profit, public and private, large and small. This need to internationalize is accelerating because of the self-interest of these organizations as well as the effect of a variety of external events. Today, more than seven eighths of the world's economic states have some form of market economy. A few large trading blocs such as the European Union and NAFTA (the North American Free Trade Agreement between Canada, Mexico, and the United States) have emerged and are growing. Once- developing countries, like China, are economic powers.

These changes are well recognized by organizations that are investing trillions of dollars in a world economy that includes emerging markets as some of the vehicles of future growth. About 85% of the world's population lives in developing countries, most of which are in need of major investment in infrastructure development. Just ask the potato farmers in the Chuvash Republic of Russia, who saw 26% of their crop rot because of inadequate distribution and warehousing, whether there is a need for this investment in infrastructure. Or, ask the economics professor in the Czech Republic, who had to leave the university to find other employment due to the low university wages, whether massive investment in education is needed. The professor, like many human resources in these developing countries, needs training and education to pro- vide the manpower required in the next century.

The need for physical and technological infrastructure is no more apparent than in one of the fastest-growing markets in the 2000s and early 2010s—the Pacific Rim. This area offers economically viable locations for manufacturing and trade. Over half of the world's population lives in Asia, with China containing 20% of the world's population. India alone is twice the size in population of Latin America. And then there is Japan, with its world economy, ranking high in the world in exporting and importing.

There are also new market opportunities in South America, Africa, Ukraine, Vietnam, Iraq, and other countries in transition throughout the world. These areas are becoming highly attractive to globally oriented companies that want to grow their business internationally and develop a strong market position as the economies of countries change through privatization and deregulation.

The globalization of entrepreneurship creates wealth and employment that benefit individuals and nations throughout the world. International entrepreneurship is excit- ing because it combines the many aspects of domestic entrepreneurship with other disciplines such as anthropology, economics, geography, history, jurisprudence, and language. In today's hypercompetitive world with rapidly changing technology, it is essential for an entrepreneur to at least consider entering the global market.

Many entrepreneurs find it difficult to manage and expand the venture they have created, especially into the global marketplace. They tend to forget a basic axiom in business: The only constant is change. Entrepreneurs who understand this axiom will effectively manage change by continually adapting their organizational culture, struc- ture, procedures, and strategic direction, as well as their products and services in both a domestic and an international orientation. Entrepreneurs in developed countries like the United States, Japan, the United Kingdom, and Germany must sell their products in a variety of new and different market areas as early as possible to further the growth of their firms.

Global markets offer entrepreneurial companies new market opportunities. Since 1950, the growth of international trade and investment has often been larger than the growth of domestic economies, even than those of the United States and China. A combination of domestic and international sales offers the entrepreneur an opportunity for expansion and growth that is not available solely in a domestic market.

The Nature of International Entrepreneurship

Simply stated, *international entrepreneurship* is "the process of an entrepreneur conducting business activities across national boundaries." It may consist of exporting, licensing, opening a sales office in another country, or something as simple as plac- ing a classified advertisement in the Paris edition of the *International Herald Tribune*. The activities necessary for ascertaining and satisfying the needs and wants of targetconsumers often take place in more than one country. When an entrepreneur executes his or her business model in more than one country, international entrepreneurship is occurring.

The term *international entrepreneurship* was introduced around 1988 to describe the many untapped foreign markets that were open to new ventures reflecting a new technological and cultural environment (Morrow, 1988). McDougall (1989, p. 389) defined international entrepreneurship as "the develop- ment of international new ventures or start-ups that, from their inception, engage in international business, thus viewing their operating domain as international from theinitial stages of the firm's operation."

In 1997, McDougall and Oviatt introduced a broader definition of international entrepreneurship to include the study of established companies and the recognition of comparative (cross-national) analysis. They defined this field as "a combination of inno-vative, proactive, and risk-seeking behavior that crosses or is compared across national borders and is intended to create value in business organizations" (McDougall & Oviatt, 2000, p. 903). This definition takes into account at the organizational level the notions of innovation, risk taking, and proactive behavior. It also focuses on the entrepreneurial behavior of these firms rather than only the characteristics and intentions of the individual entrepreneurs. The key dimensions of entrepreneurship— innovativeness, proactiveness, and risk propensity—can be found and developed at the organizational level.

A good definition and understanding was presented in the introduction to an issue devoted to the topic in *Entrepreneurship Theory and Practice* (Honig-Haftel, Hisrich, McDougall, & Oviatt, 1996). The authors broadly defined international entre- preneurship as any activity of an entrepreneur that crossed a national border. This understanding was further developed in a review article.

