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Transnational entrepreneurship and opportunity recognition

Arnim Decker[1]

Abstract

To contribute for an improved understanding oft transnational entrepreneurship as an area of interest, we conducted a single case study of a Romanian TE with a base in France. We found that through a specific combination of resources the transnational entrepreneur was able to profit from specialized local technological knowledge in his home country and then leveraged relevant resources in the host country. While the transnational entrepreneur founded a firm in the home country, he kept residency in the host country to develop new costumer relationships. Subsequently the entrepreneur internationalized his firm and expanded into new business activities. Taking this case as an example, we discuss how transnational entrepreneurs can create and leverage resources to create sustainable competitive advantage. Moreover, this case depicts a form of internationalization which differs from those typically discussed in the literature about international new ventures. I argue that study of transnational entrepreneurs and international new ventures in general can profit from a better understanding of diversity found in transnational entrepreneurship. The way a transnational entrepreneur recognises patters to identify business opportunity seems to differ when compared to indigeneous entrepreneurs.

Introduction

There is ample research on why and how firms internationalize. From a behavioral perspective Johanson and Vahlne (1977); Johanson and Vahlne (2009) have discussed how previous experience determines the speed and scope of firm's internationalization process. Other researchers have argued that not all firm internationalize gradually, going to psychologically close markets only once they have established a solid foothold in their home markets. In contrast to the slow and gradual approach, Oviatt and McDougall (2005) have observed that entrepreneurial firms go international immediately or a short time after their inception. These approaches usually share the assumption that a firm is initiating its activities from a geographical point located in the home country (of the founders), from where it is then spawning its international activities into other countries. In this line, the concept of international entrepreneurship (Jones et al., 2011) as well as INV or International New Ventures (McDougall and Oviatt, 1994) is associated with

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commercially oriented activities of individuals that move their firm's activities outside their home countries borders, where home country conditions affect a firm's path of development. McGahan and Victer (2010) have demonstrated that home country conditions have a more accentuated effect on domestic firms compared to multinationals with a wider international presence. In particular in the initial phases of an INV, domestic conditions are significant and affect the nature of foreign market entry modes (Mayrhofer, 2004). The new venture theory of internationalization McDougall and Oviatt (1994) emphasizes the abilities of some entrepreneurs to see and take advantage of opportunities that others are not able to perceive Autio et al. (2000). For some of them pursuing an internationalization strategy can be the right choice on the path to success. Within this perspective, the strategic choice is always in one or the other way related to the basic condition that an entrepreneur or an INV disposes of a nationally determined base- the home country- as a starting point for internationalization the internationalization process (De Clercq et al., 2005).

Methodology and organization of this paper

In this section I first present a discussion on transnational entrepreneurship and further illustrate the exploration and opportunity recognition, as well as aspects of social capital, in the context of TE. This discussion will help understand the case presented in this article. A case study analysis is used to demonstrate the patterns of internationalisation of a transnational entrepreneur (henceforth TE) founded international venture. This article contains different sections. Firstly I discuss internationalisation of new ventures with a perspective on TEs. In the next section I consider aspects of entrepreneurial exploration and psychological implications of business opportunity recognition. From the perspective of this article, the notion of social capital and specifically the phenomenon of structural holes is of relevance for my analysis. To obtain data, following the case study approach (Eisenhardt, 1989; Yin, 1994, 2013; Flyvbjerg, 2006), I conducted a semi- structured in depth interview with two senior managers of the firm I am analysing in this article. During my visit to Romania, to complement my information, I also had general conversations with institutional representatives, for example the dean of the local university, a local cluster manager, and other business representatives who kindly found time to speak with me. In addition, I considered secondary sources to complement my information. Finally, at the end of this article, I discuss implications for further research on internationalisation of ventures related to transnational entrepreneurship.

Literature review

Transnational entrepreneurship

Nowadays, as a result of globalization and economic integration, an increasing number of individuals live outside their country of origin. Some of them engage in entrepreneurial activities in their host country, taking the option of pursuing the path of entrepreneurship. This phenomenon of a dual identity is increasingly attracting the attention of researchers who notice that TEs represent interesting units of analysis as they act between two different poles, usually their home country from which they originate and the host country where they reside. As soon as some of them become

entrepreneurs they are exposed to specific circumstances that differ from those indigenous entrepreneurs will typically encounter. These entrepreneurial individuals are called TEs since they are operating in a dual context. The phenomenon of transnational entrepreneurship merits special interest because they can leverage resources both from their host and their home country.

