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Exploratory Factor Analysis of SME Internationalization: Factor Differences between AEO and Non-AEO Authorized Companies*

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Abstract

Purpose - This study identified internationalization factors for Korean SMEs and explored factor differences between AEO and non-AEO authorized companies.

Research design, data, and methodology - The study was designed to assess internationalization factors for AEO authorization in Korea through a questionnaire survey and an empirical analysis. The questionnaires were conducted for AEO and Non-AEO authorized companies that were undergoing AEO authorization. The study was conducted through e-mail and AEO manager education classes. Ninety-five questionnaires were collected. We employed the exploratory factor analysis methodology to derive internationalization factors for Korean SMEs, and explored the factor differences between AEO and Non-AEO authorized companies.

Results - AEO authorized companies outperformed Non-AEO authorized companies in R&D and technology. This indicated that AEO authorized companies were recognized as reliable and safe companies by the Korea Customs Service and other Customs services in trade facilitation and customs clearance processes.

Conclusions - This study has some implications for AEO authorization and internationalization processes, and involved the empirical analysis of SMEs and the exploratory factor analysis in the internationalization process.

Keywords: AEO, SME, Internationalization Factors, International Authorization.

1. Introduction

The ecosystem of world trade has been increasing in the rapid speed due to the appearance of international organization such as World Trade Organization, the expansion of Free Trade Agreement across the global level. The liberalization of the international trade environment may provide a new challenges and opportunities to a firm that possesses an international competitiveness in the boundless trade world. However, to the firm without an international competitiveness may face a great risk and threat not only in domestic market but as well as abroad. If it is a Small to Medium Enterprise, (hereinafter, SME) firm, then the greater risk may increase. Especially, Korea SMEs not only have to compete with domestic firms but also have to compete with global multinational companies in the homeland. As the FTAs are concluded among the countries, then the tariffs are lowered and the global boundaries are disappearing. Thus the world economy has transformed to be a global greater market (Lee and Lee, 2013).

However, The World Customs Organization (hereinafter, WCO) has pursued the mission to ensure the safety and faster customs clearance in the rapidly changing trade environment due to the rise of trade liberalization and the risk cargo increases (Kim and Chun, 2010; Kim, 2014).

In order to reduce the non-tariff barrier but also ensure the safer export and import supply chain and free trade, each country has adopted the system to mutually recognize other country's customs clearance procedure in a safer and rapid ways (Kim, 2010).

This system is called an Authorized Economic Operator (hereinafter, AEO) system and it is a unique system to reduce the customs barrier in order to overcome the non-tariff barrier in respect with trade safety issue.

AEO is an acronym for Authorized Economic Operator and company is validated and authorized by the Korea Customs

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Service in accordance with authorizing criteria of Law Compliance, Internal Control System, Financial Solvency and Security Management.

WCO adopted an international standard known as SAFE Framework in June 2005. The birth of AEO initiated in the process of trade safety and facilitation as WCO adopted as an enforced trade safety measures after the tragic 9.11 attacks in 2001. The involved entities include exporter, shipper, transporter, warehouse operator, customs agent and other involved in logistics supply chain that Customs Offices in each country recognize the safe and secure authorized company.

159 countries around the world sent the letter of intent to join the AEO system as proposed by WCO in 2005. After the 9.11 attacks, the U.S enacted the Customs Trade Partnership against Terrorism (hereinafter, C-TPAT) system to ensure the trade supply safety and trade facilitation. WCO established WCO SAFE Framework (Secure And Facilitate in global environment Framework) as an international standard to pursue the trade safety and facilitation in the customs to private partnership.

This AEO system has expanded around the world as the trade customs regulation, Korea adopted the AEO system in Dec. 2007 via the revised Customs laws and enacted in April, 2009.

AEO system in Korea is based on Article 255-2 of the Customs Act; Article 259-2 and Article 259-3 of the Enforcement Decree of Customs Act; and Enforcement Rule of Authorization and Management on AEO Companies. The validation procedures for AEO authorization are as follows: Company submit the application, and undergo documentary auditing and on-site auditing to verify whether it comply with authorization criteria and if it meets the criteria, then AEO deliberation committee review the final decision. Once it is authorized, it is subject to post management for maintaining authorization criteria and further implementation through comprehensive audits.

However, the criteria for AEO authorization are relatively high for SMEs to fulfill the requirement of AEO guideline. It generally takes at least 6 months to 1 year to prepare and another year to receive the final authorization.