Numerous research studies and definitions have emerged focusing on a wide variety of areas, such as the international sales of new ventures (McDougall, 1989), born-global ventures (McDougall & Oviatt, 2000), role of national culture (McGrath, McMillan, & Scheinberg, 1992), and the internationalization of small and medium enterprises (Lu & Beamish, 2001). It has also been applied in many geographic con-texts, such as Eastern Europe (Hisrich, 1994; Hisrich & O'Cinneide, 1991), Germany (Grichnik & Hisrich, 2004), Hungary (Hisrich & Fulop, 1993, 1995; Hisrich & Szirmai,

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1993; Hisrich & Vecsenyi, 1994), Ireland (Hisrich & O'Cinneide, 1989), Israel (Lerner, Brush, & Hisrich, 1997), Northern Ireland (Hisrich, 1988), Slovenia (Hisrich, Vahcic, Glas, & Bucar, 1998), Soviet Union (Ageev, Grachev, & Hisrich, 1995), Ukraine (Hisrich, Bowser, & Smarsh, 2006), and developing economies (Antoncic & Hisrich, 1999, 2000; Hisrich & Öztürk, 1999).

Finally, according to McDougall, Oviatt, and Shrader's definition (2003, p. 61), international entrepreneurship is "a combination of innovative, proactive, and risk-seeking behavior that crosses national borders and is intended to create value in organizations." With a commercial history of only 300 years, the United States is a relative new- comer to the international business arena. As soon as settlements were established in the New World, American businesses began an active international trade with Europe. Foreign investors helped build much of the early industrial trade with Europe as well as much of the early industrial base of the United States. The future commercial strength of the United States, as well as the rest of the world, will depend on the ability of both entrepreneurs and established companies to be involved in markets outside their borders.

International Versus Domestic Entrepreneurship

Although both international and domestic entrepreneurs are concerned with sales, costs, and profits, what differentiates domestic from international entrepreneur- ship is the variation in the relative importance of the factors affecting each decision. International entrepreneurial decisions are more complex due to such uncontrollable factors as economics, politics, culture, and technology (see Table 1.1).

Economics

In a domestic business strategy, a single country at a specified level of economic development is the focus of entrepreneurial efforts. The entire country is almost always organized under a single economic system with the same currency. Creating a business strategy for a multicountry area means dealing with differences in levels of economic development; currency valuations; government regulations; and banking, venture capital, marketing, and distribution systems. These differences manifest themselves in each aspect of the entrepreneur's international business plan and methods of doinghusiness.

Stage of Economic Development

The United States is an industrially developed nation with regional variances of relative income. While needing to adjust the business plan according to regional dif- ferences, an entrepreneur doing business only in the United States does not have to worry about a significant lack of such fundamental infrastructures as roads, electricity, communication systems, banking facilities and systems, adequate educational systems, a well-developed legal system, and established business ethics and norms. These factors vary greatly in other countries and significantly affect the ability to successfully engage in international business.

Balance of Payments

With the present system of flexible exchange rates, a country's *balance of payments* (the difference between the value of a country's imports and exports over time) affects the valuation of its currency, and this valuation of one country's currency affects busi- ness transactions between countries. At one time, Italy's chronic balance of payments deficit led to a radical depreciation in the value of the lira, Italy's currency. Fiat Group Automobiles S.p.A. responded by offering significant rebates on cars sold in the United States. These rebates cost Fiat very little because fewer dollars purchased many more liras due to the decreased value of the lira. Similar exchange rate divergences have occurred for Japanese automobile manufacturers and many products made in other countries. The shrinking value of the U.S. dollar has helped U.S. firms export more due to lower prices of U.S. goods in foreign currencies.

Type of Economic System

Pepsi-Cola began considering the possibility of marketing in the former U.S.S.R. as early as 1959, following the visit of U.S. Vice President Richard Nixon. When Premier Nikita Khrushchev expressed his approval of Pepsi's taste, East–West trade really began moving, with Pepsi entering the former U.S.S.R. Instead of using its traditional type of franchise bottler in their entry strategy, Pepsi used a barter-type arrangement that sat- isfied both the socialized system of the former U.S.S.R. and the U.S. capitalist system. In return for receiving technology and syrup from Pepsi, the former U.S.S.R. provided the company with Soviet vodka and distribution rights in the United States. Many such *barter or third-party arrangements* have been used to increase the amount of business activity in countries in various stages of development and transition. Having to come up with appropriate bartering arrangements is just one of the many difficulties in doing business in developing and transition economies.

