



## **The mechanisms that enhance high-growth trajectory: a dynamic capabilities approach**

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### **Résumé :**

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Depuis les années 1990, les chercheurs en entrepreneuriat tentent de comprendre les trajectoires internationales suivies par les entreprises à internationalisation rapide et précoce (EIRP). Récemment, la communauté scientifique s'est intéressée aux capacités dynamiques pour mieux comprendre leurs parcours à l'international. En effet, Cette approche pourrait expliquer comment les EIRP se maintiennent sur des marchés incertains et dynamiques. Par conséquent, après avoir exploré les trajectoires internationales de 16 EIRP, nous souhaitons proposer un modèle basé sur les micro-fondations des capacités dynamiques, qui permettrait de comprendre les mécanismes générant leurs fortes croissances internationales.

**Mots-clés :** International High-growth; Micro-foundations of Dynamic capabilities; Early Internationalizing Firm

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# **The mechanisms that enhance high-growth trajectory: a dynamic capabilities approach**

## **INTRODUCTION**

Early internationalization is a specific phenomenon involving SMEs that undergo almost simultaneous creation and internationalization (Halldin, 2012). There are called EIF: Early Internationalizing Firms and have been defined as ‘firms which become international, through export or any other entry modes, in their first three years of life’ (Zucchella et al., 2007, p. 268). While some of these firms tend to stand out in their entrepreneurial ecosystems by generating higher growth rates and creating many jobs, others seem to stagnate or fail to execute an effective growth strategy (Knight and Liesch, 2016; Freixanet and Renart, 2020). Thus, there is an interest in examining what the success factors are for the few firms that succeed.

Indeed, the path taken by these firms through their uncertain and volatile environment still remains unclear as the previous approaches (RBV and KBV) have failed to provide a dynamic explanation of the capability development undergone by those firms. So, there is an intellectual and empirical need to understand what is going on and to catch dynamics. Therefore, recently, researchers have encouraged the use of dynamic capabilities to better understand the path these companies have taken (Zahra and George, 2017; Romanello and Chiarvesio, 2019; Weerawardena et al., 2019). After many debates and criticisms of this approach as too theoretical, Teece presented the Microfoundations-Based View approach, which delineates the nature of these sub-capabilities through a deeper level of analysis (Teece, 2007). These microfoundations give a better representation of the routines and processes present in these ‘metacapabilities’ and therefore make the dynamic capabilities model more operational (Bojesson and Fundin, 2020).

So we argue microfoundations of dynamic capabilities might explain how some Early Internationalizing Firms (EIFs) reach international high-growth levels and others do not. We aim to address the limitations of previous research who only had a static approach by building an ambitious framework explaining the connections of each microfoundation along the EIF high-growth trajectory and thus shed light on the mechanisms at work in these EIF. Our research question is thus: *How do Early Internationalizing Firms combine their dynamic capabilities to reach international high growth?*



Drawing on the Dynamic Capability and the Microfoundations View (MFV), we provide two main contributions to international entrepreneurship literature: First, because the EIF, as a research subject, blurs the lines between international business and entrepreneurship, this research contributes to the literature on entrepreneurship by revealing ‘how’, rather than simply ‘what’, EIF growth is realized. So, we bring an explanation to EIFs rapid and sustained internationalization (Rialp, et al, 2005). We argue that to understand how the international high growth occurs in the long run, we must look deeper into the dynamics. Adopting a dynamic capabilities framework, we reveal how new resources are acquired and deployed within the EIFs. Here, we identify and report two mechanisms through which this occurs. In response to the recent literature, we propose an integrative model which describes the mechanisms inherent to the early internationalization dynamic (Hagen and Zuchella, 2014, Romanello and Chiarvesio, 2019, Mostafiz et al., 2019). We identify one primary mechanism related to international commercial intensity and another related to international expansion; in this way, we stress the role of microfoundations in EIF international high growth. Second, we provide further insight into the multidimensional concept of growth (Casillas and Acedo, 2013; Chetty et al., 2014; Hilmersson and Johanson, 2016). In developing and deploying resources and processes that precede rapid international high growth, we are elaborating what occurs prior to firm international expansion and thus extending the literature (Zahra and George, 2017) which has insufficiently examined this phase.

This paper is presented as follows. First, we review the literature on the theoretical background of the early internationalization pattern. Second, we present our abductive methodology based on 16 EIFs. Third, we introduce our main findings and discuss the feedback loops that have been built connecting the microfoundations to EIF international high-growth.

## **1. LITERATURE REVIEW**

In this part, we aim to introduce the main concepts that guide our reasoning. The first part is dedicated to defining EIFs and the concept of international high growth. In the second part, we introduce the microfoundations of dynamic capabilities approach, emphasizing how this approach can provide relevant insight in explaining the international high growth of EIFs.



## 1.1. DEFINING THE INTERNATIONAL HIGH GROWTH OF EIFS

Scholars have noted that EIFs experience a quicker international expansion and generate better performance compared to traditional exporters (Madsen et al., 2000; McDougall et al., 2003; Knight and Liesch, 2016; Romanello and Chiarveso, 2019). Thus, EIFs clearly disrupt the stage model presented by Johanson and Vahlne (1977).

Many studies have already analyzed the inception stage of EIFs and the factors that influence the beginning of their international trajectory (Aspelund et al., 2007; Rialp et al., 2005; Romanello and Chiarveso, 2019). However, we know just a little about the growth trajectory experienced by those firms during the years after their first internationalization (Zahra and George, 2017; Romanello and Chiarveso, 2019; Guo and Wang, 2020). So far, EIFs' international high growth has been captured in the notion of 'international speed' (Prashantham and Young, 2011, Hilmerston et al, 2017), which aims to describe the international expansion of companies. Nowadays, scholars tend to present international speed in a broader context and as a multidimensional concept (Casillas and Acedo, 2013; Chetty et al., 2014; Hilmerston and Johansson, 2016) defined by three different criteria: (1) The speed of international commercial intensity; (2) The speed of change in the commitment of foreign resources; and (3) The speed of the increase in the breadth of international markets.

