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The Internationalization of Wine Businesses:

Exploitation of Social Capital

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Abstract

This study determines the extent of international activities of family SMEs in the wine business industry. Based on a survey from 133 Austrian wine businesses, the impact of the structure of social capital of a small wine business owner on the decision to start international activities is examined. The findings elucidate differences between performance drivers with regard to the networking competence of the small business manager. These differences are interrelated with the management competence of the owner. Implications for public policy and future research directions are presented. The study repudiates the Uppsala Model in favour of the „born global hypothesis“ for family businesses.

Key words:

social capital, networking capabilities, exporters, born global, wine business, international performance

1. Introduction

Being involved increasingly early in cross-border activities has been increasingly typical for small and medium-sized companies since the end of the last century (Fan & Phan, 2007) and likewise this phenomenon has elucidated a clear shift in theory building in the field of International Management research. Recent empirical evidence suggests that the symbiosis of internationalization and social capital has the unique ability to impart growth and survival to companies (Arenius & De Clercq, 2005). Several authors stated that the role of social capital in an international context could be discussed in terms of an entrepreneurial network that becomes a base for international growth of new ventures (Agndal & Chetty, 2007), suggesting a strong reciprocal relationship between this type of entrepreneurship and social capital (Hollenstein, 2005).

Researchers have found that the pattern of internationalization in technology-based industries differs from that of traditional companies concerning choice of markets and entry modes, which tend to become international in a slow and incremental manner (Oviatt & McDougall, 2005). Although some empirical evidence for the internationalization of the wine business industry exists (Graves & Thomas, 2006), the question of the impact of social capital on the pattern of internationalization has not yet been analysed. Therefore, the primary purpose of this paper is to provide a detailed account of how internationalization was inspired, adopted and managed in companies in the Wine Business Industry, in an attempt to locate the domain and distinctiveness of social capital. The significance of focusing on social capital is due to its unique role as the single common factor in all the three areas of wine business, international new ventures and high-technology companies (Andersson, Gabrielsson, & Wictor, 2004).

This paper differs from other empirical work on internationalization in SMEs in three ways. Whereas previous studies in the wine business field focused on only particular aspects of internationalization (e.g. export, family business etc.), the author examines the internationalization process in its complex form. Besides, the author places internationalization in the context of the SMEs strategic management processes to locate the support and structure of the social capital. Third, the author extends the topic of internationalization to include the concept of business succession in an attempt to define the

domain and distinctiveness of the concept of family businesses.

By so doing, the author addresses several hitherto unexplored questions:

Can social capital embedded in international relationships be leveraged for relationship benefits in a similar manner as in domestic contexts?

How does the born global hypothesis relate to the internationalisation pattern of Wine Business Industries?

2. Conceptual Background

Three basic issues in the literature helped the author frame the theoretical background for this research.

- 1) The first issue concerns the two schools of thought on internationalization which can be distinguished. The underlying theoretical perspectives on internationalization included in this article are the Uppsala Internationalization Model and the International-New-Venture Approach. The main premise behind the Uppsala internationalization model (Johanson & Vahlne, 1977) is that the process of internationalization is gradual and evolutionary. Incremental learning at the firm level is the main factor explaining the firm's internationalization. A firm increases its commitment to a market incrementally as it learns about the market. Thus, the Uppsala model describes the managerial goals of internationalization in terms of reducing risk and avoiding uncertainty. The Uppsala internationalization model has been criticized for being too deterministic and unable to explain the "leapfrogging" activities of born-global firms identified in the international-new-venture literature (Oviatt & McDougall, 1994). The Uppsala model was extended by the network theory of internationalisation which emphasises the impact of business relationships upon the growth and internationalisation of small firms (Sullivan, 1994). There is evidence to suggest that networks are important for born global firms because of their resource constraints (Coviello, 2006; Coviello & Jones, 2004). Networks have been argued to contribute to the success of born global firms by helping to identify new market opportunities and contribute to building market knowledge (Madsen, Rasmussen, Servais, Yaprak, & Tutek, 2000). However only little attention has been drawn to the capability of small business owners to exploit resources from social capital. Autio (Coviello, 2006) held a similar view and stated that internationalization theories for new ventures including only two or three variables have limited predictive ability for growth or survival of the company. Research therefore suggests a broader conceptualization of internationalization which was adopted in this study and which confirms that internationalization is multi-dimensional and complex phenomenon (Loane & Bell, 2006). A review of a decade of 'born global' firm internationalisation (Rialp, Rialp, & Knight, 2005) observes that the literature remains fragmented with a comprehensive theoretical explanation for SME internationalization (Knight & Cavusgil, 2004). The examination of the existing studies points to the need for a synthesis. Generally, most of the studies until now have tended to explore rather specific aspects of internationalization such as market entry forms (e.g. export, joint venture). However, Oviatt and McDougall (Oviatt & McDougall, 2005) demonstrated that internationalization of SMEs is a multi-dimensional concept and exhibits a complex relationship to the organisational factors and firm performance. Developing a unified framework goes beyond the limits of this study. Here the author concentrates on the role of social capital in the internationalisation process of wine business companies. In this context a multi-disciplinary approach that includes

