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International Exposure and Firm Performance: A study on founders of internationalized Nordic tech startups

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A study on founders of internationalized Nordic tech startups

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1.0 Introduction to Research Topic

The importance of international experience is constantly promoted by academic institutions, employers and politicians, and it is said to give a person great advantages in their professional and personal lives. By taking parts of your studies abroad, engaging in international opportunities at work, living abroad or speaking several languages, you are likely to gain more experiences and expertise than those who have not. Thus, one could think that people with international exposure also perform better than others. In an attempt to measure the effect of international exposure of founders on firm performance, we will study founders of startup companies and their international exposure prior to founding their companies. These companies, as opposed to more established firms, are interesting, as the entrepreneur’s background, personality, experiences and capabilities are expected to have a more direct influence on firm performance.

Research have pointed to previous experience of the founder as an indication of firm performance (Reuber & Fischer, 1997; Reuber & Fischer, 1999), and most of the research relate to experience acquired prior to foundation of the firm (Dyke, Reuber, & Fischer, 1992). Previous experience with startups, business within the same industry, international experience and family experience have all been looked into (Dyke et al., 1992). Furthermore, the area of ‘born globals’, which are business organizations that internationalize early after initiation (Knight & Cavusgil, 2004), and their leaders have been immensely researched, and authors have sought to find a rationale for why some firms internationalize at inception and others do not (Karra, Phillips & Tracey, 2008; Knight & Cavusgil, 2004; Madsen & Servais, 1997). Founder and founder team’s international experience has been highlighted as a significant indicator for born global companies’ internationalization behavior. However, there exists little research on how international exposure of the founders of international venture companies affects the firm’s performance. Most literature that highlight international experience as a factor explaining international venture companies, explain it as a rationale and factor for their early internationalization. Thus, the relationship between international experience and firm performance is identified as a gap in current research, and lays the basis for what we want to investigate. Looking at a group of companies that are all startups in an international setting, we hope to look further into the subject of these global venture companies, and investigate whether or not
their founders’ previous international experience and exposure has an effect on the performance of their companies.

This paper first presents a theoretical backdrop on which our research question is drawn on. Secondly, we propose a research model and methodology for data collection and examination. Finally, we present a progression plan for the study.

2.0 Theoretical Background

This section aims to provide the reader with a deeper understanding of the main topics of our thesis and what forms the basis of our research question. The areas of literature that have been deemed relevant include international new venture firms and founders’ experience in relation to firm performance. Literature in both of these areas are reviewed, followed by a presentation of our research question and research model based on the backdrop this literature offers.

2.1 International Startup Firms

2.1.1 Startups

Startup firms are generally associated with great risk, and although we often read stories about successful entrepreneurs, a well-known problem with new businesses is their high dissolution rate (van Praag, 2003). Of every 100 startups, less than 50 firms survive the first three to five years (Patel, 2015; Pryor, 2016). This ‘liability of newness’ has been shown in a wide range of studies, and the processes that improve performance and capabilities are suggested to increase with organizational age (Carroll & Hannan, 2000, p. 301). Gray (2006) suggest that one reason why older firms perform better may be that the level of the owner’s business experience increases over time, and this is dependent upon previous knowledge. Thus, as this grows over time, performance is likely to improve.

Researchers provide different explanations regarding the determinants of startups’ success. Gimeno, Folta, Cooper and Woo (1997) argue that organizational survival can be explained by more than just the firm’s economic performance, and more specifically the entrepreneur’s human capital characteristics. Gross (2015) addresses startups’ success to their timing in the market, but also emphasizes the
importance of the team and the competence of the people being the second biggest reason for startups success. Yet, the literature seems to agree that the success or failure of a startup is due to more than factors such as the firm’s initial financial funding, the business model, or the actual idea (Meyer & Zucker, 1989; Levinthal, 1991; Gross, 2015).

2.1.2 International Startups

The body of literature on international startup firms lies in the intersection between international business and entrepreneurship. International business has tended to focus on large, multinational corporations, while research in entrepreneurship has focused on venture creation and the management of SME’s within a domestic context (McDougall & Oviatt, 2000). The term ‘international entrepreneurship’ has various definitions, and is by McDougall and Oviatt (2000, p. 903) defined as “a combination of innovative, proactive, and risk-seeking behavior that crosses national borders and is intended to create value in organizations”.