While some scholars are especially interested in describing the path of these companies several years after inception, some of them have tried to use the dynamic capabilities framework to explain the development of new capabilities along the firm's internationalization path (Prange and Verdier, 2011; Prashantham and Young, 2011; Hagen and Zuchella, 2014). These scholars point to the development of new capabilities (Hilmerston et al., 2017; Romanello and Chiarvesio, 2019) and the organizational learning (Ibeh et al., 2018) as the cornerstone of the whole process. Recently, scholars described the different steps of organizational learning that occurred in EIF internationalization (Ciszewska-Mlinarič et al., 2020) and how entrepreneurial culture can influence innovation and marketing capabilities (Buccieri et al., 2020). Thus, Prange and Verdier (2011) argue that the firm's international performance is spurred by innovation and especially the development of both exploitative and explorative capabilities. Throughout their internationalization process, firms try to develop their exploitative capabilities to adapt to environmental changes, explore new ideas or processes, and develop new products or services (Sousa et al., 2020). Meanwhile, they seek to be stabilized by leveraging their current capabilities and drawing upon existing products and services (Sousa, et al, 2020). Prashantham and Young (2011) and more recent studies (Bai et al., 2020; Presutti et al., 2020) point to



absorptive capabilities, social capital and knowledge accumulation as major factors that influence the international path.

Even though some elements are quite advanced in these studies, the various attempts at explaining the international high growth of EIFs remain incomplete (Guo and Wang, 2020) because they have difficulties in grasping the dynamics. Moreover, there is often a lack of empirical studies, and in some of this research, the authors have failed to use the dynamic capabilities framework. Thus, scholars have encouraged the building of a more integrative framework to describe the success factors developed by these firms a few years after their first entry on international markets (Zahra and George, 2017; Romanello and Chiarvesio, 2019) and this is what we are trying to achieve.

## **1.2. WHY THE MICROFOUNDATIONS OF DYNAMIC CAPABILITIES MIGHT BE OF INTEREST TO UNDERSTAND EIF INTERNATIONAL HIGH GROWTH?**

EIFs evolve within an uncertain and dynamic environment; they thus need to quickly reconfigure their bundle of resources and capabilities to respond to market constraints (Easterby-Smith et al., 2009; Prange and Verdier, 2011; Schilke et al., 2018) if they want to generate high-growth (Hagen and Zuchella, 2014). Eisenhardt and Martin (2000, p. 1107) define dynamic capability as the firm's 'processes to integrate, reconfigure, gain and release resources—to match and even create market change'. In the current competitive international setting, firms need to continuously innovate and develop new products or services in order to be successful. Firms that aim to develop these innovative processes internally may either acquire the necessary skills and capabilities from their environment or develop them in close collaboration with their network. The dynamic capabilities framework is thus a vital tool in understanding the international high growth of EIFs (Hagen and Zuchella, 2014; Zahra and George, 2017; Romanello and Chiarvesio, 2019). In the recent literature, several authors have categorized dynamic capabilities as follows: Sensing (the recognition of a new opportunity that leads to the firm's reconfiguration; Teece, 2012); seizing (how quickly the organization can respond to opportunities and threats; Teece, 2012); and transforming (enabling the continuous renewal of activities; Teece et al., 2016).

However, dynamic capabilities are not easy to capture, as these capabilities are tacit and developed along the firm's trajectory (Versailles and Foss, 2019). Thus, when researchers try



to operationalize this concept, they face a major methodological gap. However, the work of Teece in 2007 has laid the foundation for operationalization; his research aims to detail the nature of dynamic capabilities and how they can be broken down into elements: their ‘microfoundations’. Microfoundations are ‘the underlying individual-level and group actions that shape strategy, organization, and, more broadly, the development of dynamic capabilities’ (Eisenhardt, Furr, and Bingham, 2010, p. 1263). Recently, scholars have begun to put the propositions of Teece into practice and encourage the use of this MicroFoundations View (MFV) to deepen our understanding of EIF internationalization (Nguyen and Mort, 2020; Liu et al., 2021; Faroque et al., 2021).

The MFV begins with the assumption that there are two organizational levels: ‘macro’ and ‘micro’ (Coleman, 1990). The macro level represents the organization or the social construct, whereas the micro level represents individuals and their actions. However, scholars have found that the ‘macro’ or collectivist explanation is not sufficient for understanding how the routines, processes and capabilities are created and thus gaining insight into certain phenomena (Abell et al, 2008). Indeed, based on interactions at the individual level, the MFV aims to explain collective constructs like routines and processes (Felin et al., 2012; Barney and Felin, 2013). The MFV shows the interactions between the individual and organizational levels and, more specifically, how firms renew their knowledge (Abell et al., 2008). Therefore, microfoundations can be defined as the ‘underlying actions on individual and group levels that shape strategy and organization, as well as dynamic capabilities, leading to the emergence of superior organization-level performance’ (Bojesson and Fundin, 2020, p. 5). By linking individual-level interactions with the firm’s evolution within its environment, the MFV shows how some firms reach ‘evolutionary fitness’ over time (Teece, 2007). Thus, thanks to the MFV, we can build a more integrative model of dynamic capabilities (Abell et al., 2008). Some recent studies have applied the MFV to different fields of studies and encouraged the use of this approach (Laviolette, 2019; Warner and Wäger, 2019; Khan et al., 2020).

In summary, the above discussion suggests that the current literature helps us form a basic definition of dynamic capabilities and their relation to performance, but it does not cover the relationship, presented here, between international high growth and dynamic capabilities in the context of EIFs. Therefore, we think that with the MFV, we can use this multi-level analysis to capture the dynamics at play and then understand the mechanisms inherent to EIFs’ international high growth.



## 2. METHODOLOGY

To study dynamic capabilities in the context of EIFs' international high growth -a phenomenon that is not sufficiently analyzed in the existing research- we designed an extensive qualitative study due to its exploratory nature (Patton, 1980). Specifically, we used an abductive research approach: our parallel iterative processes involved data collection and analysis along with a search for complementary theories. During this process, the researcher moves back and forth between theoretical concepts and field observation in order to enhance the comprehension of both theory and data (Dubois and Gadde, 2002). The aim is to build theory by identifying the mechanisms, patterns and processes with external and internal validity. This seems particularly suited to the MFV as dynamic capabilities are embodied in firms' routines and processes (Khan et al., 2020). Thus, thanks to that methodology, we believe we can not only spot the microfoundations of dynamic capabilities that influence the EIF international high-growth trajectory but can also shed light on the inherent mechanisms at work between them.