entrepreneurship and strategic management is applied. From the perspective of the resource-based view the entrepreneur can achieve competitive advantage and niche positioning from social capital. Recently, researchers have reported a strong correspondence between a firm's strategic decision-making process and internationalization, necessitating that internationalization from SMEs, cannot be examined in isolation. Rather, internationalization should be seen within the context of the firm's management and its strategic choices. This perspective also considers the primary role of entrepreneurs which implies of the creation of social capital, through innovation and risk-taking, proactiveness and network expansion. The interconnectedness between social capital and the decision for international activities is now obvious. This necessitates that internationalization studies must place social capital in the context of the firm's strategic management processes.

This leads to the first hypothesis (H1):

International involvement is encouraged by the presence of a network which provides financial resources to the small business owner.

- 2) The second issue concerns the debate on the method to measure the structure of social capital with regard to small firm internationalization (Pisano, Ireland, Hitt, & Webb, 2007; Presutti, Boari, & Fratocchi, 2007). In the last few years, the increasing number of studies on internationalization in SMEs have positioned the structure of social capital as the dependent variable than as a predictor variable for internationalization. Moreover, in these studies, a quantitative approach predominates and the amount of contacts are counted instead of the focus on the type and quality of resources provided by these contacts. Apart from financial resources, resources such as information and knowledge provided by the network have been neglected in research so far.

This leads to the second hypothesis (H2):

International involvement is encouraged by the presence of informal resources (information, knowledge) from the network of the small business owner.

- 3) The third issue concerns the paucity of studies on the role of social capital in the internationalization process, highlighting a gap in the literature (Chetty & Agndal, 2007; Ruzzier & Antoncic, 2007). Social capital is defined by its function. It is not a single entity, but a variety of different entities, with two elements in common: they all consist of some aspects of social structures, and they facilitate certain actions of actors – whether persons or corporate actors – within the structure.(Coviello, 2006). While network relationships have long been recognized to be indispensable for SMEs to achieve international growth (Majocchi & Zucchella, 2003), a particular focus on social networks has been limited to date (Ellis, 2000). There is evidence to suggest that networks are important for born global firms because of their resource constraints (Coviello & Jones, 2004). However, the role of the decision maker and the firm's characteristics in taking up opportunities for international penetration, extension, integration and operations remain unclear (Freeman, Edwards, & Schroder, 2006). Networks have been argued to contribute to the success of born global firms by helping to identify new market opportunities and contribute to building market knowledge (Chetty & Agndal, 2007). Other themes have also been explored (Mort & Weerawardena, 2006). Some authors investigated the development of knowledge intensive products through networks (Mort & Weerawardena, 2006; Pla-Barber & Escriba-Esteve, 2006; Spence & Crick, 2006). Others (Andersson et al., 2004) examined the role of entrepreneur in the developing network relationship. The

tentative conceptual model guiding the research leads to four research questions. It is a well-known fact that many small businesses are highly innovative as start-ups but eventually fail to maintain the competitive advantage as they grow, indicating a need to identify how firms can create competitive advantage from the extension of marketing activities to an international level.

This leads to the third hypothesis (H3):

International involvement is encouraged by the presence of strategic partners in the family SME.