Drori et al. (2009) have called attention to the specific conditions of TEs who- often in more adverse conditions compared to their home environment- succeed in leveraging a wide range of specific resources. The set of challenges TEs need to deal with can be distinct from those that the international entrepreneur encounters, who usually expands into foreign market with the home country as a base. Apart from dealing with liability of foreignness (Zaheer, 1995) on a daily basis, including in their personal life, TEs are confronted with specific conditions of resource scarcity. Challenges encountered by the TE can be overwhelming since they include the need to handle and exploit diverse and continuously changing diverse social and economic conditions including the creation, handling and combination of diversity of networks and social structures.

Saxenian et al. (2002) suggest that transnational entrepreneurs represent important transmission vehicles for the transfer of organizational knowledge and technology between their home and host countries. Their special situation also enables them to leverage resources in way that is not accessible to indigenous entrepreneurs. TEs must balance the skills of handling diverse institutionally determined conditions (DiMaggio and Powell, 1983; Hollingsworth, 2000). Entrepreneurs suffer from a scarcity of resources (Mosakowski, 2002), and being able to tap on sources of dual origins can be a way to overcome these commonly occurring handicaps. TEs profit from their dual position allowing them to bridge between their home and hosts environment. Specifically, TEs can create competitive advantage by finding unique combinations of specific resources from their home and host country. Because of their dual situations- many are frequently traveling between their host and home countries, they are in a situation to identify and exploit new and undiscovered opportunities. Mixing at matching resources from different environments creates opportunities that the TE can leverage to his advantage. Operating in an environment they are not native to can impose restrictions on the development of TEs. This can lead to a diversity of issues, for example TEs may end up by being limited to their own ethnic community as their only market. An unwished outcome can be reduced level of innovation and lack of satisfactory development (Autio et al., 2014). On the one hand, in their country of residence, TEs may lack social capital (Nahapiet and Ghoshal, 1998; Adler and Kwon, 2002; De Carolis and Saparito, 2006) that indigenous entrepreneurs are more likely to have at their disposition. But on the other hand, they can compensate this deficiency by drawing on social resources that the TEs still maintain with their country of origin.

The recent literature on immigrant transnationalism points to an alternative form of economic adaptation of foreign minorities in advanced societies that is based on the mobilization of their cross-country social networks. With ongoing integration a set of factors plays to the advantage of transnational entrepreneurs, for example ease and reduced costs of communication, traveling or the general acceptance of English internationally accepted *lingua franca* for organizing transactions (Light, 2014). Portes and Sensenbrenner (1993) as well as Portes (2000) found that the majority of entrepreneurs which can be found in a diaspora community simultaneously fulfill the conditions of being a TE. According to Ojo (2013), transnational entrepreneurs use

personal contacts which they maintain within diverse environments and can thereby utilize ethnic and structural resources allowing them to pursue business activities in and between their host and home countries. Individuals migrate in the hope to improve their personal economic conditions. When some of these individuals start acting as entrepreneurs, they are still embedded in their host country but often maintain social ties to their home country thus enabling them to draw on dual-sided sets of resources they can tap own. A variety of recent case studies have noted the significance for immigrant integration both for the entrepreneur's home and host country. Focusing on the performance of transnational activities of immigrant-owned in the USA, Wang and Liu (2014) demonstrate that immigrant-owned firms will be more likely involved in transnational economic activities compared to firms that are owned by local individuals. Compared to other firms, immigrant firms engaging in transnational activities employ more individuals, and enjoy comparatively higher annuals turnover. Lan and Zhu (2014) describe how Chinese immigrants reconfigure fashion apparel value chains in Europe and thereby take a significant impact on their host country environment, both locally and on the level of the specific industrial sector. Thus, Bagwell (2014) highlights the multipolar nature of transnational entrepreneurship, arguing that activities are increasingly conducted within a multi-polar frame. With ongoing globalization, we are likely to see an increase of the phenomena of TE as increasing numbers of people will live and work outside their country of origin.