Thus, these exporting SMEs are concerned that AEO authorization system may work as a new non-tariff barrier in international trade.

Despite these high criteria in AEO authorization, there are benefits to AEO companies by Customs Service around the world in trade facilitation and customs clearance procedure. The respective customs administrations around the World have agreed to establish MRAs (Mutually Recognition Arrangement) to accept counterpart's AEO program in the same manner as in the home country and facilitate faster in customs clearance procedure for AEO companies.

This is a great issue to a country like Korea that its economy is relatively dependent on external economy and export driven economy. Especially, the U.S, E.U, Japan, China and other highly trading countries are Korea's major exporting markets as the competitor countries proposed to adopt the AEO system if Korea's exporting companies do not receive an AEO authorization, then there may occur negative phenomena like a delay in customs clearance procedure and unexpected logistics costs related to trade facilitation. In addition, the competitiveness decreases relatively in comparison to a country that adopted the benefits of AEO system. It can further decrease the exporting capacity of Korea firm. Therefore, it has received a great attention from the industry and needs to outreach to the industry via publicity activity from Customs perspective.

Especially, SMEs in Korea compose 99.9% of overall industries, more than 88% of labor forces work in SMEs, despite this growing importance, Korea SMEs may not recognize the greater importance and benefits of AEO authorization yet. Korea's AEO companies were 365 in numbers as of Dec. 2012. A greater number of them were large companies and only a small number of SMEs earned an AEO authorization. If we consider the expansion of AEO system around the world, it's very important to provide the necessity industry atmosphere for SMEs to receive an AEO authorization in order to increase the international competitiveness of SMEs which may lack the human resources and material infrastructures.

2. Theoretical Framework

2.1. Literature Reviews related to the internationalization of a firm

The internationalization of a firm involves the activity between nations and it is based on the concept of a firm within a nation and can be defined to gradually proceed into internationalization process. The researches on internationalization process of a firm started in the North America (Cavusgil, 1980) and mid 70's in Europe (Johanson and Vahlne, 1990). In these researches, an exporting process of the internationalization process involves the gradual procedures by firm experience, manager's capacity.

The internationalization process of SMEs involves Stage Model which deals with the basic process of internationalization activity (import and export) and gradually proceeds into more sophisticated internationalization process through an international learning process (Kim, Kim and Na, 2009).

In the other hand, very high tech companies may start the internationalization process at the initial stage not by the gradual process (Mckinsey and Co, 1993; Knight and Cavusgi, 1996, Harris and Li, 2007). They are defined as Born Global or International Ventures.

2.2. Literature Reviews related to AEO system and Internationalization Process

The internationalization strategy is such an important strategy both to large firms and SMEs. In particular, it is one of very important growth strategy to SMEs (Oviatt and McDougall, 1994; 1999). However, the world economy has become more integrated and trade barrier and technology barrier may impose the risk to SMEs. Therefore, SMEs need to implement the internationalization strategy.

The research findings on internationalization have evolved from Organization theory perspectives from 1960s to Monopolistic competitiveness theory (Hymer, 1976), Product Life Cycle theory (Vernon, 1966), Oligopolistic competitiveness theory (Knickerbocker, 1996). It then further evolved to an Eclectic model by Dunning and has developed to Monopolistic competitiveness theory and Internalization theory and numerous studies have focused on the importance of SME Internationalization. Numerous studies in these literatures have proceeded at the antecedents and the process of internationalization of SMEs (Preece, Miles, and Baetz, 1999). SMEs tend to move into foreign markets as exporters and/or as foreign investors (Reynolds, 1997).

Especially, the researches on internationalization process of a firm started in the North America (Cavusgil, 1980) and mid 70's in Europe (Johanson and Vahlne, 1990). In these researches, an exporting process of the internationalization process involves the gradual procedures by firm experience, manager's capacity.

In particular, the internationalization of new venture firms with high technology reversed the previous internationalization theory that focused on stage model and complemented the internationalization theory.

That is, the very high tech companies may start the internationalization process at the initial stage, not by the gradual process (Mckinsey, 1993; Knight and Cavusgi, 1996; Harris and Li, 2007). They are defined as Born Global or International Ventures. However, although there are numerous researches conducted on internationalization factors, there are not sufficient researches of factors affecting SMEs internationalization, especially Korea's new venture firms as well as potential competency factors.