### 2.1. SAMPLE AND DATA COLLECTION

In selecting the case firms and interviews, we used a purposive sampling approach (Eisenhardt and Graebner, 2007) until saturation was achieved. We gathered 16 EIFs located in two regions of France with many dynamic firms: the Auvergne Rhône-Alpes (8) and Brittany regions (8). This field work was carried out in two parts. We first carried out a study in Brittany, and then refined our data and results in the Auvergne Rhône-Alpes region. The characteristics of the sample can be seen in **Table 1**


**Table 1: Characteristics of the Sample**

NAME	SIZE	TURN-OVER	INDUSTRY	INCEPTION DATE	1st INTERNATIONALIZATION DATE	ENTRY MODE	COUNTRY SCOPE
Brittany Firms							
FOODTECH	11	3	FOOD&BEVERAGE	2016	2016	EXPORT	ITALY, SPAIN, ENGLAND, MALAYSIA, THAILAND, UNITED STATES AND BRAZIL
WEB&SPORT	12	2,6	E-COMMERCE	2010	2012	EXPORT	SPAIN, UK
BOAT&CO	16	0,5	ENGINEERING	2015	2017	EXPORT	EUROPE - OCEANIA - UAE
WEBCOM	35	1,6	SOFTWARE	2013	2016	SUBSIDIARY	ITALY, UNITED STATES, GERMANY
WATERTECH	40	9,5	ENGINEERING	1989	1989	EXPORT	ASIA, NORTHERN EUROPE
GREEN&CO	55	4,5	FINANCIAL SERVICES	2019	2019	SUBSIDIARY	DENMARK GERMANY, UK, NORWAY, SWEDEN, FINLAND, NETHERLANDS
BUILDTECH	60	3,6	SOFTWARE	2011	2014	SUBSIDIARY	UNITED STATES, CANADA, UK, UAE
COMTECH	230	N-C	SOFTWARE	2010	2013	SUBSIDIARY	GERMANY, UK, SPAIN, UNITED STATES
Auvergne Rhône-Alpes Firms							
CLOUD&CO	140	112	SOFTWARE	1989	1991	SUBSIDIARY	UNITED STATES - SOUTHEAST ASIA - EUROPE
PADTECH	60	N-C	HARDWARE	2013	2013	SUBSIDIARY	UNITED STATES - SOUTHEAST ASIA - EUROPE
CAMTECH	25	3	HARDWARE	2015	2015	EXPORT	UNITED STATES - GERMANY - UK
IA&CO	25	N-C	SOFTWARE	2015	2019	EXPORT	UNITED STATES
WIRETECH	20	6	HARDWARE	2013	2013	EXPORT	UNITED STATES - EUROPE - JAPAN - INDIA
CPU&CO	55	1	HARDWARE	2014	2014	EXPORT	UNITED STATES - SOUTHEAST ASIA (SOUTH KOREA - JAPAN) - EUROPE (ITALY - SWITZERLAND) - ISRAEL
GAZTECH	25	2	HARDWARE	2011	2011	EXPORT	EUROPE (ITALY) - ASIA (CHINA)
GARMENT&CO	60	30	GARMENT INDUSTRY	2008	2008	EXPORT	EUROPE - ASIA - UNITED STATES

We chose these firms using the EIF definition provided by Zucchella et al (2007): SMEs that have internationalized three years after inception and have quickly generated revenue abroad (almost all of them are present in markets outside the European Union). Moreover, to observe the international high-growth dynamic, we chose firms that have recently generated high growth rates. In that case, we selected the OECD definition: ‘All enterprises with an average annualized growth greater than 20% per annum, over a three-year period should be considered as high-growth enterprises. Growth can be measured by the number of employees or by turnover’ (Petersen and Ahmad, 2007, p. 3). In addition, to understand international high growth in its entirety, we also used the criteria of international speed trajectory presented in the literature review (Hilmersson and Johansson, 2016): (1) The speed of international commercial intensity, which corresponds to the proportion of company sales growth generated by its



international branches during a specific period (Share of Turnover generated abroad). We calculate the growth generated during this specific period ( $\Delta$  International Turnover  $N / N-3$ ).

(2) The speed of the increase in the breadth of international markets, which corresponds to the increase, over time, of the countries (including variety and distance) where a company is active. We calculate the breadth of international markets by the entry inside the European Union (Number of markets in the EU), and the entry outside the European Union (Number of markets outside the EU).

(3) The speed of change in the commitment of foreign resources, which corresponds to the company's assets deployed abroad during a given period. We calculate the foreign resources by the change in number of employees ( $\Delta$  employee) and the subsidiaries deployed abroad ( $\Delta$  subsidiaries). We specifically chose those criteria for successful internationalization. Indeed, all those EIFs follow a strong trend toward the international markets they are focusing on even though we chose a sample with some heterogeneity: The EIFs we chose ranged from 3 to 30 years old (the median is 9 years old, and the average is 11.5 years old). We decided to interview EIFs from different sectors although all of them base their strategy on knowledge-intensive products: most of the EIFs are software or digital hardware firms. Nevertheless, we decided to also interview EIFs from more traditional sectors like the garment or food industry. While these companies had some different characteristics, they also shared strong similar patterns. That is exactly what we were looking for: to find out whether EIFs share common features due to their international high-growth and not only due to their size or sector. Our goal was thus to contribute an approach to how EIFs develop and combine their microfoundations of dynamic capabilities to reach international high-growth.

To this end, we focus on the microfoundations of dynamic capabilities that guide international high-growth in EIFs to then understand their success factors. Regarding the generation of dynamic capabilities, all these firms master their dynamic capabilities as they understand how to seize opportunities or respond to threat in their specific markets. Indeed, they all demonstrated a high level of flexibility that allowed them to grow at a fast pace.

All this information is in **Table 2**

Data collection lasted 10 months (November 2020 to July 2021). This data collection included field interviews with founder managers, direct observations, secondary data collection and transcription activities. We broadened our sources of data (articles, websites, interviews, official records, etc.) to triangulate our results to improve the validity of our findings (Denzin and Lincoln, 2011). Furthermore, we held conversations with support organizations like BPI



France (Banque Publique d'Investissement [Public Investment Bank]) and Bretagne Commerce International (Brittany International Commerce) to get further insight regarding our research question. We support this study with semi-structured interviews with founders and one of the members of the top management team. For each company we tried to interview one person with a business/administration background and another person with a more technical background.

