FORMATION AND INTERNATIONALIZATION OF IT FIRMS OF PAKISTAN: A RESOURCE BASED VIEW

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ABSTRACT

The purpose of this study is to explore the issues regarding formation and internationalization of IT firms of transition economies like Pakistan, the context of the study is resource based view (RBV). The research part is inductive, qualitative and based on case study. The study’s findings illustrate the subtleties of how various resources intervene with entrepreneur’s surroundings to formulate a firm and grow internationally. The resources range from entrepreneurial to human to social to financial capital. Important findings of the paper are that the firm cannot be successful till the time they may have a perfect blend of resources, no single resource proved significant in isolation to boost up the process of formation and internationalization. At the end, the limitations and policy recommendations are discussed.

Keywords: Resource Based View (RBV), Knowledge Intensive Firms, internationalization process, Formation, developing countries, case study, small & medium sized companies, Pakistan

JEL Classification: M13

1. INTRODUCTION

The business world today stands on the entrance of revolutionary change, change that will affect every aspect of doing business in future. The world has become global village because of technology involvement and continuous innovation in it. Factors that are barriers in history, like Geographical, distant, time are no more exist. IT effects the formation and organizations operations more strongly than ever did before (Mahmood & Mann, 2000). It has been discussed by many researchers that IT use has become an important part of the world yield in the recent times(Agourram & Ingham, 2003).

New venture creation is a fundamental issue in conversion from a centrally planned economy to a free market economy in the developing countries (Lyles, Saxton, & Watson, 2004; Mueller & Goic, 2002; Smallbone, North, & Leigh, 1993). The internationalization literature mostly discusses the context of developing countries and failed to address the issues relating to SMEs of south Asia region (Chung, Chen, & Hsieh, 2007; Kuada & Sorensen, 2000; Liu, Xiao, & Huang, 2008). This negligence is quite disappointing as there exists huge difference in the internationalization process with the difference in country conditions, same is true for international markets (Das, 1994; Morgan & Katsikeas, 1998; Westhead, Wright, & Ucbasaran, 2001; Wheeler, Ibeh, & Dimitratos, 2008).

The previous literature mainly focused on traditional sectors of transition economies (K.I.N. Ibeh, 2003), contemporary knowledge intensive firms are specifically ignored (Terjesen, O’Gorman, & Acs, 2008; Thai & Chong, 2008; Zain & Ng, 2006). So there is a huge gap existing about formation and internationalization of IT firms of developing countries.
The article is classified as follows. In next part, a brief overview of the selected sector is discussed; the third one gives the literature review along with the preposition development. After that section four will discuss the methodology used in the study. The data gathering and analysis is in the Section 5. Then the researcher ends with conclusion and future recommendations and implications.

In case of technological reforms, Pakistan is lagging behind many other developing countries. Despite of the fact that technology shifted from developed countries to developing ones, the acceptance and deployment of IT in Pakistan is very slow. Pakistan Software industry becomes a vibrant sector fetching billions of dollars in international markets. By viewing at its socio-economic factor Govt. of Pakistan have established “Pakistan software export board in 1955” to promote software export in Pakistan. These companies lag in their offering considerably behind international standards. In addition IT in Pakistan is facing some serious issues, craft-based discipline, lack of professionalism, and with customers know how as what they want a computer system or how to specify. Some specifies slow IT diffusion in the country is lack of IT qualified and experts. However the Pakistani IT industry seems promising, as Govt. of Pakistan took steps for its establishment by giving incentive and interesting opportunities at impressive level.

From the viewpoint of resource-based theory (Barney, 1991; Wernerfelt, 1989), making and maintaining competitive advantages resides in the set of planned resources and capabilities available—i.e. the resources and capabilities that improve value to the firm, do not have alternatives and above all are difficult to imitate. So resources of all type have been gathered in the study, Human Capital (Barney, 1991; Fletcher, 2004; Hitt, Hoskisson, & Kim, 1997; K.I.N. Ibeh, 2003) Social Capital (N. Coviello & Munro, 1997; Hadley & Wilson, 2003; Johanson & Mattsson, 1994; Lu & Beamish, 2001), Entrepreneurial Capital (Covin&Slevin, 1989; Wiklund& Shepherd, 2003; Lumpkin &Dess, 1996) and Financial Capital (Audretsch, 1995) as to look what actual resource is effecting the formation and internationalization.

Bearing the background in mind, the researchers in this study aim to contribute to the above noted research gap, by examining the internationalization and formation of small technology intensive firms of Pakistan. It is interesting therefore to investigate various resources impact on the formation and on the internationalization speed or process of IT firms in Pakistani scenario. The study will investigate the view point of Resource based view (RBV). (Yin, 2009) highlighting the process and impact of resources on the formation of IT firms and its expansion at international level. The decision to adopt RBV as the main theoretical lens (Bloodgood, Sapienza, & Almeida, 1996; McDougall & Oviatt, 2000) is to identify the range of factors which encourage the robust findings of researchers.