- 4) The final issue concerns the small business owner and his/her competencies (Fernandez & Nieto, 2006; Zahra, Neubaum, & Naldi, 2007). The concept of social capital in the internationalization process existing so far highlights a gap in the literature (George, Wiklund, & Zahra, 2005; Pisano et al., 2007). Social capital is defined by its function. It is not a single entity, but a variety of different entities, with two elements in common: they all consist of some aspects of social structures, and they facilitate certain actions of actors – whether persons or corporate actors – within the structure. (Coleman, 1990). While network relationships have long been recognized to be indispensable for SMEs to achieve international growth (Woodcock, Beamish, & Makino, 1994; McDougall & Oviatt, 1996; Reuer & Koza, 2000) a particular focus on social networks has been limited to date (Harris & Wheeler, 2005). It has been criticized that the role of the decision maker and the firm's characteristics in taking up opportunities for international penetration, extension, integration and operations remains unclear (Dimitratos & Jones, 2005) although networks have been argued to contribute to the success of born global firms by helping to identify new market opportunities and contribute to building market knowledge (Coviello, 2006; Sapienza, Autio, George, & Zahra, 2006). The examination of the characteristics of the company and its association with network competence focussing on the development of knowledge intensive products through networks in the wine business and the role of the entrepreneur in the developing network relationship has been neglected so far. Although technology competence and management competence are well introduced concepts in the literature, the network competence dimension as the ability of the small business owner to establish and extend social networks has been neglected so far. Network competence is essential not only for the internationalization process of highly innovative companies but also for wine business in order to maintain the competitive advantage as they grow.

Therefore the fourth hypothesis can be stated (H4):

International involvement is encouraged by the network competence of the small business owner.

3. Methodology

Units of Analysis

Individual SMEs are the unit of analysis in this study. To identify an SME, this study adopted the general definition of SME used by the European Union (2005) which is based on employee numbers. Accordingly to this definition, a business with less than 10 employees is a Micro business, and a business with 10 to 250 employees is a Small and Medium-sized business. The author tested the hypotheses using survey data from Wine Businesses in Austria. Austria was selected because of its geographic location as an example for a small country in Central Europe with several neighbour countries which represent opportunities for international wine business activities.

Sampling and data collection

In accordance with the support in the literature for quantitative methods, and in order to address the multi-dimensional nature of internationalization as was discussed earlier, a structure questionnaire was used to collect the data for this study. The respondents were informed by email about the survey and asked to fill out the questionnaire within a limited period of time. This study used the Herold Business database and the database from a professional wine business network, which was accessed during October 2007. Usage of the filters, "Wine Business", "Wine" and "Wine Retail", yielded 1200 firms which was taken as the population frame. During the allocated time-period of 2 weeks for data sourcing, firms were contacted by email of which 191 agreed, translating into a response rate of 15,9%. Of the 191 returned questionnaires, 18 were excluded because they did not meet all sampling criteria and 40 were excluded because of incomplete answers, leaving 133 usable responses, which relates to a net response rate of 11%. This response rate compares favorably with similar mail surveys of entrepreneurial firms: e.g., McDougall (1994) had an 11 percent response rate in a study of new technology-based firms. All of the multiple-item constructs achieved Cronbach alphas of 0.71 or higher, indicating strong internal consistency. The software used for the analysis was SPSS.

Data analysis

The analysing methods for gathered data in this research were divided in two parts. First is Confirmatory Factor Analysis which was implemented to validate the model and respectively compatibility and relativeness of the question to the model, and the second method was discriminant analysis which was implemented to discover the meaningful difference(s) between the theoretical constructs. The individual measurement items for the study's dependent, independent, and control variables are listed in Table 1; the construction of the measures is explained in the following. All statement-style items were measured on a scale from 1 = do not agree to 4 = completely agree.

IV) Findings

In this section, the author presents the findings of the survey. Firm-level data were derived by counting the scores for internationalization for all respondents from each company. The profile of respondents demonstrated that 33,3% had no international activities at all (Group I),

14,4% of the companies plan international activities (Group II) and 52,3% already had experience in international activities (Group III).