2.1.3 Entrepreneurial Capabilities

In regards to international new ventures or international startups, several studies have emphasized the importance of the capabilities and characteristics of the founder and manager in relation to firms’ internationalization. Among other traits, the global mindset and perspective of the entrepreneur or founder has received considerable attention (Gabrielsson, Kirpalani, Dimitratos, Solberg, & Zucchella, 2008; Knight & Cavusgil, 2004). A global mindset has a clear effect on the internationalization of a firm, as it affects the decision to allocate more resources to international markets and probably also to set the internationalization objectives as a priority in the firm’s strategy (Nummela, Saarenketo, & Puumalainen, 2004). Karra et al. (2008, p. 450) observed that “the internationalization process of international new ventures extends back to pre-existent experiences and networks of the entrepreneur and others involved in the founding of the firm”, and the characteristics of the entrepreneur in a born global company can influence the overall entrepreneurial orientation of the firm, and hence create a structure that allows for innovation, risk-taking and creativity (Zhou, Bradley, & Lu, 2010). It is suggested that the core of entrepreneurial capabilities is having an international vision, and that this vision grows from complex cultural knowledge and experience. This suggests that it may in fact be the entrepreneur's capabilities that
underpins international new venture creation, and explains rapid internationalization. (Karra et al., 2008). Karra et al. (2008) further identified three main steps to develop necessary capabilities for international entrepreneurs: Experience, connections and explorations, and that international entrepreneurship requires gaining competitive advantage by developing international resource configurations.

Knowledge and knowledge integration is, by Conner and Prahalad (1996), said to be the essence of organizational capabilities, as knowledge provides competitive advantages in international business settings. Young and fairly small firms are usually relatively scarcely endowed with financial, human and tangible resources, and Knight and Cavusgil (2004) state that firms need to have specific knowledge-based organizational capabilities that support early internationalization and that international entrepreneurial orientation reflects an innovation-focused managerial mindset that leads born globals to pursue strategies to maximize international performance.

Finally, networks have been viewed as an important factor in terms of entrepreneurial outcomes. Entrepreneurs rely on networks for problem solving, advice and business information, and entrepreneurs seek to reduce the uncertainty of startups by associating with certain positive-related individuals and organizations. The positive perceptions based on a company's network, can lead to more investors and employees beneficially valuing the potential of the venture (Hoang & Antoncic, 2003), and entrepreneurs who have broad social networks they receive help and support from are more successful (Brüderl & Preisendörfer, 1998).

2.2 Founders’ Experience and Firm Performance

2.2.1 Startup Performance

Measuring the performance of startups can be challenging, and different measures and definitions are used in the literature. In a review by van Praag (2003, p. 2) se identifies measures such as self-employment earnings, firm size, firm growth, (growth in the) number of employees, duration in business, the probability that one has remained self-employed for a certain while, and subjective empirical measures.
A challenge when trying to measure a startup firm’s performance, lies in the desires, motives and plans of the founder and their perceived level of performance of their firms (Robinson & Stubberud, 2011). Some entrepreneurs may have modest growth ambitions and do not necessarily seek profit maximization and growth as their essential goals (Buttnner & Moore, 1997; Cliff, 1998; Gray, 2006; Roomi, Harrison, & Beaumont-Kerridge, 2009; Suganthi, 2009). As suggested by Robinson & Stubberud (2011), some entrepreneurs are motivated by the lifestyle associated with being a founder and ‘self-made man’, and their financial goals may simply be to earn what is necessary to make a living. Further, some may not want to grow so much that they need to delegate key functions or employ non-family members (Gray, 2006). Thus, the entrepreneur’s perceived performance may not be the equivalent to the firm’s profits or growth, and is important to consider when trying to measure startups’ performance.

The type and scope of experience managers bring into a business has received substantial attention from researchers in trying to determine why some business founders are more successful than others (Reuber & Fischer, 1999). Several researchers (Chandler & Hanks, 1994, cited in van Praag, 2003; Peteraf & Shanley, 1997, cited in van Praag, 2003; Reuber & Fischer, 1999) explicitly mention that for new ventures, the firm can be considered to be an extension of the founder, and investors in startups often say that they ‘bet on the jockey, not on the horse’ when choosing which company to invest in, arguing that experienced entrepreneurs will do a better job than inexperienced ones (Delmar & Shane, 2006). Although inconclusive findings, venture capitalists and researchers are hesitant to conclude that experience or lack of experience has no consequences for firm performance (Reuber & Fischer, 1999). Studies have suggested that the characteristics of the entrepreneurs of startup firms are predictors of the performance of these companies (Brüderl, Preisendörfer, & Ziegler, 1992; Chandler & Jansen, 1992), but substantial evidence have not been found in regards to the relationship between founders’ characteristics and firm performance (Stuart & Abetti, 1990, cited in Lee, Lee, & Pennings, 2001). One exception is Brüderl and Preisendörfer’s (2000) study, where seven characteristics, such as gender, education and work experience, of the founder was included. They found that founders with industry-specific, self-employment and management
experience have a higher probability of initiating a fast growing startup. However, this says more about the pace of growth, and not so much about performance of the firm.