Exploration and opportunity recognition

With this in mind, there is a need for a better understanding of the cognitive processes that enable TEs to take advantage of international opportunities. Although an increasingly voluminous body of literature is now coming into existence, little is still known about aspects of entrepreneurial opportunity recognition and subsequent impact on the behavior of the transnational entrepreneur. Because of the duality of his position within two environments, a TE may be in conditions to recognize specific opportunities which others may not be able to perceive. March (1991), and others, have pointed towards the relationship between exploration of new possibilities and the exploration of new knowledge. These lines of thought have then been taken up and expanded, for example Zahra and George (2002), who conceptualized absorptive capacity as a multiple step process involving transformation and finally exploration. These types of phenomena have been observed in diverse transnational firm settings (March, 1991; Gupta et al., 2006; Lavie and Rosenkopf, 2006; Lavie et al., 2010), within organizational context, with relation to innovation activities (Sidhu et al., 2007), as well as in the field of entrepreneurship (Ireland et al., 2003). With regards to exploitation, cognitive science has shown that individuals make sense of their surrounding environment by pattern recognition. Through these processes, it becomes possible to identify promising opportunities and act upon them. Pattern recognition is a step towards opportunity recognition, where newly arising combinations of circumstances are identified as potential for new opportunities when they correspond to specific memorized situational patterns and enable an individual to discover opportunities which arise out of diverse and at first sight unrelated contexts.

Patterns are recognized by identifying separate and at first sight distinct circumstances that individuals can identify as new business opportunities and then find new and creative ways for connection. Some individuals may be able to identify patterns

pointing to opportunities that others overlook. In the words of Baron (2006), successful entrepreneurs "connect the dots" which helps them to identify promising business opportunities. Three factors need to be in place to enable an entrepreneur to identify business opportunities. Firstly, entrepreneurs engage in active search to identify opportunities, where it has been shown that experienced entrepreneurs rely on personal contacts or specialized sources of information whereas novice entrepreneurs scan within more widely available sources of information for example in the mainstream media or television. As opposed to systematic search, entrepreneurs can take a passive stance and just stay alert to new opportunities as they come up. Thus, alertness is the second factor that can lead to opportunity recognition. Individuals can identify opportunities even by staying passive and not engaging in active search activities. Thirdly, pre-existing experience and knowledge affect patterns of opportunity recognition. Entrepreneurs who have previously gained knowledge through prior venturing or as employees know markets and industries better when compared to unexperienced entrepreneurs. Apart from experience, as we discussed above, specific relevant education can put an entrepreneur into a condition to identify promising patterns that lead to opportunities. It is the external environment, combined with the entrepreneurial cognitive abilities, that determine the set of circumstances on which an entrepreneur reacts.

Social capital

The notion of social capital originates from the field of sociology, but is now being increasingly employed for example in the field of economics and network analysis (Burt, 1992; Nahapiet and Ghoshal, 1998; Adler and Kwon, 2002; Chisholm and Nielsen, 2009; Rodrigues and Child, 2012). Here, the poles of perfect competion and monopoly are replaced by a network model of competion (Burt, 2000). Social capital can be conceptualised as an array of social resources which are embedded in network structures (Wu, 2008). Acting as nodes (similar to a physical network structure) individuals are linked to each other through connectors. In a social network, personal relationships are represented by connectors who link nodes- these stand for individuals- to each other. Thus individuals who know each other and interact are also in connection to each other. In social network structures, information and other resources flow through the pipes that connect individuals. These flows provide network embedded individuals with specific benefits that expose them to entrepreneurial opportunities (De Carolis and Saparito, 2006). However, not all individuals are mutually connected, just like there can be parts of a network which are more remote from each other. Sometimes, there are sparse or even no connections between parts of the network. In these cases we speak of *structural holes* which separate specific networks sections from the rest. Structural holes provide special opportunities to individuals who are able to indentify and subsequently exploit them.

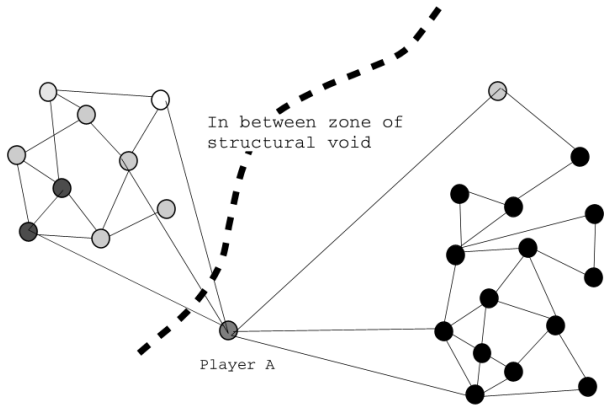

Figure 1: Being positioned between two networks provides for special opportunities for player A