Analysis of variances (ANOVA)

The One-Way ANOVA compares the mean of one or more groups based on one independent variable (or factor). ANOVA for the involvement of strategic partner in the decision to internationalize proved significant differences between the groups' mean scores for the item financial resources. There was no significant difference between the groups' mean scores for the items Emotional Support, Consulting and Active Work by Strategic Partners of the Entrepreneur. (see Table 1)

Resources from Strategic Partners		Sum of Squares	df	Mean Square	F	Sig.
Strategic Partner (Emotional Support)	Between Groups	,003	1	,003	,045	,832
	Within Groups	7,513	130	,058		
	Total	7,515	131			
Strategic Partner (Consulting)	Between Groups	,011	1	,011	,044	,835
	Within Groups	32,989	130	,254		
	Total	33,000	131			
Strategic Partner (Financial Support)	Between Groups	,247	1	,247	3,010	,050
	Within Groups	10,662	130	,082		
	Total	10,909	131			
Strategic Partner (Work)	Between Groups	,118	1	,118	1,426	,235
	Within Groups	10,791	130	,083		
	Total	10,909	131			

Table 1: ANOVA Resources from Strategic Partners

ANOVA for the involvement of strategic partner in the decision to internationalize proved significant differences between the groups' mean scores for the item financial resources. There was no significant difference between the groups' mean scores for the items Emotional Support, Consulting and Active Work by the Family of the Entrepreneur (see Table 2). It can therefore be concluded that firms with international activities do not differ from firms without international activities with regard to the resources which the entrepreneur (as a person) receives from the family.

Resources from Family		Sum of Squares	df	Mean Square	F	Sig.
Family (Emotional Support)	Between Groups	,552	3	,184	,726	,538
	Within Groups	32,440	128	,253		
	Total	32,992	131			
Family (Consulting)	Between Groups	,530	3	,177	,730	,536
	Within Groups	30,985	128	,242		
	Total	31,515	131			
Family (Financial Support)	Between Groups	,692	3	,231	1,420	,240
	Within Groups	20,786	128	,162		
	Total	21,477	131			
Family (Work)	Between Groups	,116	3	,039	,178	,911
	Within Groups	27,763	128	,217		
	Total	27,879	131			

Table 2: ANOVA Resources from Family

ANOVA for the involvement of social capital in marketing decisions proved significant differences between the groups' mean scores for the item Spouse. There was no significant difference between the groups' mean scores for the items Family, Friends, Staff, Industry Colleagues, Strategic Partners and Investors (see Table 3).

Involvement in Strategic marketing decisions		Sum of Squares	df	Mean Square	F	Sig.
Spouse	Between Groups	9,410	3	3,137	4,299	,006
	Within Groups	93,401	128	,730		
	Total	102,811	131			
Family	Between Groups	,913	3	,304	,402	,752
	Within Groups	96,966	128	,758		
	Total	97,879	131			
Friends	Between Groups	1,649	3	,550	,956	,416
	Within Groups	73,593	128	,575		
	Total	75,242	131			
Staff	Between Groups	1,688	3	,563	,628	,598
	Within Groups	114,645	128	,896		
	Total	116,333	131			
Industry colleagues	Between Groups	,849	3	,283	,478	,698
	Within Groups	75,780	128	,592		
	Total	76,629	131			
Strategic Partner	Between Groups	,407	3	,136	,174	,914
	Within Groups	100,108	128	,782		
	Total	100,515	131			
Investors	Between Groups	,443	3	,148	,203	,894
	Within Groups	93,216	128	,728		
	Total	93,659	131			

Table 3: ANOVA Involvement of Social Capital in Strategic Marketing decisions

Principal Component Analysis (PCA)

PCA was carried out in order to find patterns for social capital in the data. Therefore the data was compressed by reducing the number of dimensions.

a) Social Capital Structure

The social capital structure was measured with seven statements regarding the extent to which the firm's social capital is a source of international competitive advantage for the firm. While previous research has often focused on a single dimension of social capital and measured it indirectly as the number of relationships or network position (Burt, 1992). The author found three dimensions of social capital; results indicate that these dimensions are distinct and have differential effects on internationalization for Wine Businesses. These components are personal relations which the owner has, strategic relations with Investors or Strategic partners and intercompany relations (with Industry colleagues, Friends). Staff showed loadings for both components Nr. 1 and Nr. 2. This finding is important because it provides empirical support for propositions in recent research that different social assets may have different effects on relationship outcomes. The standardized factor loadings are all above the recommended minimum in the social sciences of 0.40 (see Table 4)

	Component		
	1	2	3
Industry colleagues	,783		
Friends	,651		
Staff	,549	,473	
Investors		,812	
Strategic Partner		,743	
Spouse			,872
Family			,768

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.
a. Rotation converged in 5 iterations.

