

The International New Ventures: Applicability of the Theory on the Slovak Innovative Start-Ups

Sonia Ferencikova Sr. (✉) and Sonia Ferencikova Jr.

School of Management, Panonska cesta 17, 851 04 Bratislava, Slovakia
sferencikova@vsm.sk, sonaferencikova@gmail.com

Abstract. The international new ventures literature focuses on the phenomenon of rapid internationalization of firms. Unlike the traditional theories focusing on MNCs, the new international ventures literature emphasizes the growing occurrence of firms becoming internationally active already from their inception. The fundamental focus of this concept lies within the firm's age, not the size when examining its ability to internationalize. Special attention is also paid to the aspect of entrepreneurial behavior and constantly changing international environment, including recent technological advances, increasing mobility of human capital, higher availability of financing options, and a growing number of internationally experienced staff. There is not enough literature on the internationalization of the start-ups from Central and Eastern Europe and therefore we try to test the applicability of this theory on the case of selected Slovak IT firms.

Keywords: International new ventures · Internationalization · Slovak start-ups

1 Introduction

The research in the international business faces the following questions: are existing internationalization theories relevant to the companies from CEE that have started the internationalization differently from the Western companies, with no experience, different resources, in different time and under different conditions? Or, is the CEE situation so unique that we can form some new theoretical perspective? These are major research questions we try to address.

We analyze one of the major internationalization theories at first. Secondly, we chose a sample of three Slovak start-ups in the IT sector and tested existing theory on them. We assume that the specific feature of the newly-born market economies are newly-born companies, and if we should bring some novelty to the existing theories, this sample is the most appropriate one since the IT companies are the most successful ones in the internationalization among the Slovak start-ups. They were all built from the scratch, and have a short and transparent history. On top of that, these companies have not been influenced by the past, neither in the positive (know-how from the foreign markets, existing network, etc.) nor in the negative sense (heritage of the socialist system, murky privatization, etc.).

We compare the existing theory with the selected cases of well-known Slovak companies from IT sector, as examples of successful foreign expansion. The case study

design has been chosen in order to obtain the necessary information for answering the research questions. The depth of case study analysis should compensate for the limited representative sample. Focused interviews with the company representatives from January–April 2014, and the local economic press coverage are aimed to offer in depth analysis of the chosen Slovak firms in a qualitative way.

2 International New Ventures: Theoretical Background

The literature toward an International New Ventures (INV) theory introduced by Oviatt and McDougall in the 1990s focuses on the rapid internationalization of firms. Unlike the theories focusing on MNCs, the INV concept emphasizes the growing occurrence of firms becoming international already from their inception [8]. With this respect, the focus of this concept lies within the firm's age, not the size when examining its ability to internationalize. The authors [7] examine altogether 12 firms with US, UK, German, French and even Czech origin to offer a better understanding of the INV formation. As a result, these factors were identified in order to describe under what conditions start-ups are motivated to go global [7]: "The best human resources must be spread over different countries, foreign financing would be easier and more suitable, target customers require the venture to be international, rapid worldwide communications will lead to quick responses from competitors, worldwide sales are required to support the venture, domestic inertia will be crippling if internationalization is postponed."

The INV perspective may take multiple forms. The authors [8] identify four types of INVs; the global start up, often labeled as **born global**, being one of them. It is the most radical form as its operations are geographically unlimited and competitive advantage is achieved by extensive coordination among the firm's business activities [8]. A born global firm is a firm that internationalizes within three years after its formation, is less than 20 years old, and generates at least 25 % of its total output from its activities abroad [9]. The concept of INV lays special emphasis on the **entrepreneurial behavior** and its implications to the global start-up creation [7]. Entrepreneurs are believed to have superior market knowledge and thus be aware of resource combinations that could generate profits for firms [6]. The results of the study conducted by Oviatt and McDougall [7] confirm the importance the entrepreneurial behavior has on the new ventures creation, as their founders were people with superior education, international experience and well networked abroad.

Even though many researchers still try to identify reasons why firms internationalize rapidly, they all agree that each INV is highly specific, operates under different conditions, and thus, a single generalized explanation for this phenomenon cannot be applied in all cases [9].