**Table 2: International High-Growth Characteristics of the Sample**

	STUDIED PERIOD	SPEED OF INTERNATIONAL COMMERCIAL INTENSITY		SPEED OF BREADTH OF INTERNATIONAL MARKETS		SPEED OF CHANGE IN THE COMMITMENT OF FOREIGN RESOURCES	
		SHARE OF TURN-OVER GENERATED ABROAD	Δ INTERNATIONAL TURNOVER N / N-3	NUMBER OF MARKETS IN EU	NUMBER OF MARKETS OUTSIDE EU	Δ EMPLOYEE	Δ SUBSIDIARIES
TECH	2017-2019	66%	100%	3	4	175%	-
WEB&SPORT	2018-2020	30%	100%	2	-	50%	-
BOAT&CO	2018-2020	50%	100%	-	1	60%	-
WEBCOM	2017-2019	35%	100%	2	1	75%	2
WATERTECH	2017-2020	80%	50%	-	-	8%	-
GREEN&CO	2019-2021	5%	100%	5	-	27%	1
BUILDTech	2017-2019	20%	100%	1	1	-	1
COMTECH	2017-2019	50%	N-C	-	1	10%	1
CLOUD&CO	1991- 2006	80%	100%	4	2	100%	5
PADTECH	2016-2019	90%	100%	-	3	100%	3
CAMTECH	2017-2020	50%	100%	2	1	100%	-
IA&CO	2019-2021	20%	100%	-	1	-	-
WIRETECH	2019-2021	95%	100%	3	3	-	-
CPU&CO	2019-2021	95%	100%	2	4	100%	2
GAZTECH	2019-2021	60%	100%	1	1	-	-
GARMENT&CO	2019-2021	50%	100%	7	4	30%	-

Our sample consisted of 29 semi-structured interviews (16 founders and 13 employees). The conversations ranged from 20 to 90 minutes. All interviews were recorded (970 minutes; 230 pages of transcription). Our semi-structured guide was split into 3 main parts: The first one concerns the entrepreneur, the firm's entrepreneurial journey and the current market conditions. The second part includes questions about the firms' sensing, seizing and transforming capabilities as presented in Teece (2007). The third part regards the processes and routines applied to capture the microfoundations and the mechanisms at play.

Throughout these interviews, our main goal was to make sense of the microfoundations of dynamic capabilities in EIF international high growth. Thus, at the beginning we strove to use all the secondary sources (websites, interviews of founders available on the internet, etc.) to understand the history of each company by spotting the major events they faced over time.



Henceforth, during the interview (with the founders), having first discussed the entrepreneurial journey and the market conditions, we decided to explore the events of interest we had already targeted. Thus, we could make sense of how these companies had constructed their strategy over the previous 3-year period. Furthermore, during the second interview (with a key employee), we focused less on the entrepreneurial journey and more on changes that the company had faced over the last few years. We based the questions on the elements of interest that had been previously explained by the founder. Through this process, we strove to gather as many examples of their internationalization practices as possible, the initiatives they launched and the issues they faced, to better capture how these dynamic capabilities were reflected in the firms' routines or processes. During that part, the engineers' responses were particularly interesting as they gave us clearer visions of processes and routines.

## **2.2. DATA ANALYSIS**

To analyze the inherent mechanisms between the microfoundations of dynamic capabilities along the trajectory of EIF international high growth, we followed the principles of abductive research (Dubois and Gadde, 2002), aimed at bringing together concepts that were not previously associated with each other in the research. Based on the microfoundations of dynamic capabilities and how they can explain the international high growth of EIFs, we analyze organizational routines and processes to provide insight into the mechanisms that support those firms' dynamics. Therefore, we aimed to build upon and broaden the existing conceptual understanding of EIF international speed and growth.

First, we analyzed the data collected through interviews, documents and direct observations by using a qualitative approach and a manual coding process. We processed our data with Atlas.ti-9 software to classify the main conceptual patterns in our primary and secondary sources of textual data. We gave texts with similar features the same category codes (such as "seizing capabilities" or "internal enablers"). We then brought the text segments together for further analysis and checking (Coffey and Atkinson, 1996). At that point, we had already listed the different microfoundations of dynamic capabilities that explain the international high growth of EIFs. Nevertheless, during the coding process, we identified elements relating to how the firms react to their environment that appeared, at first glance, to be mechanisms. For example, firms from our sample seemed to implement an experiential learning process that seems to be closely linked with the way they quickly prototype new products and enhance



various interactions with customers. We also noted interesting elements about how those firms interact with their international network in order to improve their international maturity.

From that point, we decided to go further in our reflection. We used the co-occurrence tables in Atlas-Ti.9 to see if these ‘variables’ were related across the different interviews. Those tables showed us that there were different microfoundations clusters. Thus, we decided to deepen our analysis and explored each level of our microfoundations of dynamic capabilities framework to build a general model. Thanks to our analyses and the data structure, we built one model split into two parts that shows the mechanisms in international post-entry growth and thus explains the interplays that favor international high-growth of the EIFs. We present them in the results section below.

### 3. RESULTS

In this part, we aim to deliver further insight and illustrate our integrative model. This model represents two specific feedback loops which *in fine* enhance international high-growth. The first one directly influences international commercial intensity, whereas the second one supports international expansion (which corresponds to the increasing in the breadth of international markets and in the commitment of foreign resources).

#### 3.1. THE MECHANISM THAT ENHANCES EIF INTERNATIONAL COMMERCIAL INTENSITY

In this section, we present the first mechanism related to firms’ international commercial intensity. This mechanism is represented in **Figure 1**. We begin by explaining the elements that make up this mechanism.