The previous literature reviews were mainly focused on manufacturing firms such as parts and material industry, textile, shoes industries which exported the products to South East Asia, South America and other countries. The motivations and goals for internationalization were attributed to reducing the labor cost for building manufacturing sites, utilizing low costs, ensuring raw materials and etc. In other words, there are reasonable grounds that research should be focused on internationalization factors of new venture firms.

In particular, the internationalization factor analysis should be considered to carry out on high tech venture firm's features. In addition, internationalization process is not an independent case

on individual person, but it is a firm level activity and the analysis unit should be at the firm level. The researches need to be focused on motivations and factors which Korea venture SMEs implement an internationalization strategy.

The main objectives of the research were the followings. First, it was to identify an internationalization factors by exploratory factor analysis. Second, it was to identify the difference between AEO authorized companies and Non-AEO companies through exploratory factor analysis variables. Therefore, the main objectives of this research were to identify whether AEO authorization may have an influence on internationalization and identified the difference between AEO authorized companies and Non-AEO companies.

3. Proposition Development

3.1. Internationalization factors of Korea SMEs

The objectives of this research were to identify the difference between AEO authorized companies and Non-AEO authorized companies by internationalization factor analysis variables. The scope of the research was based on AEO authorized companies and Non-AEO authorized companies which were in the AEO authorization process. Thus, we conducted the exploratory factor analysis method to derive the internationalization factors. Exploratory Factor analysis was used to validate the concept used in this research, varimax method was used through (Principal component analysis: PCA). The value of more than 1.0 was used to be factored.

<Table 1> Company Features

	Factor ratio	
	Factor 1 Managing Market Info	Factor 2 R&D Capacity
Company participates actively in monitoring activity in obtaining overseas market information.	.888	
Company responds quickly to overseas market information	.922	
Company manages overseas market information systematically	.854	
Company reflects overseas information in developing company product	.757	
Company communicates overseas information well among colleagues.	.806	
Company invests a great amount in R&D development per sales.		.823
Company owns several patents.		.889
R&D Capacity in your company is better than competitor		.904
Company is very interested in R&D activity.		.894
Eigen-value	3.932	3.618
Explanation ratio(%)	43.690	40.203

Firm specific variables were total 9 questions and 2 factors were derived managing market information and R&D capacity. These 2 factors explained 43.690 in managing market information, 40.203 in R&D capacity. The aggregated variable ratio was 83.893%. The result of factor analysis, there were high validity in measuring tool. Through the factor analysis, managing market information and R&D capacity were distinctly factored and separated.

<Table 2> Overseas Market Information

	Factor Ratio
Company has a relatively high ratio of major product market in overseas	.956
Company has a relatively high competition of major product in overseas market	.956
Eigen-value	1.826
Explanation %	91.321

The overseas market variables were composed of two factors and derived as one factor. The total variable ratio was shown to be 91.321%. The result of factor analysis, there was a very high validity of the measurement tool.

<Table 3> Technology Capacity

	Factor Ratio
Company's technology is leading in the market.	.948
Company can provide an innovative product in comparison with competitors.	.972
Company's technology is recognized as a leader in the market	.972
Eigen-value	2.790
Explanation ratio	92.988

Technology capacity ratio was composed of three questions and used as one factor. The overall variable ratio was 92.988. In analyzing the factor outcome, there seemed to be a very high validity of the measurement tool.

In respect with internationalization factors on SMEs, we derived the four factors; firm internal factors such as company features, managing market information, R&D capacity, and external factors such as responding to foreign market, and technology capacity.

3.2. Explanation of each factor

3.2.1. Firm Internal Factor

In order to measure a firm internal factor, survey questions were designed to ask firm's internal activities to prepare for internationalization. The surveys were designed and measured in 5 likert scale. As a result, in respect with firm internal factor, we categorized the two broad activities which can be factored into two factors, one factor was to manage market information which involved gathering information and analyzing them for re-

sponding external market and another factor was to an activity involved to reinforce R&D capacity. The research development capacity indicated how firms invested in R&D part. Managing market information indicated how well firms used information, specifically market information in export process.

3.2.2. Market external factor

In this research, market external factor involved the survey related to foreign market environment, which composed the size of major product in the foreign market and the competition level in the foreign market. It was in 5 likert scale. As a result, in respect with firm external factor, competition with competitor in the foreign market and market share of major products in the foreign market were similarly rated and categorized together. Thus, these variables were factored and categorized together as market external factors.