2.1 International New Ventures and the Implications on CEE Countries

There are multiple factors that motivate firms from the CEE region to go global right from their inception. Firstly, better opportunity to raise the necessary financial capital abroad rather than in the home country is such an example. Another factor is the small

customer base in the home countries. Furthermore, both the fear of potential domestic inertia and the recent technological advances support the decision of new ventures to operate globally right from the foundation. Even though, there is only limited number of studies associated with the INV creation and focusing on the CEE region available, few studies confirming the patterns of fast internationalization of local firms can be found: The study of Vissak et al. [13] which examines four Baltic firms does not only confirm the patterns of the Uppsala model, resource-based and network view, but also shows that the observed firms entered foreign markets rapidly, thus underlines the relevance of rapid internationalization modes.

The study of Cieslik and Kaciak [4] analyzes new ventures established in 1993–2003 in Poland and their speed: the authors identify three types of firms: instant, quick and late exporters [4]. While instant exporters engage in export activities right after their foundation, quick exporters start exporting within the second or third year after their formation and late exporters launch exports in the fourth year or later. This study also underlines the role of entrepreneurs on the creation of start-ups [4].

Even though various researchers identify reasons why firms internationalize rapidly and offer better understanding to the dynamics of the new international ventures, there is still very limited empirical research conducted with the focus on the CEE region. To prevent inconclusive findings, before applying commonly used theories on international new ventures and rapid internationalization on the CEE firms, it is crucial to take the local context and settings into consideration beforehand. It is important to understand the above mentioned internationalization theory in order to test the applicability on internationalization patterns of Slovak firms.

3 Case Studies of Selected Slovak IT Start-Ups

3.1 Quality Unit

Quality Unit, established in 2004, is a software development company focused on web-based products and information systems for middle-to-large sized enterprises. Its products are aimed at affiliate marketing systems, which consist of retailer, affiliate partner, network and customers. The annual growth of the company is 30–40 %. Quality Unit is focused rather on larger number of smaller clients than on several large customers. According to Zeman [14], the co-founder of the company, it was this strategy that has helped them to grow during the economic crisis. Quality Unit currently has more than 15,000 clients and roughly 20 employees.

The share of the company on the global market is less than 1 %, however, its annual sales are more than 1 million €. Quality Unit's results in particular countries are rather diversified: in Brazil and Turkey, the annual growth is more than 100 %. On the other hand, Slovakia represents less than 1 % of the sales. The company even offered one of its products, Life Agent, to several Slovak companies for free, however, they declined the offer because they “did not need such service”.

Internationalization started immediately after the creation of the company. Zeman [14] thinks the main advantage is the size of the global market and the possibility of larger feedback. According to him, company should pursue foreign expansion even in

the case the product has certain imperfections. Quality Unit has low costs of marketing and it does not use on-line marketing tools such as pay-per-click. Company prefers viral publicity, blogs and positive users' reviews. The company expanded abroad at the time when the affiliate-software market was not well developed. It was also one of the determinants of company's success. Furthermore, continuous work, product improvements immediate solution of problems and care of customers are their important competitive advantages [14].

3.2 Nicereply

Nicereply is an on-line service for the quality evaluation of the e-mail communication between companies and their customers. Cooperation with foreign companies as Zendesk, Desk, Helpscout, TeamSupport and others was a major step in the Nicereply internationalization. The cooperation can be explained on the example of Zendesk, which serves more than 30,000 other companies. It is a multi-channel customer-support system: the employee is notified via e-mail, telephone, chat or tweet about the customer's question. After receiving a reply, the customer is automatically given a unique link in order to rate how satisfied he or she is with it. The company is thus able to receive direct, relevant and immediate feedback about its customer services.

Nicereply does not conduct any market research, because – when it comes to startups – these companies usually do not have the needed time and finance. According to Truban [11], the founder of Nicereply, even though it is important to know the competitors while expanding abroad, Nicereply is focused rather on the improvement of its services, e.g. in the form of the forum about the proposed improvements. Nicereply has never been aimed primarily at the Slovak market, internationalization was its goal from the beginning. The reasons were the same as in the Quality Unit case: more potential clients and higher awareness of this kind of service abroad.

Nicereply is an example of the approach of many other start-ups creating solution to the problem they faced, with unavailability to find the proper product or service on the market. In order to raise the profitability of the project, Nicereply offered its services to other companies. On the present, it has more than 100,000 business clients.