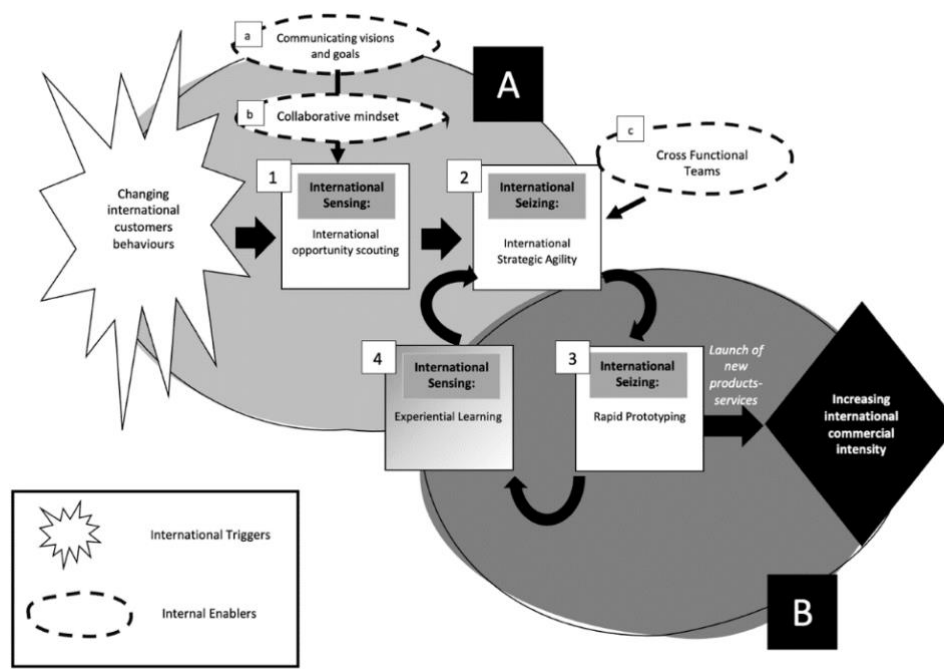
First, we know that microfoundations of dynamic capabilities depend on how the environmental or external factors have evolved (Teece, 2018). In our study, the triggering external factor seems to be changes in international customers’ behavior. Moreover, internal enablers at the individual level seem necessary to activate the dynamics in EIFs and thus their international high growth. These internal enablers are (a) the ability to communicate vision and goals, (b) the collaborative mindset and (c) the setup of cross-functional teams.

From there, another mechanism, this time internal, is set in motion: the microfoundations of dynamic capabilities. We spot the interplay of four microfoundations of dynamic capabilities. They are (1) international opportunity scouting, which is considered as tracking new



opportunities abroad; (2) international strategic agility, which is the firm's ability to quickly balance its resources or competencies in order to react to market changes; and (3) rapid prototyping. Rapid prototyping is, according to Warner and Wäger (2019), the ability to create a Minimum Viable Product (MVP) using a lean start-up methodology and innovation labs. Finally, we find (4) experiential learning, defined as firms' interactions with external actors during their market research. Indeed, firms try to improve their products through external feedback from clients, partners, suppliers or institutions (Khan et al., 2020). In addition, our analysis reveals the generation of a synergistic effect that enhances the international commercial intensity of EIFs, which we will discuss in more detail below.

**Figure 1: Mechanism Inherent to Sustaining International Commercial Intensity**



Our results clearly reveal 2 parts (labelled A and B in **Figure 1**). Part A is a linear relationship between the international trigger of international customers' changing behavior and two microfoundations: international opportunity scouting and international strategic agility. Indeed, throughout our interviews we identified that the main factors encouraging continuous opportunity scouting are changes in customers' tastes, expectations and behaviors at the national level, and especially at the international level : *"So, the starting point is always customer needs, you have to understand customer needs, it seems obvious but in fact, we noticed that a lot does not work like that, ... so you have to understand customer needs, ideally we have*



*to spend a little time with the customer, even in his environment to see in what context he will use it, what they ask of us, why he needs it, which allows us to have something that really corresponds to their needs...*” — **BUILDTECH – CTO**. Thus, international opportunity scouting needs to be supported by internal enablers like communicating visions and goals and collaborative mindset, as the scouting needs to be constant, performed by all the team’s members and shared with all employees if it is to capture customer expectations at the right time : “*...And so we have a channel on Slack, a discussion chain which everyone is part of, in fact, and all of us are quite curious in the company... and so every time someone sees an article about something new, we have this discussion channel called Sustainable Development Watch, and actually the innovation intern is in charge of collecting all the information that has been posted on this channel...*” - **GREENTECH – R&D Managers**. However, if an EIF wants to make its scouting effective, it needs to provoke an organizational reaction to move into action. This reaction requires the firm’s international strategic agility, as this microfoundation allows the firm to balance its resources according to the opportunities or threats it faces. At this moment, the internal enabler ‘cross-functional teams’ is important as it allows the EIF to quickly build and break its organization and teams and create new work focuses. Thus, agile methods were used in many of the EIFs interviewed : “*So we're still within the strict framework of agility ... then within agility, there is a great interest in having only one version every 15 days, because in fact, it allows you to not have a big development plan, things thought out in advance, it allows you to follow the demands of the market almost in real time, because you manage a backlog and not a development plan ...*” – **CLOUDTECH – Founder and CEO** . EIFs emphasize the importance of agile methods to set up an effective, flexible structure within the firm and easily switch from one project to another.

While part A represents a kind of spark, or triggering, part B represents how the firms modify, create or withdraw products based on the information they have collected and broadcasted. This product conception process is composed of three microfoundations: international strategic agility, rapid prototyping and experiential learning. The link between international strategic agility and rapid prototyping seems logical since the companies can prototype new products or solutions after they have reconfigured resources and skills. It is important to note that in all these EIFs, a prototype is always a Minimum Viable Product (MVP), whose aim is to be improved : “*In fact, we went there gradually because the basic principle is exactly the same whether it is a 39-litre unit or a 1500 litre unit, the only thing that will change is the size of the components, we know the degree of automation and ease of*



*implementation and the basic principle of the production [products], it is exactly the same....”*

– **WATERTECH – Founder and CEO.** Rapid prototyping is therefore the gateway to growth, as the product or service created represents the first value generated by the firms. Nonetheless, the dynamic does not stop here, as firms create synergistic effects through experiential learning. Indeed, through their interactions with partners, university, clients, etc., all these firms will be able to improve their products, contribute innovative solutions and respond to international customers’ expectations : *“It's not particular because it's quite classic, we'll say... it's in contact with partners who are specialized in the taming of materials, and who are looking for novelty in it, so there's nothing magical about it, but it was spotted before certain brands, or we believed in it before other people, so we went for it... typically, these materials are presented remotely, then there are demos done in specialized fairs like Ispo, and then our engineer and development team will push the research and testing on these materials, so we went for it ....”* - **GARMENT&CO – Export Manager.** Nonetheless, after considering the modifications required, EIFs will once again need to call upon their international strategic agility as experiential learning will redefine their objectives regarding their previous expectations. This can lead to teams being reconfigured to benefit from new capabilities : *“Then we have some sort of super customers, customers ... super ... in the sense that they have a lot of cameras... and that's interesting, because they're great users, they know the solution well, they give us regular feedback... it allows us to feed our roadmap, in addition to what we already have in mind...”* - **CAMTECH – Founder and CTO.** Through that effect, EIFs are thus creating a virtuous circle among agility/prototyping/experiential learning, and this feedback loop generates commercial intensity and then international high growth.