2. LITERATURE REVIEW
2.1. Different Approaches to Formation
New venture creation is a central issue from its inception to internationalization from centrally planned economy to free economy (Lyles et al., 2004; Mueller & Goic, 2002; Smallbone et al., 1993). Since the beginning of the 1980s, factors influencing or impacting the new venture creation has been carefully analyzed (e.g., (Bosma, Van Praag, Thurik, & De Wit, 2004; Schwarz & Wdowiak, 2006). Studies mainly focused on individual factors (e.g., Knowledge. Personality of entrepreneur’s, experience, or level of education), firm factors (e.g., initial size of the venture, initial financial capital, or Planning), and environment factors (e.g., support infrastructure for new ventures or competitive intensity in the industry). There are many factors which influence the formation of a new business venture and its subsequent success or failure. It includes the personalizations of the entrepreneurs who start the venture, the motivation behind the startups, the barriers they have to encounter during whole process especially the economic and financial turmoil they have to face, and the nature of support available to them (GOLDENBERG & KLINE, 1999; Greve, 1995). The impact of these factors is greatly influenced by few more variables like previous experience, family situation, age and gender (Cusack, Lacho, & Remley Jr, 1996). New venture creation process is highly vulnerable to the threat of failure, and this fact causes many businesses failure in the first 12 months (Reynolds & Miller, 1992).

The connection between technology and firm formation is not new in the study of SMEs.(Schumpeter, 1934) stated that “the creation of new technology firms that displace incumbent firms through a process of creative destruction is a major source of innovation in a capitalist system”. Multiple phases of business formation ranges from invention to firm creation provides an in-depth understanding of factors, those leave strong impact on the individual’s decision to exploit an opportunity through firm creation. Few of them are : the attributes of the entrepreneur who is engaged in formation of the firm decision (Roberts, 1991), the attributes of the industry where he finds the opportunity (Audretsch, 1995), and the kind of the opportunity itself (Henderson & Clark, 1990). Researchers have worked on industry characteristics on firm creation (Audretsch, 1995) and also on the

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effects of different individual attributes on firm formation (Roberts, 1991). To date, however, researchers have not directly examined the effect of the attributes of new technologies themselves on firm formation.

However, many researchers (Audretsch, 1995; Christensen, 1997; Lerner, 1994) have proposed to investigate several attributes of technological opportunities that could influence the probability that new firms will be created to exploit them. This paper explores what is the relation of resources and how the certain technological opportunities (as for IT firms) interplay with those resources to create and internationalize the firm.

2.2. Approaches to Internationalization

The term internationalization has been discussed through various ways in literature (Buckley & Casson, 2009; Leonidou & Katsikeas, 1996). (Calof & Beamish, 1995) defined the process of internationalization as “the process of adapting a firm's operations (strategy, structure, and resource, etc.) to environments”. (Buckley & Casson, 2009) states “internationalization is a general principle that explicates the boundaries of organization”, These authors have developed a mix of many other theories by linking the concept of internationalization with trade, organization and international entrepreneurship theories. The internationalization concept has been explained by the different theories presented by different researchers at different times. The product cycle theory (Vernon, 1966) states the firms keep their current markets of mature products and become global, then theory of oligopolistic reaction (Knickerbocker, 1973) suggests that firms try to minimize risk and enter in international operations. Then the theory of internationalization (Buckley & Casson, 1976) suggests that firm which gets internationalized help reduce costs by expanding the movement of goods & services across national borders. Then the stages theory (Johanson & Vahlne, 1977) suggests that firm get internationalize steadily as it get recognition and understanding across borders. Many other theories like the eclectic theory of international production (Dunning, 1988) seeks to merge the theory of internationalization with location specific elements such as, trade barriers, transportation cost and labor cost. And firm get involve in international operations by careful assessment of market opportunities risk change(O’Farrell & Wood, 1998). Last but not the least explored by the researcher is network theory of internationalization (O’Farrell & Wood, 1998) which suggests the most of knowledge-intensive firms in particular achieve competitive advantage by developing supportive relationship with other firms.

Previous research has revealed that young Knowledge intensive firms do not pursue the systematic, incremental internationalization as cited in the stages theory (Johanson & Vahlne, 1977). In comparison, these firms exhibit quick international expansion to multiple global markets using different types of modes of entry. Even though the international new venture theory proposes some probable explanation by focusing the knowledge and skills of the owner (McDougall & Oviatt, 1996), The researcher still need a good understanding of how new and young firms achieve high degrees of internationalization. Even though there are some suggestions of the effects of getting international on firm growth (e.g. (Autio, Sapienza, & Almeida, 2000; Zahra, Ireland, & Hitt, 2000). (Zahra & George, 2002) proposed to extend our knowledge by researching the closer links between entrepreneurial abilities, formation and internationalization beyond the advanced countries.