Political-Legal Environment

The multiplicity of political and legal environments in the international market creates vastly different business problems, opening some market opportunities for entrepreneurs and eliminating others. For example, U.S. environmental standards have eliminated the possibility of importing several models of European cars. Another significant event in the political-legal environment involves price fluctuate and significant increases in the last few years in oil, other energy products,and food.

Each element of the business strategy of an international entrepreneur has the potential to be affected by the multiplicity of legal environments. Pricing decisions in a country that has a value-added tax are different from those decisions made by the same entrepreneur in a country with no value-added tax. Advertising strategy is affected by the variations in what can be said in the copy or in the support needed for advertising claims in different countries.

Product decisions are affected by legal requirements with respect to labeling, ingredients, and packaging. Types of owner- ship and organizational forms vary widely throughout the world. The laws governing business arrangements also vary greatly with over 150 different legal systems and national laws.

Cultural Environment

The effect of culture on entrepreneurs and strategies is also significant. Entrepreneurs must make sure that each element in the business plan has some degree of congruence with the local culture. For example, in some countries point-of-pur- chase displays are not allowed in retail stores, while they are in the United States. An increasingly important aspect of the cultural environment in some countries concerns bribes and corruption. How should an entrepreneur deal with these situations? What is the best course of action to take and still maintain the needed high ethical standards? Sometimes, one of the biggest problems is finding a translator. To avoid errors, entre- preneurs should hire a translator whose native tongue is the target language.

Technological Environment

Technology, like culture, varies significantly across countries. The variations and availability of technology are often surprising, particularly to an entrepre- neur from a developed country. While U.S. firms produce mostly standardized, relatively uniform products that meet industry standards, this is not the case in many countries, making it more difficult to achieve a consistent level of quality. New products in a country are created based on the conditions and infrastructure operating in that country. For example, U.S. car designers can assume wider roads and less expensive gasoline than European designers. When these designers work on transportation vehicles for other parts of the world, their assumptions need to be significantly altered.

Local Foreign Competition

When entering a foreign market, the international entrepreneur needs to be aware of the strength of local competitors who are already established in the market. These competitive companies can often be a formidable force against foreign entry, as they are known companies with known products and services. This can be particularly difficult when there is a "buy national" attitude in the country. A sustained effort stressing the unique selling propositions of the entering product or service is necessary, including a guarantee to ensure customer satisfaction, in order to compete.

Subsidies Offered by Foreign Governments

Some governments offer subsidies to attract particular types of foreign companies and investments to help further the development of the country's economy. These subsidies can take different forms, such as cash or a tax holiday for a period of time, and usually involve infrastructure development. This occurred for U.S. oil companies that built the oil fields and delivery system in the Middle East and for foreign banks that assisted in developing the banking system in China. Foreign governments can also offer subsidies to local firms to help them compete against foreign products. This is often called an *infant industry protection policy*.

Motivations to Go Global

Unless you are born global, most entrepreneurs will only pursue international activities when stimulated to do so. A variety of proactive and reactive motivations can cause an entrepreneur to become involved in international business, as is indicated in Table 1.2. Profits are, of course, one of the most significant reasons for going global. Often, the profitability expected from going global is not easily obtained. In fact, profitability can be adversely affected by the costs of getting ready to go global, underestimating the costs involved, and mistakes. The difference between the planned and actual results may be particularly large in the first attempt to go global. Anything you think won't happen, probably will, like having significant shifts in foreign exchange rates.

The allure of profits is reflected in the motive to sell to other markets. For a U.S.-based entrepreneurial firm, the 95% of the world's population living outside the United States offers a very large market opportunity. These sales can cover any significant research and development and start-up manufacturing costs that were incurred in the domestic market. Without sales to these international markets, these costs would have to be spread just over domestic sales, resulting in fewer sales and smaller profits. Another reason for going global—the home domestic market is leveling or even declining in sales or sales potential. This is occurring in several markets in the United States with its aging demographics.

Sometimes an entrepreneur moves to international markets to avoid increased regulations or governmental or societal concerns about their products or services. Cigarette companies such as Philip Morris aggressively pursued sales outside the United States, particularly in developing economies, when confronted with increased government regulations and antismoking attitudes of consumers. Sometimes this took the form of purchasing existing cigarette companies in foreign markets, as occurred in Russia. When the entrepreneur's technology becomes obsolete in the domestic market or the product or service is near the end of its life cycle, there may be sales opportunities in foreign markets. One entrepreneur found new sales life for the company's gas-permeable hard contact lenses and solutions when highly competitive soft lenses negatively affected the domestic market in the United States. Volkswagen continued to sell its original VW Beetle in Latin and South America for years after stopping its sales in the United States.