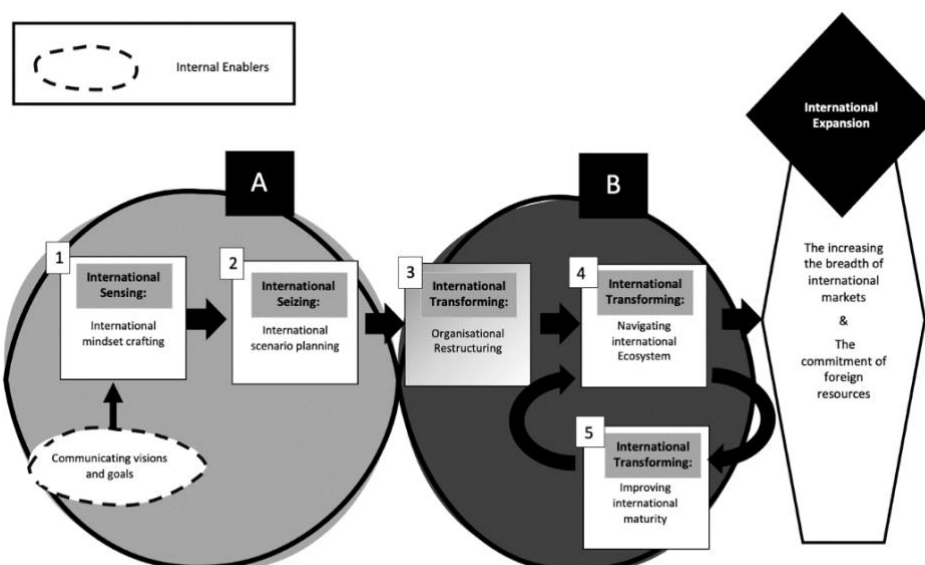
### 3.2. THE MECHANISM THAT ENHANCES EIF INTERNATIONAL EXPANSION

In the first part (A) of **Figure 2**, we can see a linear relationship between (1) International mindset crafting, defined as the construct of a strong international culture (Hagen and Zucchella, 2014); (2) International scenario planning, defined as actions that aim to allocate resources and investment for the long run once new axes have been defined (Agarwal and Helfat, 2009); and (3) Organizational restructuring, defined as all operational changes aside from the internal and external firm structure (Khan et al., 2020). International mindset crafting is influenced by one internal enabler, communicating vision and goals, as entrepreneurs strongly influence the company culture by communicating their eagerness to internationalize : *“We've always been international, we don't talk about export turnover or anything like that, it's*



*always been part of the demand of the way the company works and so there wasn't any time when we said to ourselves: 'well, we're going to develop abroad as well'” - FOODTECH-Founder-CEO. This result joins Buccieri et al., (2020) results that show that international entrepreneurial culture is impacting the dynamic capabilities building. But our results reveal that this international mindset crafting also influences international scenario planning, as internationalization requires thinking and planning: “It's due to our reputation on the world market because we're starting to be a bit well known, we've never skimped on the quality of the products, and that's something that works in the long term...” – WATERTECH – Founder and CEO. Finally, after this planning, EIFs need to adapt their own structures to support and enhance their international strategy: “So we are developing this axis... and in parallel we have put back on the drawing board the development of the technology specific to GAZTECH... that no one else in the world masters today... because this is our future... this is what will make us truly different from the others, and which will bring something new to the market... and that will bring our value... so commercially, we are refocusing on more targeted things... to sell and develop... so we are recruiting salespeople... we are opening a subsidiary in China... we are looking at the United States and so on...” GAZTECH – CEO. Indeed, thanks to their international organizational restructuring, the EIFs will be able to better address markets, as they will be able to adapt the firm's strategy to each country.*

**Figure 2: Mechanism inherent to international expansion: increasing the breadth of international markets and the commitment of foreign resources**





Nevertheless, the process does not stop there, as the companies now need to explore the different markets, acquire new knowledge and capabilities and improve their maturity to increase their market entries and resources deployment. This is enabled by two microfoundations: the first is (4) navigating international ecosystems, defined as the initiatives taken abroad to create a strong international network in the country targeted. Indeed, EIFs tend to construct a strong international network to internationalize and thus facilitate market entry (Bembom and Schwens, 2018; Belhoste et al., 2019). The other mechanism is improving international maturity (5), defined as the capability building done within firms to pursue international expansion, including the construction of multicultural teams, the adoption of international specialists, etc. Along their path, EIFs need to gain maturity to benefit from an experiential learning process (Guo and Wang, 2020) and adopt best practices, which seems to be the key to reducing failure rates and ensuring long-term international expansion (Freixanet and Renart, 2020). EIFs thus tend to navigate within a specific international ecosystem linked to the countries they are targeting. The goal is to find new partners and understand the market dynamics, legal constraints, market demand, etc. in order to decide on the best business opportunities: *“Yes exactly, we have an additional person on British Colombia who works very well and is developing our network and approaching the stores... And we have a plan for California, since we now have 3 people working in this area, and we are in the middle of it, and here we will see if it bears fruit, but there we have invested in the area, and it is working well for the moment.”* - **GARMENT&CO – Export Zone Manager**. Nonetheless, if EIFs want to optimize their chance of success and grow, they need to develop their maturity. To increase their international maturity, the EIFs in our sample contacted specialized organizations or people to gain knowledge: *“No, we’ll do two or three trade fairs, in fact it’s quite simple, at the beginning we discover the market a little, we do two or three trade fairs and we start to meet companies and contacts to get a better idea. Afterwards, there are always the consular establishments such as the chambers of commerce and others which allow you to give information and to make a little bit of progress and then afterwards, there’s the jump into the big bath with a resource totally dedicated to that.”*- **BUILDTECH- Founder-CEO**. By acquiring this knowledge, the firms are able to improve the way they interact with partners and understand cultural gaps and market constraints. Therefore, in the end, they succeed in improving their ability to enter new markets as well as their resource deployment. This generates a dynamic that allows the EIFs to grow and thus support their commercial intensity overtime. In our sample, some firms sped up the process and rapidly invested in multicultural



teams in order to quickly gain in maturity: *"No... not... by chance... by it was really not a strategy... we are... in Grenoble eh... we are all in Grenoble... except there is a team in China of 4 people... and a team in Bologna of 4 people ... We are still mainly in Grenoble so in Grenoble we are at 50 minus 4... We may also have one person in the US and two in Korea... but let's assume that we are 40 in Grenoble... and we have twelve nationalities... and frankly we didn't do it on purpose... it's the same with internationalization, it's... it's substantial... we didn't think about it..."* **CPUTECH – Founder & CEO** In fact, by integrating knowledge and skills via their network or by adding people who already have the knowledge required for a specific country, the result is the same: the EIFs are able to reach opportunities quickly and increase their international expansion.