2.3. Resource Based View (RBV) Approach to Internationalization

According to the RBV, firm get competitive advantage from its resources. (Barney, 1991) defines competitive advantage as Firms are often hypothesized under the RBV as “single beam of collected stocks of tangible & intangible resources” (Roth, 1995). (Bloodgood et al., 1996) continue to build on it, stating that the greater tendency towards obtaining international is because of their tendency in their resources. In the view of (Peng, 2001), the RBV in international literature has recently increasing rapidly, with contributions from a wide variety of authors and institutions worldwide.

The RBV has been the subject of strong attention in the literature in the last decade and has become a popular explanation of the performance at the firm level (Fahy, 2002). The approach suggests that resources become more productive when it is imperfectly imitable and specific to each company, enabling it to compete successfully with another firm (Amit & Schoemaker, 1993). The resources that generate competitive advantages must complete four conditions: they must be "valuable, rare, inimitable and not substitutable" (Barney, 1991). There are four categories: general resources of human capital, management of the founder, know-how specific activities, founders’ skills and ability of founder for obtaining financial resources (Cooper, Gimeno-Gascon, & Woo, 1994). Tangible and intangible (Itami & Roehl, 1991) that give more space to research resources from different viewpoints, intangible resources are very important because of their nature and characteristics and also cover a wide range of resources, among which they had mentioned the technological capital, human capital, reputation and organizational capital, intellectual property, the name of the company and its full equity argued by many researchers (Hall, 1999). Intermediate goods (Amit & Schoemaker, 1993) and Fixed assets denote to
the current fixed assets of an firm which are relatively fixed in length (Wernerfelt, 1989) and include plants, equipment, land, other assets and inventories, accounts receivable and bank deposits. RBV is also defined as "exclusive bundles of stocks accumulated assets" (Roth, 1995). These resources require the skills, routines, knowledge and assets owned by the firm (Roth, 1995; Wernerfelt, 1989). Keeping in view all this literature these studies explore Resource Based View of internationalization and Formation of IT firms of Pakistan.

3. SELECTION OF IT FIRMS

Decision of which one sector to select was highly influenced by various factors. First, globalization has expanded the market for computer software, it is growing with fast pace of 15-20 per cent annually in last few years, that shows the availability of fruitful export opportunities for IT firms. Second, as previous studies has placed greater emphasis on traditional manufacturing industries, research into a high-technology will provide new insights into the phenomenon of formation and internationalization of firms working within an increasingly important global industry.

4. THEORETICAL FRAMEWORK

There are many resources the firms need for formation and internationalization. These are the resources which helped us to develop an integrated framework for further investigation in this study. Few of the resources are as follows:

4.1. Human Capital

Human Capital provides value to the firms as it includes education, experience, skills and knowledge. It leaves significant sway on entrepreneurial type opportunities and growth of economy (Fletcher, 2004). Recent inspection of human capital in literature focuses on human capital as firm’s resources (Hitt et al., 1997), and still fails to observe a link between human capital and firm formation and entry into the international market. It could be argued that general human capital or the overall knowledge, skills and experience that people have acquired throughout their life e.g. through education or work experience may help individual’s in setting up a firm. Such experience may also be relevant from a social capital perspective (Bourdieu & Richardson, 1986; Nahapiet & Ghoshal, 1998). (Cooper et al., 1994) advice that the principal entrepreneur will offer a firm with general human capital or resources, that can be the type of the entrepreneur’s own life experiences or education. Firms have specific human capital that is directly relevant for the business they're developing, like previous expertise among identical trade. (Westhead et al., 2001) emphasize that previous expertise and relationships can accumulate a principal founder’s industry-specific know-how with specific customers, suppliers, or stakeholders. people with previous start-up expertise could have developed skills for recognizing promising opportunities (Ucbasaran, Wright, & Westhead, 2003). there's considerable proof that higher levels of relevant human capital, as indicated by self-reported ability will increase individuals' propensity to have interaction in venture start-up processes (Davidsson, 2005). It can also be predictable that such skills assist start-up success once in the progression (Brixy, Sternberg, & Stuber, 2008). Human Capital Broadness refers to the diverse and various amount of human capital that an entrepreneur can have. It actually highlights the "jack of all trades" theory (Lazear, 2004; Wagner, 2003). Once within the start-up method, given the range of activities it's going to entail so, it cud b argued Human capital is a vital source of competitive edge (Bosma et al., 2004; Coleman, 1998; Hall, 1999) and It becomes a driver of SME internationalization by influencing the firm's connection in international export actions (Kevin I.N. Ibeh & Young, 2001).