3.2.3. Technology Factor

In this research, another important factor in the internationalization process was a technology factor. The surveys were designed to ask a firm's status in innovation and technology capacity such as company status in the market, how innovative product is in comparison to competitor and etc. It was also designed in 5-likert scale Innovative and technology focused questions were categorized together as technology feature factors in this research.

3.2.4. Internationalization performance through AEO authorization

The level of internationalization performance of a firm can be measured in a various method. It can be measured in a number of foreign market entry, foreign sales ratio and number of foreign offices or branches performance. However, in this research, if a firm receive an AEO authorization, then it is the case that a firm's image increase in a positive way, foreign market sales increase, helpful to select a new foreign partner, and etc. It is also used in 5 likert scale and measured.

3.3 Research Hypothesis

We identified four factors through exploratory factor analysis and further explore the difference between AEO authorized companies and Non-AEO authorized companies. Thus, we derived the following hypothesis using verified variables and set to hypotheses (Lee et al., 2011).

Through these research hypotheses, a firm specific factor, environment factors (foreign market environment) and technology factors may have significant influences in the internationalization performance. The following hypothesis can be formulated.

- Hypothesis 1. There may be a significant difference in respect with managing market information between AEO authorized companies and Non-AEO authorized companies in Internationalization factors.

- Hypothesis 2. There may be a significant difference in R&D capacity between AEO authorized companies and Non-AEO authorized companies in internationalization factors.
- Hypothesis 3. There may be a significant difference in foreign market environment between AEO authorized companies and Non-AEO authorized companies in internationalization factors.
- Hypothesis 4. There may be a significant difference in technology capacity between AEO authorized companies and Non-AEO authorized companies in internationalization factors.

conducted on AEO authorized companies and Non-AEO authorized companies which were in the process of AEO authorization. The fundamental data were obtained through Korea AEO Association where AEO managers received the training. About 200 hundred companies out of 365 AEO authorized companies were involved in the research. Due to the insufficient number of export AEO authorized company status and SMEs, the survey included AEO authorized companies and companies which were in the process of AEO authorization. The survey was conducted from November 26 to December 3 in 2012. It was carried out through an e-mail and AEO manager education classes. 95 surveys were collected and irrelevant answers and omitted answers were excluded and 82 surveys were effective and used in this research.

The research was to identify the AEO authorization internalization factors on internationalization process by measuring factors in 5 Likert Scale. The measurement factors were based on previous literature studies in firm internal factor, firm external factor (foreign market environment), technology factor (technology capacity) and AEO authorization or Non-AEO (Lee et al., 2011).

4. Analyzed Results

4.1. Measurement and data

4.1.1. Select Sample Data and Collect Data

In order to identify internalization factors internalization factors of AEO authorization in Korea, the survey questionnaire were

<Table 4> General Features of Sample Data

		Frequency	Percent
Authorization Category	Exporter	55	67.1
	Freight Forwarder	23	28.0
	Warehouse Carrier	1	1.2
	Warehouse Keeper	3	3.7
Size	Less than 10	4	4.9
	Less than 10-50	16	19.5
	Less than 50-100	10	12.2
	Less than 100-300	17	20.7
	More than 300	35	42.7
Trading Partner	Domestic Export Large Company	28	34.1
	Domestic Export SME	14	17.1
	Overseas Export Large Company	23	28.0
	Overseas Export SME	4	4.9
	System Error	13	15.9
Trading Country	0~5	15	18.3
	5~10	24	29.3
	10~15	11	13.4
	15~25	5	6.1
	More than 25	26	31.7
	System Error	1	1.2
Sales	Less than 10 Million KRW	3	3.7
	Less than 10-50 Million KRW	5	6.1
	Less than 50-100 Million KRW	7	8.5
	Less than 100-500 Million KRW	20	24.4
	More than 500 Million KRW	47	57.3

Export ratio/sales	Less than 20%	10	12.2
	Less than 21~50%	18	22.0
	Less than 51~70%	29	35.4
	Less than 71%	24	29.3
	System Error	1	1.2

4.1.2. The Result of Correlation Analysis

<Table 5> Correlation Analysis

	Int'l Performance	Managing Market Info	Overseas Market Environment	R&D Capacity	Technology Capacity	Company Size
Int'l Performance	1					
Managing Market Info	.185	1				
R&D Capacity	.091	.594**	1			
Overseas Market Environment	.267*	.534**	.519**	1		
Technology Capacity	.132	.636**	.814**	.638**	1	
Company Size	-.075	.239*	.556**	.234*	.474**	1