#### 4. DISCUSSION

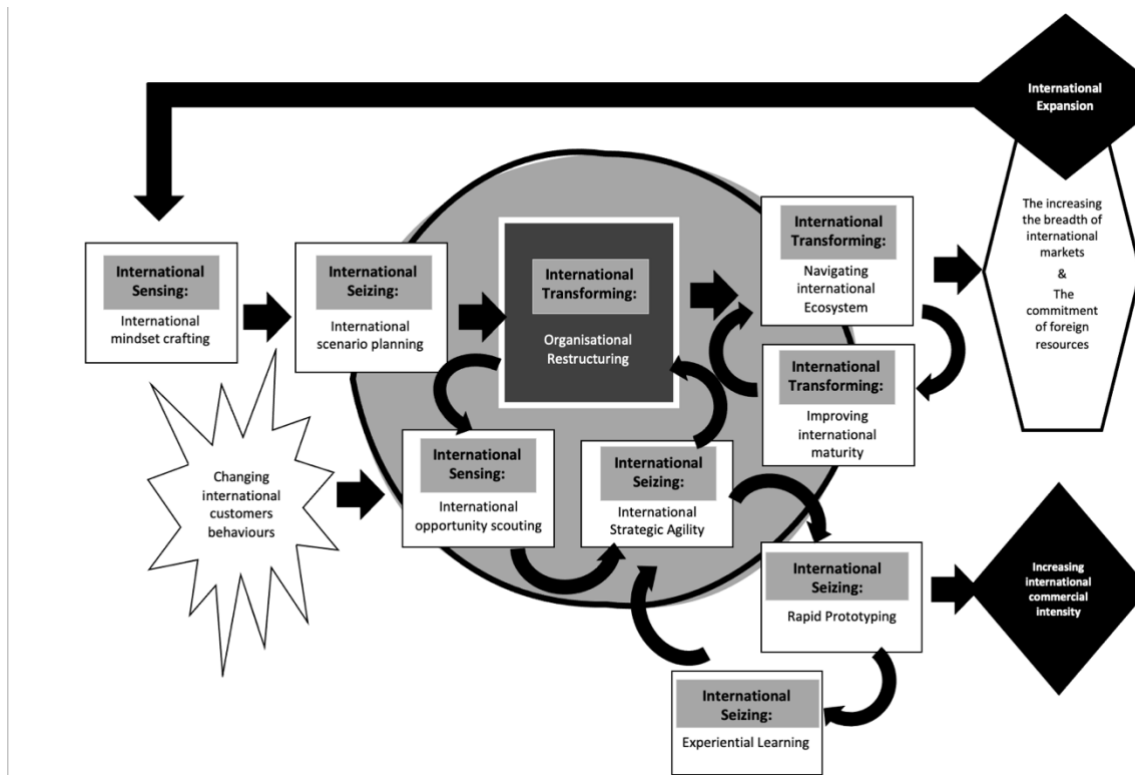
Along this research we provide unprecedented knowledge about how dynamic capabilities and international high growth are interconnected in the context of EIFs. Our findings show that the microfoundations of dynamic capabilities draw attention to the mechanisms at work in EIF international high growth. We find that EIFs support their growth through two different mechanisms that influence both key elements: international commercial intensity and international expansion (the breadth of international markets and the commitment of foreign resources). In this way, we open a 'black box', and we built theory on previous studies that have highlighted the role of capability development along the EIF international trajectory (Prange and Verdier, 2011; Prashantham and Young, 2011; Hagen and Zuchella, 2014; Romanello and Chiarvesio, 2017; Mostafiz et al., 2019; Weerawardena et al., 2019; Ciszewska-Mlinarič et al., 2020).

Indeed, the microfoundations view emphasize the interactions happening at the individual level that then influence the organizational level (Felin et al., 2012). Thanks to this approach, we observed the routines and processes in each firm and therefore understand how EIFs capture new international opportunities or respond quickly to new threats (Abell et al., 2008). Our findings lead us to suggest that through the interactions between nine microfoundations (see Figure 4 for an integrative model of Figure 2 and 3), EIFs are enhancing iterative cycles that support their growth trajectory. We identified two iterative cycles that allowed to capture all the dimensions proposed by Hilmerston and Johansson (2016) for defining international high



growth and revealed a new way to define its outlines in the context of EIFs and, by extension, international SMEs.

**Figure 3: Integrative model of international high-growth**



#### 4.1. THE ITERATIVE CYCLE THAT ENHANCES EIF COMMERCIAL INTENSITY

By building on pioneering studies in this field, we argue that capability development is an outcome of the combination of various microfoundations. So, the first point we want to discuss is the link between three microfoundations (international strategic agility, rapid prototyping and experiential learning) that, by positively impacting product/service development, increases international commercial intensity. We demonstrate that to improve high international high growth, EIFs not only need to focus on innovation (Prange and Verdier, 2011), absorptive capabilities, knowledge accumulation (Prashantham and Young, 2011; Hilmerston et al., 2017; Mostafiz et al., 2019), entrepreneurial openness and effective organizational learning (Hagen and Zuchella, 2014; Ciszewska-Mlinarič et al., 2020), but they also need to create a virtuous circle that allows them to react more quickly to customers' expectations. Indeed, rapid prototyping (continuous improvement/MVP) is not just a way to enter the market quickly but is also a way to test, learn (experiential learning) and thus develop a certain agility (international



strategic agility). As we have seen, customer expectations at the international level are hard to capture due to the variety of cultural and market constraints (Knight, 2015). Therefore, through this prototyping process, EIFs will be able to adapt to each market by quickly switching their resources and capabilities to take maximum advantage of their knowledge base and thus increase their international commercial intensity. Therefore, we argue that using the lean start-up methodology seems to be effective for launching products abroad, as it not only supports the company in responding to every customer expectation but also positions the company in a growth dynamic. This is a valuable contribution as so far, no studies have already talked about the iteration operate by EIF in order to reach international high growth (Crick and Crick, 2018).