It is mainly Burt (1997); Burt (2000); Burt (2002); Burt (2004) who is credited with the conceptualization of structural holes or structural voids. He observed that network structures are uneven and characterized by zones that vary in their density. As opposed to financial or human capital, social capital cannot be in the possession of one person alone. Social capital cannot be owned exclusively, since it derives from network connections between individuals. If one person withdraws from a relationship, the connection between the two nodes ceases to exist. For a single individual, it is not possible to maintain the connection, therefore social capital will as a result cease to exist. Social capital can lead to competitive success. For example, a firm that is rich in social capital has access to information and resources that will enable it to built a superior product and generate profit as a result. As Burt (1995) points out, social capital can be seen from two perspectives. Firstly, from an individual perspective a network provides access to people information and knowledge, as well as other types of resources. Secondly, networks can be seen as entities in their own right. Here, social capital relates to resources that are embedded in existing contacts as well as the structure of a network. A single network can vary in its density where there may be spaces in between where density is low. In these spaces few or sometimes even no connectors exist. Thus, frequently, information is not evenly spread throughout the network structure and depending on the region in the network, it can be of different quality. As can be observed in *figure 1* above, player A is positioned in a way that he can act as a connector between two networks. Being in such a position opens up for arbitraging opportunities, since quality of information and knowledge can differ substantially between otherwise disconnected network segments. An individual can therefore act as a conduit and profit from channeling information and other resources between two sections of the network to his own advantage.

Case study

For conducting my research, I have identified an individual who appears to be in a condition to successfully leverage resources from two distinct environments. It is a TE from Romania as home country with location of residence in France. This individual is now CEO of the firm he founded; he has a background as a computer engineer. As a native Romanian, he came to France after high school as he received a scholarship that

would finance his study at a school for computer engineering. Initially, after completing his studies the TE found an employment at a French company where he worked for a number of years. In this period, which lasted for about seven years, he took responsibilities as a software developer, project manager, program manager and similar tasks. In these positions, he was able to learn about the specificities of the IT industry and built up personal relationships which were later useful when he founded his company in 2005. He could start his own operation when, by leveraging his personal social capital, he succeeded in being awarded a contract from a large advertising and communication firm. The TE took advantage of his native roots and arranged the technical work to be done back in his native Romanian home town, where he had still maintained his personal contacts throughout the time he was living in France. The TE exploited a window of opportunity when during the peak of the then called *dot-com bubble*, it was difficult to find competent computer programmers in the French market. However, in Romania the TE could leverage his personal contact to identify and employ individuals who where competent to work on the required tasks for a competitive salary. In consequence, by receiving his first assignments in the country of residence, the needed basis for establishing a company in the country of origin was successfully established.

Subsequently, the Romanian startup company would specialize on contract programming and related services like web page design. In terms of technology employed, the startup company did not engage in complex development of new technologies, instead, a freely available open source based scripting language called PHP was used. Although some technological understanding is required, PHP as a programming language is not too difficult to learn, even for non- technical people. Nevertheless, it is powerful enough to support the creation of dynamically generated websites, for example for e-commerce solutions with electronic shopping cards, web-based access to databases, or any other applications where the creation of dynamically generated websites is required. As an outsourcing provider for a French advertising agency as the first main costumer, the new founded Romanian company specialized on developing websites for promoting products of personal care like perfumes, garments and similar consumer items. For creating more complicated web-based applications like for example costumer management systems, the transnational firm relied on predesigned software framework that were based on the PHP scripting language. Using these open sources based software frameworks is an interesting proposition for resource constrained startup as it allows for obtaining fast results while the freely available license for open source software keeps production costs down. In contrast, commercial software development frameworks where expensive at that time. Likewise, transnational firms could hold their costs down due to the fact of being based in Romania.