Entrepreneurs often go global to take advantage of lower costs in foreign countries for labor, manufacturing overhead, and raw materials. The "Flip Watch," made by Hour Power, could not be marketed at its price point in Things Remembered and JC Penney stores without being produced in China. Waterford Crystal is manufacturing some products in Prague to help offset the higher labor costs in Ireland.

Several other motivations can motivate an entrepreneur to go global. One of themore predominant motivations is to establish and exploit a global presence. When an entrepreneur truly goes global, many company operations can be internationalized and leveraged. For example, when going global an entrepreneur will establish a global distribution system and an integrated manufacturing capability. Establishing these gives the company a competitive advantage because they not only facilitate the suc- cessful production and distribution of present products but help keep out competi- tive products as well. By going global, an entrepreneur can offer a variety of different products at better price points.

Traits of an International Entrepreneur

Several characteristics and traits are identifiable in international entrepreneurs regard- less of the country of origin. These include ability to embrace change, desire to achieve, ability to establish a vision, high tolerance for ambiguity, high level of integrity, and knowing the importance of individuals.

Embraces Change

A global entrepreneur likes and even embraces differences in people, as well as situations. He or she constantly seeks new and exciting things and likes to "break the mold" and challenge corporate orthodoxies. Living in and learning about different cultures and ways of doing things is an exciting way to live. New ways of doing things are encouraged. Employees are taught how to manage change.

Desire to Achieve

A global entrepreneur has good business savvy and a strong desire to achieve. To succeed, an entrepreneur needs to have profit/loss experience and an ability to create value in a different culture. A possession of broad business knowledge, such as transfer pricing, foreign exchange, and international customs and laws, combined with a global mindset, provides the basis for success.

Ability to Establish a Vision

A global entrepreneur needs to establish a vision that employees and custom- ers understand. Employees should feel that they are an important part of the global organization and essential to its success. A global entrepreneur is very optimistic, assumes that everything is possible, and establishes a limited number of short-term goals to obtain the vision. He or she focuses more on outcomes than processes, works long hours, has a high energy level, and does not fear failure.

High Tolerance for Ambiguity

The passion for learning from a variety of sources and viewing uncertainty as an opportunity instead of a threat allows a global entrepreneur to develop mental maps that will lead to achieving a vision. Incrementally moving initiatives in a variety of areas without completing one regularly is not a problem. This high tolerance for ambiguity makes utility a key virtue of any practice at the individual or company level.

High Level of Integrity

A global entrepreneur has an extremely high standard for individual and com- pany integrity. These established standards are used inside and outside the company. The same high ethical standards are expected from all employees and activities of the venture.

Individuals are Important

A global entrepreneur focuses on the well-being of his or her employees and acts as a nurturing coach. He or she focuses on building and inspiring people and works effectively with others in teams. Spending more time listening than talking, a global entrepreneur values people—employees as well as customers—and wants to build a sustainable enterprise in a particular culture and country.

The Importance of Global Business

Global business has become increasingly important to firms of all sizes in today's hypercompetitive global economy. There can be little doubt that today's entrepreneur must be able to move in the world of international business. The successful entrepre-neur will be someone who fully understands how international business differs from purely domestic business and is able to respond accordingly. An entrepreneur entering the international market should address the following questions:

1. What are the options available for engaging in international business?
2. What are the strategic issues in successfully going global?
3. How is managing international business different from managing domestic business?

Many factors affect how an entrepreneurial firm can become truly global. Since the cultural, political and legal environment, economy, and the available distribution channels vary significantly from country to country, each of these needs to be taken into account when deciding to go global as discussed in the following summary. Change and communication are important aspects of operating in a global environ-ment, as are market selection and entry.

Conclusion

At no other time in human history has the potential for great wealth and prosperity been accessible to so many. This first chapter introduces the concept of international entrepreneurship, and the process that takes place when an entrepreneur conducts business activities across national boundaries. More businesses than ever before are deciding to go global early in their inception. Entrepreneurs today have numerous opportunities from which to choose. The chapter emphasizes how economics; state of economic development; balance of payments; economic system; and political-legal, cultural, and technological environments all play a large role in the establishment of an international versus domestic company. The motives for launching an interna-tional enterprise, including a large market opportunity and potential for profit, are also examined. Finally, the chapter discusses what questions an individual or company should consider before going global.

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