By discussing all this, we are come up with certain prepositions,

P1: IT firm with more General Human Capital as a resource Formulate and internationalize with fast pace

P1a: Experience of owner affects the process of IT firm’s formation and internationalization.
P1b: Education and Knowledge of owner effects the process of IT firms formation and internationalization

P2: IT firm with more Specific Human Capital as a resource Formulate and internationalize more quickly

P2a: Industry Specific Experience of owner affects the process of IT firm’s formation and internationalization.
P2b: Prior Start-up Experience of owner effects the process of IT firms formation and internationalization

P3: Broadness of Human Capital as a resource Formulate and internationalize IT firm more quickly.

4.2. Entrepreneurial Capital

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Entrepreneurial orientation often characterized by the behavior and successful operational strategy helps entrepreneur to enter into new (Covin & Slevin, 1989). Literature describe entrepreneurial orientation by three different dimensions, those are as follows: risk taking ability, innovativeness, pro-activeness(Wilkund & Shepherd, 2003). The concept of Innovativeness can be elaborated by introducing new products or services, developing new processes through creative mind set (Lumpkin & Dess, 1996). Proactiveness depicts one’s ability to think before the competitors and introduce new products and services to gain first mover advantage (Lumpkin & Dess, 1996). The risk taking ability is characterized by taking bold actions such as entering into international markets(Lumpkin & Dess, 1996). So researchers have found the certain factors such as autonomy, innovativeness, pro-activeness and competitive aggressiveness. The researchers who have explored the internationalization process, considered all these factors(McDougall & Oviatt, 2000).

So here is our next set of prepositions as follows,

P4: Firms having owner characterized by autonomous nature influence the process of formulation and internationalization of the IT firms

P5: Firms having owner characterized by innovative capabilities influence the process of formulation and internationalization of the IT firms

P6: Firms having owner characterized by risk tolerance attitude influence the process of formulation and internationalization of the IT firms

P7: Firms having owner characterized by proactive nature influence the process of formulation and internationalization of the IT firms

4.3. Social Capital

The social capital concept is widely used in the form of inter and intra organizational relationships (Burt, 1995; Nahapet & Ghoshal, 1998; Tsai & Ghoshal, 1998). Social capital helps firm to obtain resources needed for formation and internationalization(Bourdieu & Richardson, 1986). Firm-internal social capital encompasses the relationships exists between people and units of a firm. Firm-external social capital exist in between the firm and its exogenous contacts (Cohen & Levinthal, 1990). Firm-internal social capital highlights the extent the people working there share standard language, and improves the access to additional resources and certain information required for firm formation and growth. (Nahapet & Ghoshal, 1998)it influences the firm’s ability to innovate products and services(Zahra et al., 2000). However firm uses its external relationship more extensively as a resource for the internationalization of the firm particularly. (Eisenhardt & Schoonhoven, 1996) stated that ventures that use/ exploit the managers social network affects its formation and growth particularly in international market. Social networking and an entrepreneur’s quality can influence a firm’s ability to spot and acquire external resources and its ability to use those resources for product development, production and marketing (Vatne, 1995). (McDougall & Oviatt, 2000) argued that private contacts of manager in foreign market is essential to spot new opportunities, assist in negotiation, and open new doors especially when the firm does not have any previous exposure of that market. Client provider relationship conjointly contemplates as external social capital. Formal and informal business contacts and networks do influence on the behavior of firm’s internationalization such as foreign market selection and entry mode to be selected (N. Coviello & Munro, 1997) and helps to increase the speed of the internationalization process (Johanson & Johanson, 1999; Oviatt & McDougall, 1994). 

So we have drawn few prepositions out of this review as,

P8: IT firms Formation and internationalization is greatly influenced by the owners Social Capital

P8a: External Social capital of firm owner influence IT firms’ formation and internationalization

P8b: Internal Social capital of firm owner influence the IT firms formation and internationalization

4.4. Financial Capital

Studies say SMEs are capital starved. But (Montgomery, Johnson, & Faisal, 2005) concluded that human capital is more interesting as compared to financial capital in business start. Another study highlighted another interesting fact that even inheritance and human capital are the most important determinants of the self-employment journey. So there is no such coherent evidence found that may highlight the direct effect of financial capital and self-employment. Rather it involves certain intervening variables such as personal assets like entrepreneurial ability. There is another group that also mentioned few exogenous financial events like gifts, lottery winnings and above all inheritance. (Brittberg et al., 1994), and (Blanchflower, Oswald, & Sanfey, 1996)
proved that these windfalls upsurges the chances of becoming self-employed. Both (Huang et al., 1999) and (Dunn & Holz-Eakin, 2000) mentioned a considerable impact of having a self-employed parent, which recommends that for being self-employed, one has to be dependent on individual’s human and financial capital comes from the previous generation. Similarly, (Audretsch, 1995) states Finance is the basic requirement for startup of a venture whether it is knowledge intensive or traditional.