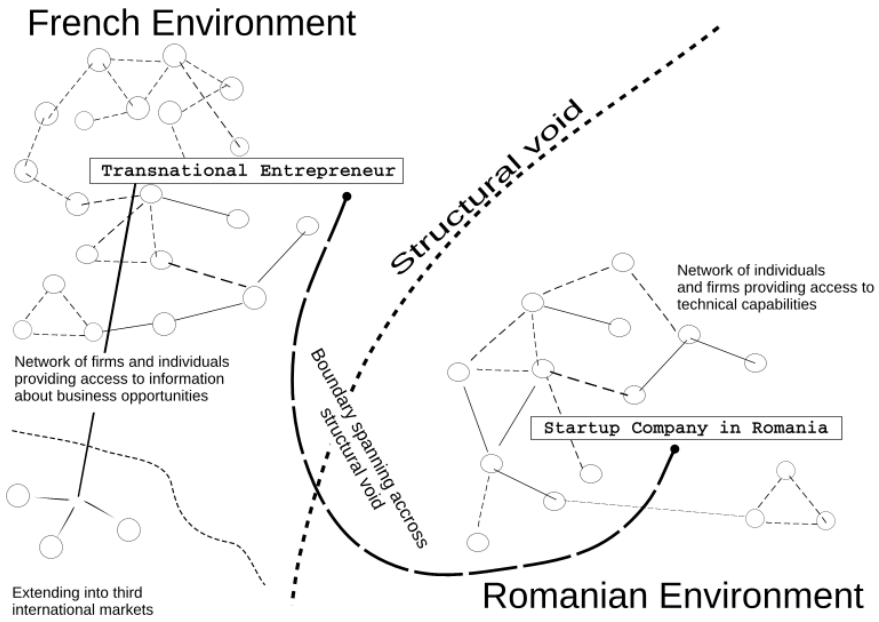

Figure 2: The TE bridges the structural hole (or void) between host and home country

Apart from this business relationship, in the initial years, the transnational firm did not have any other significant customers. After three years, in around 2008, the transnational firm made another significant step forward by winning a contract with a transnational institution in Brussels from this business relationship. This time, the TE developed several larger software application that help the transnational organization to streamline internal data processing. Similar to the first costumer, the founder of the transnational firm relied on his personal networking abilities to acquire this new account which has since developed into a new business relationship of considerable importance. Subsequently, the founder started to concentrate on a more purposeful acquisition of new costumers to extend the basis of costumers in order not to be solely reliable on very few clients. In the first years acquisition of new costumers was concentrated on the French and Belgium market, in particular profiting from the connections the TE already had from the first two important costumers. Subsequently, he extended his business and found new clients in neighboring markets like Spain, later Germany, the UK and the Czech republic. An important milestone was reached for the company when they could enter into contract relationships with a large German utility. Since 2011 six years after inception in 2011, the transnational firm also began to develop its home market in a more significant manner. During the initial years the turnover generated in the Romanian market was insignificant, but by 2010 about 10% of the firms turnover was generated in the domestic Romanian market. What is also worth to mention is the fact the the TE has now set up a technical school for software developers in his native home town, obviously a step towards dealing with the threat of increasing scarcity of qualified programmers in the labor market including Romania.

Discussion

I found that through a specific combination of resources the entrepreneur was able to profit from specialized local technological knowledge in his home country and then leveraged this resource in the host country. While he founded a firm in the home country, the entrepreneur kept residency in the host country to develop new costumer relationships. Subsequently the entrepreneur internationalized his firm and expanded into new business activities. Taking this case as an example, I showed how TEs can create and leverage resources to create sustainable competitive advantage

This case highlights a number of issues which have until now been mainly ignored in the literature. Firstly, it seems that little is still known about the ongoing internationalisation of TEs. In the literature, the focus has so far mainly been on the home/ host country conditions a TE is exposed to, but what is happening in terms of subsequent ongoing internationalisation of the TE's venture? I find that in our case the TE is following the patters of internationalisation as conceptualised by Johanson and Vahlne (1977, 2009). But I also observed some deviations from this pattern of gradual internationalization as described in the Uppsala school. In line with this approach, it seems that the point of departure of the internationalisation process is the host country of residence of the TE. From there, the venture is expanding into markets which are psychologically close to the TE (Spain, Belgium) and then to psychologically somewhat more distant markets like the Czech Republic or Germany. However, the peculiarity in my case resides in the fact that expansion into the TE's Romanian home market is taking place at a later point in time and only after progression into other foreign markets had already taken place. This is not in line with the predictions made by the Uppsala school since the TE should be in close psychological distance to his home country. Therefore, with regards to internationalisation patterns of TE operated ventures we argue for the existance of a knowledge gap which merits further investigation for a better understanding of TE's behavioural patterns.

Secondly, linked to this point are the psychological patterns of recognition of entrepreneurial opportunities. I drew on the social capital perspective to understand how in this case the TE identifies opportunities and how this translates into the ongoing development of the TE's venture. The psychological pattern recognition of the TE was determined by host country conditions, not the home coutry from where the TE run his venture. Opportunities were identified from the perspective of the TE's country of residence, not from the home market were his venture was located. Consequently, internationalisation departed from host country. The TE derived competitive advantage from the fact that he was able to leverage diverse networks between the home and the host country. From a technological perspective I observed that the venture followed the general technological trends for software development of that time. This case depicts a form of internationalization which differs from those typically discussed in the literature about international new ventures. For future investigations, I argue that study of international new ventures can profit from a better understanding of diversity found in transnational entrepreneurship.

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