2.2.2 International Experience

Among the areas of experience considered to be related to success and internationalization behaviors of firms, international experience has received much attention. Characteristics that have been found to predict success in exporting are the number of languages the founder speaks, whether or not the founder has travelled much and whether the founder has spent part of his or her life abroad; born, studied or worked (Miesenbock, 1988), among others. Karra et al. (2008) pointed out one key international skill of entrepreneurs that determine their capabilities of succeeding with international new ventures. First of all, creating access to important networks is essential, but this alone is unlikely to lead to successful venture creation. The authors further state that “interpreting and assimilating knowledge and information from across the international network, much of which is tacit and culturally specific is a key skill” (Karra et al., 2008, p. 450). Hence, the ability to search for the right partners, developing necessary networks, and having the necessary processes and systems in place to coordinate them and integrate them are just as important.

2.2.2.1 International Childhood and Adolescence

Much research has been done on the effects of multicultural experience, but little of this is related to children and their international experiences during childhood and adolescent years. Many children are affected by their parents’ careers and life choices, including geographic relocation. A study by Chang, Hsu, Shih and Chen (2014) showed that young adolescents from binational families performed better in terms of creativity than those from monocultural families.

2.2.2.2 Multiple Languages

International experience may also be reflected in the number of languages spoken. Bilinguals are defined as someone who use and practice two languages frequently, and this feature is often apparent in people from families where the parents come from different cultures. Bilinguals have proven to be better at multitasking, as they are able to sort out and process information more efficient (Dreifus, 2011).
This feature may therefore be a type of international experience or exposure that may affect the capabilities and performance of a business leader.

2.2.2.3 International Experience in Academic and Professional Life

International work has generally been seen to enhance the capabilities of the individual (Gregersen, Morrison, & Black, 1998), and Dickmann and Harris (2005) found that from an individual perspective, international expatriates gained a broader perspective, more cultural competence and higher self-confidence from working abroad. Internationally experienced managers have greater possibilities of developing foreign strategic partners and to delay less in obtaining foreign sales after startup (Reuber & Fischer, 1997). However, international experience and entrepreneurial capabilities are not all acquired through business life. Studying abroad for the whole or parts of one's degree has proven to increase the international experience and several findings point to a positive impact of abroad experiences on extraversion, openness, agreeableness, and creativity (Lüdtke, Roberts, Trautwein, & Nagy, 2011; Maddux & Galinsky, 2009; Zimmermann & Neyer, 2013). Other researchers have also found that an academic stay abroad increased perceived self-efficacy of the students compared to those who did not go abroad (Petersdotter, Niehoff, & Freund, 2017), and they also perform better on creativity tasks (Lee, Therriault, & Linderholm, 2012).

3.0 Research Question and Model

The increasing number of startup firms that internationalize early on, and how important their founders’ previous experience is in terms of the success of their companies provide the basis for our thesis research. More specifically, we want to know if the founders’ exposure to internationalization has an effect on firms’ performance. By ‘exposure’ we refer to international experience both in terms of childhood experiences, languages, studies and work experiences.

The purpose of this study is to test what effect founders’ international experience has on their firm’s performance. Our research question is therefore as follows:

“Does international exposure on leaders of international startups have a positive effect on firm performance?”
The research model is built up using measures of international exposure such as:

- Studied abroad
- Worked abroad (prior to current company)
- Lived abroad
- Number of languages spoken
- Multicultural family background

These are chosen in order to try to measure the relationship between the degree of international exposure and firm performance (the dependent variable), as they are suggested to affect founders’ personality and behavior.