So, we are come up with certain set of prepositions after discussing all this,

P9: IT firms Formation and internationalization is not much influenced by the owners Financial Capital

P9a: Financial capital passed down from the previous generation (like inheritances, gifts etc.) of the firm owner influence the IT firms’ formation and internationalization

Keeping in view all this literature, this study explores Resource Based View of internationalization and Formation of IT firms.

5. RESEARCH METHOD

The present study is quite exploratory in its nature and as we could not find much literature on the internationalization of SMEs IT firms of Pakistan, we employed a qualitative research methodology. We conducted many interviews which gave us a valuable view point and perceptions of the interviewees as extracted from their said stories. This method by default helps researcher to investigate greater depth (Bryman & Bell, 2007). Probably this is the reason that many recent researches tried this approach for formation and internationalization of smaller firms (N. Coviello & Munro, 1997; Spence & Crick, 2006). The interview guide line is derived from the literature review and many structured and open ended questions are developed. In structured questions part, the researchers gather classification type data for example management characteristics (age, international exposure, experience and education) and organizational (number of employees, age, and target markets). Focus of the open-ended questions was on the study firms’ formation and internationalization processes and their motives. The interviewees shared their experiences which helped us to develop greater understanding of the issue under consideration. We went from series of steps as follows: First of all we did an online search and try to find out list of Pakistani IT & Software related firms. Unfortunately we could not find any comprehensive list. So we contacted Pakistan Software export board and developed a list of firms. Then we followed common practice of case researches as we developed certain parameters that helped us to select the most suitable firms to study.

The criterion set was as follows; first of all, the firms needed to be treated as SME by PSEB authorities; its employees should range between 10 and 250 in number: last but not least they should have 3 to 250 million Pakistani rupees turn over. All other information is extracted from the company’s official web pages (this approach is extensively used to extract missing data (Loane, Dolk, & Bradbury, 2007). We found ten appropriate subjects with the help of this search but we decide to consider four to six firms as this number falls within the range recommended in the best practice literature (Eisenhardt, 1989). It should also be noted that the selection of these firms reflects sampling logic (Yin, 2009). They may therefore not be representative of the underlying population. Each case was carefully selected so that it predicts different results for expected reasons (theoretical replication).This is the common practice in case-based research (Chetty & Campbell-Hunt, 2003; Paliwoda, Vissak, & Ibeh, 2007).The selected six companies were contacted for interviewing, but only four interviews could be managed to conduct.

The interviewees we approached were either the founder or the manager responsible for internationalization. Interviews were conducted in the official language of Pakistan, Urdu, later translated and transcribed into English. In this study, we tried the technique of intra and cross-case analysis approach (Yin, 2009). With this technique we identified themes and patterns shared across cases, we treated each case independently as suggested by (Miles & Huberman, 1984), and it also helped to respond to the key research propositions outlined above (K.I.N. Ibeh, 2003).

6. ANALYSIS AND DISCUSSION

6.1. Cases’ profile

Table 1 provides background information about the firms under study; it included the main activities they have to perform, their date of commencement, size, their ownership status, and year of first international activity, first overseas destination and entry mode used. These case firms are represented by letters, ranging from A to D, in
order to maintain their anonymity. In line with best practice, intra-case analysis of each of the case firms is now undertaken as a prelude to an appropriate cross-case analysis (Yin, 2009).

6.2 Results and Discussion

The article now turns to assessing the earlier developed research propositions based on appropriate cross-case analysis of the evidence gathered on the four software firms.

P1: IT firm with more General Human Capital as a resource Formulate and internationalize with fast pace

P1a: Education and Knowledge of owner effects the process of IT firms formation and internationalization

P1 is confirmed by the all the Four cases as stated by (Bourdieu & Richardson, 1986; Cooper et al., 1994; Covin & Slevin, 1989; Nahapiet & Ghoshal, 1998) that education of the owner and employees impacts the most in the formation on the IT firm and as well as in the Internationalization.

Two of the case’s owners have post graduate degree relevant to the field of Information Technology and rest of two cases A, C also have master degree in management sciences. According to owner of Firm A, Masters in Business administration is a prerequisite for firm formation and international activities management as he believed the need of a management concerning background is much more important than the knowledge of the software development in IT firm formation and international growth. Moreover, all of them acknowledged that formation of a knowledge based firm is prolific outcome of the owner’s education but education cannot be taken in isolation, there may be a great need of other attributes like the self-efficacy of the entrepreneur which reinforce them to move ahead and use their education to enrich their vision of international exposure and also on formation of new venture.