*p<0.05, **p<0.01

<Table 5> shows the outcome correlation analysis of internationalization performance and internationalization factors. Internationalization performance has a positive correlation relationship with overseas market environment(r=.267)

5. Analyzed Results

5.1. Reliability Test

To test reliability, it is a concept that involves as if two or more observers test the same sample data in regardless of time and target data, the observer obtains the same outcome. It is regarded as very important factor. In order to validate the research model, reliability criteria were analyzed. The Cronbach's index was used to test the safety, congruence and forecast probability on the collected survey. In this research, Cronbach's index was used to validate the internal consistency in the reliability of the measurement criteria.

<Table 6> Reliability Test Results

Factor	# of Questions	Cronbach's α
Managing Market Info	5	.940
R&D Capacity	4	.938
Overseas Market Environment	2	.904
Technology Capacity	3	.959

5.2. Difference in Internationalization factors in respect with AEO authorization

<Table 7> Difference with AEO authorization and Non-AEO

	Difference in Size	N	Mean	S.D	t	p
Managing Market info	AEO	45	3.89	0.83	.157	.876
	Non-AEO	37	3.86	0.81		
R&D Capacity	AEO	45	3.64	1.02	2.178	.032
	Non-AEO	37	3.12	1.12		
Overseas Market Environment	AEO	45	3.62	1.06	-1.090	.279
	Non-AEO	37	3.88	1.06		
Technology Capacity	AEO	45	3.85	0.87	2.089	.040
	Non-AEO	36	3.39	1.12		

<Table 7> indicates the result of difference in analysis of the internationalization performance and internationalization factor. In reflecting the difference in AEO authorization, R&D Capacity (p<.005), technology capacity (p<.005) were shown to indicate the statistically meaningful difference. That is, R&D and technology capacity were higher in AEO companies than Non-AEO companies.

There was not any significant difference in managing market information and foreign market factors between AEO authorized companies and Non-AEO authorized companies. However, AEO authorized companies performed better than Non-AEO authorized companies in R&D capacity and technology capacity. This indicated that as AEO authorized companies received a reliability, safety and superiority in an authorization process by Korea Customs Service. In particular, it showed that AEO authorization was bestowed to the companies which meet the criteria set by Korea Customs Service and thus regarded as safe and trusted in the trade. In respect with AEO authorized companies, each respective Customs authorities around the world agreed to guarantee prompt trade facilitation. However, we expected to identify the significant differences in managing market information and foreign market factors in internationalization factors, but there was not any significant differences in AEO authorized companies and Non-AEO authorized companies.

This was due to the lack of public promotion in AEO authorization on exporting SMEs. AEO authorization has not fully established in international community. Also, there were limitations in respect with analyzing effectiveness and casual relationship effects of internationalization performance through AEO author-

ization due to the small number of exporting SMEs in AEO authorized companies. Thus, there needs to be an additional research done in respect with further collecting data on exporting SMEs in the future.

6. Conclusion

The one of the major difficulties that exporting- manufacturing companies that have overseas branches confronted is the customs clearance issue.

It's very important that overseas sales branches need to supply products to the customers through prompt clearance and manufacturing branches need to produce materials through the prompt customs clearance. However, there may occur the frequent problems involved with delays in the customs clearance if uncertainty issue arises in the international level. AEO authorization may provide the advantage of reducing cost related to customs clearance and may shorten the customs clearance time through reliability by AEO authorization. The effectiveness of Customs administrative can be reinforced by shifting from enforced compliance in the past to informed compliance by cooperative efforts with companies in avoluntary risk management and further enhance the risk management in the export and import supply chain. The customs clearance issue in overseas export and import supply chain is a very difficult issue that can be controlled by companies which may lack the resources and understanding on overseas local laws and regulations, respective countries customs administrative norms, and differences in the logistics environment. Thus, many of foreign liability issue challenges to companies which are in the internationalization process.

AEO authorization can be a key solution to resolve these challenges faced by exporting companies. AEO system has been regarded as the most trusted partnership between government and private industries in trade facilitation and customs clearance respect and recognized internationally by each respective customs around the world. AEO authorized companies can reduce the risk and challenges in the global supply chain management and may enhance export its exporting competitiveness through AEO authorization.

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