3.3 Synopsi.tv

Synopsi has aimed at the personalized film recommendations since 2011. Public version was made available in April 2012. The company has reached an important milestone, 100,000 active users in the first three months of its existence. Subsequently, Synopsi launched also B2B service. In the beginning of 2013, the company gradually started its relocation from Slovakia to Silicon Valley, USA. Currently, Synopsi has more than 350,000 users and processes more than billion entries a day with less than 30 employees. The user enters the films he or she has watched and liked. Based on these data, the unique algorithm recommends other films the user might like. The company currently has 6 business clients, among them Followmy.tv (similar service as Synopsi, but aimed at TV series), XBMC (multimedia system enabling to play user's files on the TV set) or Netflix (provider of on-demand Internet streaming media).

Exports create 99 % of the company's profits. According to Turek [10], two main reasons for internationalization were the shortages of the Slovak business environment and insufficient state protection of businesses. Company's success was based on cheap labour force (R&D centre was still based in Slovakia at that time) and "hard work". The problems associated with the relocation were mainly the lack of contacts and initial distrust of investors, combined with marketing costs, which were ten-times higher than in Slovakia. The strengths of Synopsi are the relative simplicity of the service, low price, direct targeting of customers and unique algorithm [10].

4 Discussion and Conclusions

After the fall of the Iron Curtain the existing CEE firms that tried to penetrate foreign markets faced the scarcity of resources, know-how, networks, state support, and an established foreign competition. As the literature review [5] shows, the central element in the discussion is finding a comparative advantage on which the internationalization initiative can be built. Without it, it is difficult to overcome the scarcity of resources and the additional disadvantage of the negative country-of-origin effect. In order to be successful internationally, the firms need to be cheaper than competitors or have to offer unique products or service features. We assume that CEE firms found their competitive arenas by focusing on neighboring markets and by basing their competitive strategies on good value-for-money (price advantages vis-à-vis developed country firms) and specialization advantages – often combining both aspects. Due to the lack of financial and physical resources SMEs in CEE are using intangible resources as the many start-ups in the ICT underline. In the case of the software industry entry barriers are lower than in many other markets, which makes it attractive to newcomers. Also, many CEE countries are small, have relatively high-quality education and superior talents that can compete in the international ICT arena because this is the one where physical resources are relatively less important at the beginning, and even small and resource-scarce companies can successfully develop their business. All three cases that we studied are these types of the SMEs.

We have shown that existing theory explain the internationalization patterns well. In our case of the study of Slovak IT start-ups, we confirm the applicability of the INV theory. However, given our findings, we believe that one theory is not sufficient for the explanation of the internationalization of similar companies: combining the resource-based view (see e.g. [1–3]), with the INV theory seems to be a promising theoretical approach that can be further developed and used in the conditions of the small, former transitional economies.

All three companies in our sample internationalized very quickly, and their explanation was the nature of their products, their industry and surprisingly, bad institutional environment in Slovakia that "pushed" them to go abroad. Their founders had the vision and strong entrepreneurial behavior. Slovak companies in our sample had to rely on their most valuable resources – human resources, if they wanted to enter foreign markets. This is particularly important, as the companies had to counterweight their lack of finance and foreign market knowledge with unique and high-quality products, which served as their competitive advantage. Another important factor might

be their narrow specialization, as they do not diversify their product portfolio into new categories, but rather they focus on improving the quality of their existing product or creating its new variations. What is more important, Slovakia has a large pool of highly-qualified IT talent.

Slovakia is an extremely open economy: however, Slovak export is based on large companies in the automotive and consumer electronics sectors. Therefore Slovakia also has a project aimed at helping the start-up companies: Connect Coworking in Bratislava is a space dedicated to start-ups. Its keywords are space, people and innovation, which describe also the idea of the project. Connect offers rental of offices and mentoring by the successful entrepreneurs. According to Vaculík [12], the founder of Connect, there are roughly ten start-ups on the present, while about 50 companies made use of the centre services during its existence.

In our future research we plan to study the relevance of all the theories of internationalization on a more representative sample of the Slovak companies including companies from different industries, companies of different size, ownership structure and history.

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