P1b: Experience of owner affects the process of IT firm’s formation and internationalization.

P1b which refers to the Overall work experience, two of the cases (B and D) confirms with the findings of the literature in a way that they had been engaged in the same industry from 5 and 9 years respectively which enhance their expertise in running a business. They confirmed that working in the same sector enhanced their skills and motivate them to move further and start their own venture creation which is giving support to the findings of (Cooper et al., 1994; Leonidou & Katsikeas, 1996), (Westhead et al., 2001).

The preposition has also been confirmed by the cases A and C, owner of the Case A has worked in the marketing department and giving consultancy and the owner of Case C has work experience in various business. However all of the four cases agreed with the fact that knowledge about the market is key to get success and establish themselves and their firm and also to get internationalize.

P2: IT firm with more Specific Human Capital as a resource Formulate and internationalize more quickly

P2a: Industry Specific Experience of owner affects the process of IT firm’s formation and internationalization.

P2 is related to the prior industry specific knowledge which is being considered as the most important in the literature (Chandler, 1996; Cooper & Bruno, 1977; Westhead, 1995; Westhead et al., 2001) as expertise do have an impact and it would be more helpful if it of same industry knowledge.

Case B, C, D are fully supporting the literature and confirming the preposition, three of the venture creator have prior knowledge specific about the Industry and are engaged with same sector from last 5, 17 and 12 years respectively. They argue that the previously achieved experience, by working in the same industrial sector, motivated them to start their own venture and helped them to commercialize the product in overseas markets, thus giving support to the findings of literature. Case A has not confirmed the Preposition in a way that he didn’t have any prior knowledge about the software development or IT industry because of his education major is in Finance. However, all of four cases support the fact that prior knowledge about the sector is much more suitable in that industry. This helps them a lot for creation of venture get outlook of the national and International market in the form of information as given in Literature (Chaudhry & Crick, 1998; Cooper et al., 1994; Smallbone et al., 1993).

P2b: Prior Start-up Experience of owner affects the process of IT firms formation and internationalization
Three of the cases A, C & D fully supporting the literature (Davidsson & Gordon, 2009; Shrader, Oviatt, & McDougall, 2000; Ucbasaran et al., 2003) and (Brixy et al., 2008). They were aware of prior start-up experience. Case A has been engaged in Furniture business, Case B has started the new dimension of his parental business and CASE D is linked with prior start up experience of the small Café. Case C is not supporting as he has been working as salaried personal before the creation of his IT firm. However, ALL of four owners have confirmed that prior start up knowledge enhance their skills and help them to recognize opportunities in the market whether it is domestic or international to ensure their survival in the creation of their new venture.

**P3: Broadness of Human Capital as a resource Formulate and internationalize IT firm more quickly.**

P3 is focusing on the broadness of human capital which refers to the diversity of the Human Capital in experience and knowledge available to the individual. All of the four cases are partially confirming the literature (Davidsson & Gordon, 2009; Lazear, 2004; Wagner, 2003).

Case B & D considers broadness of the human capital in the knowledge intensive firm should be specific to the nature of the industry and partially it should have other skills which helps them to excel in the competitive environment like interpersonal skills, managerial characteristics and Case A & C confirming in a way the human capital must have broader vision through variety of skills. In a simple way all of four cases confirms broadness of human capital motivate the owner to format the firm. Its broader industry knowledge helps him to recognize the hidden opportunities around the globe and this diversity of the knowledge helps him to grow internationally.

**P4: Firms having owner characterized by autonomous nature influence the process of formulation and internationalization of the IT firms**

P4 refers to the individuality, independence and sovereignty of the entrepreneur/ owner. Three of cases A, C & D support the preposition in a way that it has major effect on the firm performance especially in the formation and internationalization of firm which is Supporting the literature (Miller, 1983; Shrader et al., 2000; Wiklund & Shepherd, 2003). There three cases support in a way that Firm whose owner is less dependent on others to take decisions can greatly major influence and gain competitive edge over the market around the globe. And CASE B is partially confirming that preposition that the services firm need to have be less autonomous leader. It requires friendly and devoting leadership to get energizes every resource of his firm. Thus overall it could be argued that autonomy of the entrepreneurs has major influence in the formation and internationalization needs more autonomous behavior in Knowledge intensive Firm.

**P5: Firms having owner characterized by innovative capabilities influence the process of formulation and internationalization of the IT firms**

P5 refers to the Innovativeness of Entrepreneur as a resource in the IT firm is confirmed by Case A, C & D. As stated by (Simmonds & Smith, 1968) Accordingly(Holzmüller & Kasper, 1991; Lee & Brasch, 1978; Reid, 1981) as well as (Katsikeas, Leonidou, & Morgan, 2000) that internationalization of IT firm need to be more innovative.