#### **4.2. THE ITERATIVE CYCLE THAT ENHANCES EIF INTERNATIONAL EXPANSION**

Our second contribution is to advance this research by highlighting how the EIF combines some microfoundations into international expansion. So, the second point we want to discuss is the iterative cycle created by the interactions between navigating the international ecosystem and improving international maturity. These two microfoundations help EIFs to optimize their resources and continuously overcome their entry barriers by increasing the breadth of international markets and the commitment of foreign resources. Numerous studies have already presented the importance of the ecosystem and the role of networks in the inception and post-entry stages (Prashantham and Young, 2011; Hagen and Zucchella, 2014; Mostafiz et al., 2019; Romanello and Chiarvesio, 2019). They support the idea that EIFs can benefit from their international network capabilities to internationalize quickly (Bembom and Schwens, 2018). Recent studies have also shown how social capital supports the recognition of foreign market opportunities and innovation through knowledge accumulation (Bai et al., 2020; Hilmersson and Johanson, 2020; Presutti et al., 2020) as well as how relational mechanisms positively influence SMEs' foreign market knowledge acquisition in domestic networks (Zahoor and Al-Tabbaa, 2021). For example, by hiring local specialists, contacting consultants and building partnerships with distributors, EIFs assimilate their knowledge and are able to better understand market ecosystems, which in turn enables better market penetration (Kontinen, and Ojala, 2011). Nevertheless, in this article we demonstrate that by continuously integrating new capabilities and gaining in maturity, EIFs will not only enhance their ability to enter new foreign countries and make the right investments (Johanson and Valhne, 1977) but also learn how to optimize their resources. So far, no studies have scoped how does the network, and the



ecosystems influence the EIFs resources allocation. Thus, we bring relevant insight to the theory by emphasizing this aspect of the EIFs international high growth.

#### **4.3. TOWARD A MORE COMPREHENSIVE VIEW OF INTERNATIONAL HIGH GROWTH**

To end this discussion, we look at international high growth, which is the result of the two outputs discussed above: international commercial intensity and international expansion, already proposed by Casillas and Acedo (2013), Chetty et al., (2014) and Hilmerston and Johanson (2016). These authors tend to describe the dynamic path taken by EIFs, or international SMEs, after their post-entry stage. However, we still lack understanding of the inherent factors that influence their high-growth trajectories (Zahra and George, 2017; Romanello and Chiarvesio, 2019). Several authors also point out that the field of international entrepreneurship has failed to offer a model that explains the complete dynamics of early internationalization (Hagen and Zuchella, 2014; Romanello and Chiarvesio, 2019; Mostafiz et al., 2019; Guo and Wang, 2020). Thus, our paper is a first attempt to contribute to the theory by bringing two mechanisms that explain the overall dynamic and thus build an integrative model. We show that international high growth is the result of a dynamic that takes root in product/service development and enhances EIF commercial intensity through interactions with customers. Moreover, growth is also sustained by the EIFs' navigation through the ecosystem, which confers international maturity that in turn enhances their international expansion. Therefore, we argue the international high growth of EIFs needs to be seen as a multidimensional concept that can only be captured by the combination of two dimensions (international intensity and expansion), each of which are underpinned by a specific mechanism that requires different microfoundations.

#### **5. CONCLUSION**

This research aimed to address the following research question: How do Early Internationalizing Firms develop and combine their microfoundations of dynamic capabilities to reach international high growth? We use an abductive research method to better understand how the microfoundations of dynamic capabilities interact along the EIFs' international trajectory. Incorporating Microfoundations-based View enables us to capture how EIFs shape the microfoundations of dynamic capabilities and experience subsequent international high-growth. Henceforth, this article offers evidence that the interactions between three main microfoundations - rapid prototyping, experiential learning, and international strategic agility -



generate a feedback loop that allows the EIFs to continuously gain new knowledge and improve their own products. This feedback loop, composed of three microfoundations, generates the EIFs' commercial intensity. Moreover, throughout this work, we also reveal the core of growth by demonstrating how the interaction between two microfoundations - navigating the international ecosystem and improving international maturity - allows EIFs to continuously support market entries and thus enhances their rapid international expansion. Examining the process of capability development empirically also provides added weight to the literature on dynamic capabilities, which has up to now been rather conceptual and abstract (Laviolette, 2019; Warner and Wäger, 2019; Khan et al., 2020). As requested in recent international business literature (Hagen and Zuchella, 2014; Romanello and Chiarvesio, 2019; Mostafiz et al., 2019; Zahra et al., 2022), we offer an integrative model regarding the international high-growth of EIF thanks to the microfoundations-based view.

## 6. MANAGERIAL IMPLICATION

This article also yields several serious implications for EIF managers about how to manage and guide their international high-growth trajectories. Thus, we encourage to balance agility and planification in order to ensure the EIF international success. One may believe that adding structure to the organization through processes and methods negatively affects the firm's flexibility. However, as shown in our paper, managers of EIFs successfully use methods and processes and plan their development, but their methods and processes are agile. During the growth of EIFs, we recommend that managers use managerial methods that encourage agility, continuous improvement and iterations (e.g., agile / lean start-up methodologies, etc.). These methods have been widely used to improve reactivity but seem to work perfectly for sustaining high-growth trajectory. Therefore, we encourage managers to plan their firm's development for the long run by considering how the firm will evolve and how they will implement their strategy in a high-growth context. The second managerial implication concerns Human Resources. As microfoundations are rooted at the individual level, managers need to understand that their Human Resources policy will impact all their future operations and the success of their company. They need to hire talented, flexible and responsive people to enhance their agility. Thus, for example, developing intrapreneurship is essential in sustaining the dynamics of international commercial intensity and therefore create a growth loop



## 7. LIMITATIONS AND AVENUES FOR FUTURE RESEARCH

This research is not without limitations. We focused on and analyzed the international path of EIFs only during a short period of time (3 years). Therefore, further research could take interest in long-term mechanisms. We also encourage further studies to reproduce our methodology in different contexts, across a wider sample, to ensure external validity. A cross-country study may also be particularly interesting to capture possible country differences. Moreover, regarding the notion of international high-growth, and specifically one of its elements—international expansion—further research could refine the link between navigating international ecosystems, the breadth of international markets and the commitment of foreign resources. Finally, we encourage scholars to test combinations of our microfoundations of dynamic capabilities using a QCA methodology. We argue that this method could extend our understanding of those feedback loops and thus our comprehension of EIF international high-growth.

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