Table 4 PCA for social capital structure

b) Competence dimensions (Technology, Management)

The competence dimensions capital structure was measured with nine statements regarding the extent to which the competencies of the small business owner are a source of international competitive advantage for the firm. Two basic components were extracted: Management competencies and Technology Competencies. This finding is important because it provides empirical support for propositions in recent research that different competencies may have different effects on the internationalization process and its outcomes. The standardized factor loadings are all above the recommended minimum in the social sciences of 0.40 (see Table 5)

	Component	
	1	2
Marketing Controlling	,802	
Business Planning	,774	
Market research	,773	
Analysis of Key Figures	,766	
Financial Planning	,720	
Accounting, Controlling	,697	
Monthly income amount analysis	,672	
Technology		,774
Research & Development		,659

Extraction Method: Principal Component Analysis.
a. 2 components extracted.

Table 5 PCA for competence dimensions

Discriminant Analysis

The major purpose of discriminant analysis was to predict membership in two or more mutually exclusive groups from a set of predictors, when there is no natural ordering on the groups. The dependent variable was the Intensity of International Activities (Range: 1...no international activities, 2...planning of international activities, 3...international activities)

In this study three categories of independent variables could be found: Technology Competence, Network Competence and Management Competence. These three categories distinguish the three groups of companies with different levels of international activities.

Entered	Wilks' Lambda							
	Statistic	df2	df3	Exact F			Statistic	df1
Statistic	df2	Sig.	Statistic	df1	df2	Sig.	Statistic	df1
Management Competence	,844	1	2	114,000	10,558	2	114,000	,000
Technology competence	,772	2	2	114,000	7,798	4	226,000	,000
Network Competence	,705	3	2	114,000	7,145	6	224,000	,000

At each step, the variable that minimizes the overall Wilks' Lambda is entered.

Table 6 Discriminant analysis for entrepreneurial competence dimensions

Summarizing the findings indicate that hypotheses 1, 2 and 3 can not be rejected.

V) Implications for Theory and Practice

From the results, the implications for the exploitation of social capital in the internationalization process of Wine Businesses is summarized below. The findings contribute to social capital research in several ways. The results show that the structure of the network of the entrepreneur has impact on the internationalization strategy adoption intention. Analysis from the start of the firm's international operations indicates that the knowledge inputs are internal and originate solely from the personality and motivation of the entrepreneur.

What are implications on internationalisation of Wine Businesses?

This article has demonstrated that the concept of network competence has impact to the internationalization process of the Wine Business. It could be shown that management competence and technology competence are or high impact on the decision to start international activities but also network competence as a personal capability of the small business owner. The focus on the network competence as a personal capability presents a shift in the network research – not the quantity of contacts which the owner has was analysed but the personal ability to get resources from these contacts – with impact to the organisational and international development of the company.

VI) Directions for future research

Given that SMEs account for a large proportion of the total businesses in many countries, including Austria, the findings provide a starting point for potential public policy framing and targeting of support. This study supports the findings in the literature of family firms that not all family firms are the same. The firm with international activities is a creator of economic growth with further potential. Therefore support should be targeted to product innovations and

export financing. The firm without international activities may refuse to accept governmental support as it would infringe the individual decision level of the owner.

This article indicates that not all wine businesses tend to pursue international activities. Although both the firms exhibited continuous innovation, the in-depth analysis proves that mostly the firms with established strong relations to strategic partners and the staff possess a clearly defined internationalization strategy. The quantitative analysis used in this study highlights that the international marketing activities were not limited to product innovations and they were based on strategic decisions in the pre-export phase to achieve product differentiation. This is in sharp contrast to the firm with no international activities that had non-technological innovations in managerial practices and administration.

The above implications cannot be generalized, as a major limitation of this paper is that it is based on findings from wine businesses located in Austria. Nevertheless, the small size and geographic position of the country in Europe seems favourable enough for general assumptions about the internationalization process of wine business companies. Therefore, further studies should include other countries, survey a larger population and extend the study to cross-national comparisons to understand the role of social capital in the internationalization process of wine businesses more completely. The integrated and multidimensional perspective of social capital, studied within the context of a wine business firm's strategic decision to internationalize has provided meaningful conclusions and implications on the structure and support of relations, useful for future theoretical discussions about network exploitation and practical applications.

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