These three cases confirms that entrepreneurs innovative capability helps to find out the gap of the market and latest technological software helps them to compete in international market For example, the export manager of firm C emphasized that nowadays in order to remain competitive and to increase your performance on both the foreign and domestic markets you have to be able to adapt and innovate the products in order to keep the pace with the changes in technology and with the customers’ needs and preferences. And Case B is less supporting as they think working on the demand of the customer is more important than innovative product. However it could be argued there Entrepreneurs characterized by innovative capabilities formulate the IT firm and his innovative mind help him to explore the International opportunities as reluctant to change in the development may have had negative influence on the Internationalization as stated by (Dichtl, Leibold, Koglmayr, & Muller, 1983).

**P6: Firms having owner characterized by risk tolerance attitude influence the process of formulation and internationalization of the IT firms**

Referring to P6 it is confirmed by two cases B & D. As stated by (Cavusgil, 1984) that risk tolerance and perceived risk is highly influenced by the decision makers. Case A and D believe on taking low risk for the internationalization and formation of the firms. And Case B & C believed to adopt high risk tolerance. They
support (McConnell, 1979; Wiedersheim-Paul, Olson, & Welch, 1978) that international activity involves higher level of risk than working in domestic market. The owner of Case A argued that he always work in the consistent way, as he stated, “taking risk can harm your business which I didn’t want”. Case D stated as much same as Case A stated. Case C believes that he loves taking risk and risk is key to get growth while Case B argued that they took risk but at moderate level, but once they took then they have ability to meet that. So we can infer that all the interviewees perceive formation less risky and also believes the internationalization does involve a moderate level of risk for which they do not have to take greater risks. So our preposition is not confirmed.

**P7: Firms having owner characterized by proactive nature influence the process of formulation and internationalization of the IT firms**

When looking at P7 Proactive nature of entrepreneur, Case A, B and C owners are highly proactive they are supporting the context of (Christensen, 1997; Garud & Nayyar, 1997; K.I.N. Ibeh, 2003) that perceiving the opportunity of formation of new business in a market have had a major contribution in the consequent successful startups attempts. Their proactive behavior makes them able to explore new opportunity in the market and working in different sector of economy which is emerging now-a-days in Pakistan.

And for internationalization of their product/service their proactive behavior is linked with the their innovative and risk taking attitude that to compete in global market they must have to be proactive and work before the requirement arises which support the (Zahra & George, 2002) arguments. Case D think himself less proactive by negating the (K.I.N. Ibeh, 2003) and seems less proactive in the internationalization process which was started almost 6 years after his engagement in that business while Case C working at the International level from the start of his career. He believes working internationally allows him to explore new requirements of the world and helps him to innovate and work before the need. Case A less proactive than B but their customer satisfaction is 1st priority. They always keep working on their products and serve their customers as a consultant until unless their customer got satisfied. Case B is almost same to the Case A which believe that it is necessary when you are working on a mega project, u have to make yourself capable for that. All in one word it could be stated that proactive behavior of the entrepreneur helps the firm in internationalization than in the formation of new venture.

**P8: IT firms Formation and internationalization influence by the owners Social Capital**

**P8a: Internal Social capital of firm owner influence the IT firms formation and internationalization**

Social capital is the resource that is the most important for internationalization as proved by literature for knowledge intensive firm e.g., (N. Coviello & Munro, 1997; Hadley & Wilson, 2003; Johanson & Mattsson, 1994; Lu & Beamish, 2001) here this proposition states about the internal social capital of the firm which refers to the internal environment of the organization.

All of the four cases support the literature (Burt, 1995; Nahapiet & Ghoshal, 1998; Tsai & Ghoshal, 1998). Case A&B believes that Firms internal social capital helps the individuals working under one roof to get knowledge and learn from each other. It enables to get communicate easily and understand the happenings of the organization which is supporting (Kogut & Zander, 1992) argument. And Case D believe the same fact that friendly environment help the organization to get involved and generate new ideas from the grass root level to the owner of the firm. Formation of the IT firm need much more internally committed resources. Case C believes in the fact that when the goal of the whole organization is same then everyone in the firm will have conscious and supportive behavior of the every individual of the firm. So, it gives support to their growth and success which is required by every business whether it is globally or in a domestic zone. For all instances, it can be stated that entrepreneur who are successful in creating high internal social capital grows more than those which are less in internal social capital. It helps to innovate, work, help, and support the every individual working in the premises of the firm. IT firms are normally involved in hiring the developer from different zones of the world so it is also confirmed by the Cases that high internal social capital helps to enhance the skill and experience which makes the firm to get internationalized by strongly influencing the smooth working environment. This statement support the (Zahra, Kuratko, & Jennings, 1999). It helps the firm to get knowledge based competitive advantages. It affects a lot to the firm technological learning along with the managerial one.