Figure 1: Research model

4.0 Research Methodology

4.1 Research Strategy

A research strategy is the general orientation to the conduct of business research (Bryman & Bell, 2015). As pointed out, we are aiming to test the effect of founders’ international exposure on performance of start-up firms. The goal of the thesis is being approached by combining theory on founder's experience influence on performance and international venture firms, specifically with attention to startups. A research question has been drawn from the theoretical background and will be tested using a self-completion questionnaire and corporate data on growth publicly available. Empirically, the final goal of the thesis will be approached by analyzing the variables collected to try to identify significant relationships between the independent variables measuring international exposure and the dependent variable being a measure of performance.
4.2 Research Design

“A research design provides a framework for the collection and analysis of data” (Bryman & Bell, 2015, p. 49). For our study, a descriptive design has been chosen, where we aim at describing a number of independent variables and establish a connection between them and a dependent variable. Furthermore, the research design will be cross-sectional, as data will be collected at a single point in time on more than one case in order to get quantifiable data, which can be examined to detect patterns of association (Bryman & Bell, 2015, p. 62).

4.3 Sampling

Nordic Innovation House (hereby referred to as NIH) is a Silicon Valley based headquarter of the Nordic Startup Community. Their concept is to allow members to have a presence in Silicon Valley, providing them with a “soft landing” space and a community of partners, peers and service providers. NIH is a collaboration between the five Nordic countries of Sweden, Norway, Denmark, Finland and Iceland, bringing Nordic technology to Silicon Valley. They have over 180 member companies within the tech industry, and facilitate an innovative learning and sharing hub in the United States.

We want to use the member companies of NIH as our sample of entrepreneurial leaders to investigate the relationship between international exposure and firm performance. Given that the response rate we can achieve is satisfactory, NIH serves as a good basis for sampling, as all member companies are Nordic companies starting up in an international setting. They all have this in common, and differ in terms of variety of servicing markets. The population will therefore be adequately similar and adequately different enough to be able to compare results across the population. 146 companies have so far been identified according to NIH’s member lists.

4.4 Data Collection

We plan to construct a simple survey based on questions relating to international exposure and the degree to which the founders of the companies are exposed to international circumstances and experiences. The questions proposed will aim at recovering information about whether or not the leader has one or more foreign parents, whether they speak more than 1-2 languages, if they have spent several
years living abroad, studied abroad or worked abroad/in an international context previously in life. We believe that looking at these factors, we can identify to what degree international exposure is inherent in the leaders.

Performance, being the dependent variable, will be collected on the companies responding to the surveys. We will use public financial information such as growth rate, size of company, number of employees, sales and worth. We consider growth rate to be the best suited performance measure to take into account. This is based on the facts that it has been used before in various studies as a measure of performance, and it is more generalizable and comparable because we can use percentage means of performance, independent of size and age of the company.

The companies will be contacted by email with the surveys, and if the response rate is satisfactory, the answers will be given numerical values and put in a dataset with the dependent variable of performance. This will provide us with the opportunity to look directly at whether or not one can say anything about the causal relationship between international exposure of leaders and firm performance.

Our contact at NIH, who is Innovation Norway’s representative in the NIH board, has agreed to help us with the data collection, by promoting our survey on their internal forum and encouraging their members to answer. We believe this will help us to get a sufficient response rate. To determine the sufficiency of response rate, we will refer to Mangione’s (1995) classification of bands of response, which says that anything below 50% is not acceptable.

As a backup plan, in case we fail to achieve the desired response rate, we will reach out to 3-4 companies that have replied, in order to do more in depth interviews with these. The nature of the thesis will in that case be more qualitative and resemble more of a case study on chosen companies. In the event of interviews, a semi-structured approach will be chosen, in order to establish cross-case comparability across the interviews (Bryman & Bell, 2015, p. 484).
4.4.1 Self-Completion Survey

By using self-completion questionnaires as our survey, we eliminate the interviewer effect often inherent in interviews and it is more convenient for the respondents (Bryman & Bell, 2015, pp. 240-241). In order to boost response rates, focus is placed on developing a solid covering letter with clear instructions, a follow up process and by making the questionnaire as short as possible. In addition to these initiatives, we will also receive support from Dyrnes, as mentioned above.

5.0 Thesis Progression

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<th>Activity</th>
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<th>Progression</th>
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<td>Send draft of Preliminary Thesis Report to supervisor for feedback</td>
<td>January 30, 2017</td>
<td>Finished</td>
</tr>
<tr>
<td>Delivery of Preliminary Thesis Report</td>
<td>March 1, 2017</td>
<td>Finished</td>
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<tr>
<td>Send out survey to data sample</td>
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<td>Process answers</td>
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<td>Write thesis</td>
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<tr>
<td>Send draft of Master Thesis to supervisor for feedback</td>
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<tr>
<td>Delivery of Master Thesis</td>
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6.0 Reference List