**P8b: External Social capital of firm owner influence IT firms’ formation and internationalization**
P8b Refers to the external social Capital and supported by all four cases. As stated by (Chetty & Campbell-Hunt, 2003; N. Coviello & Munro, 1997; Eisenhardt & Schoonhoven, 1996; Oviatt & McDougall, 1994; Vatne, 1995; Zahra et al., 1999; Zahra, Matherne, & Carleton, 2003) that internationalization of the firm have majorly influenced by the network of the owner beyond the boundaries of the firms, not only at domestic level but also around the globe.

Case C think network as a resource for growth as stated by (Zahra et al., 2003) and also stated that the network itself produces resources for the firm. He believes that the IT firm must need a sophisticated network and for that very network development he have worked in Pakistan Software Export Board (PSEB) for two years to develop strong contacts with the leading entrepreneurs and firms of the Pakistan. Case B and D believe that their involvement in that business and getting internationalized is because of major support provided by their external network. Case B specifically believes that their successful startup attempt is just because of their contact with the leading firms of United States. Case A did not explicitly talked about his external network but by analysis of his overall interview and by creating links it get cleared that 90% of business is also because of his networks. Case D’s owner argued that venture creation is majorly influenced by his network that supported him to start a venture and getting internationalized, the firm also got strong support by the owners close relationships (Strong ties). However, it is obvious by the comments of all the four cases that External Social Capital/Network have had a major influence on the Formation and internationalization of the knowledge intensive Firm and higher the network of the owner higher is degree and process of the firm to get internationalized and start serving in global market. It helps the firm to evolve and explore the new opportunities and avail that opportunities as resources for the growth of their business as it is stated by (N. E. Coviello, 2006) which is also confirmed by all the Cases.

P9: IT firms Formation and internationalization is NOT influenced by the owners Financial Capital

P10a: Financial capital passed down from the previous generation (like inheritances, gifts etc.) of firm owner influence the IT firms’ formation and internationalization

Case A responded to the question in interview in a way that Finance is not important and the Core thing in this business is Human Capital, Finance is required but is minor requirement in all the other resources. Case B also believes that Finance is not the issue and the human capital is the basic requirement for the formation of this business and getting international basic requirement is your network. Case C argued that Finance has some existence; nothing can happen without money but if specifically talking about this venture and its growth the Human capital is more important than anything else. Case D defined it in the same way as he said, “developer have skills and a single software engineer can create that venture and internationalized by using only one Computer, and Computer’s worth everybody knows”. The basic thing in the formation of business is Experience and skills and to get internationalized and network influence the most.

Firm A has got its initial and working capital from his own savings, so it is not providing evidence for our preposition 10a. But Firm B & C got these capitals from various personal sources like inheritances and loan from siblings respectively, so our preposition is strengthened with these evidences. And Firm D’s owner took over his father’s business initially then modified it to the new settings required by this IT related business. So we can easily conclude that our proposition received good support.

7. FINDINGS

This study has employed a case based approach to explore the resources in the formation and internationalization of four IT firms from Pakistan. It contributes and provides insight on the formation perspective and on the process of internationalization. The research gap exists in that industry of Pakistan. Analysis results suggest the importance of different resources on the formation, and also explain the impact of these resources in initial internationalization, speed and process of under consideration Pakistani IT firms. The resources such as Broadness of human capital, skills and overall experience along with strong social network with proactive behavior and innovative mental capability motivates the IT formation and internationalization require more industry specific knowledge, with autonomy, and risk taking behavior of owner with high external network. Last but not the least resource which the researcher have taken into account for research is the Financial capital, from the pilot study to literature to case's interview and even after their analysis it gets cleared to the researcher that Finance is important only for the initial phase of this business, which is one percent of all other resources but it is not needed for IT firms’ survival or internationalization. Case analysis further revealed number of additional influences on the initial stages of formation, including entrepreneurs’ self-efficacy, awareness via marketing, product related capabilities, participation in industry exhibition and limited domestic demand. The summary findings (See Table 2) are briefly discussed.
8. CONCLUSION AND POLICY RECOMMENDATIONS

It is observed from the study about the formation and internationalization of Information technology firms in Pakistan at the small level. It is found from literature collected from different websites and journals and articles that Pakistan is lagging far behind in the industry of information technology. It is observed and known that how IT had revolutionized the overall scenario of the world happenings. It is necessary for the Pakistani government to promote the IT at the lower level also. It is found that IT becomes the most important and at the top of the agenda of every budget of Pakistan. It is needed to help this sector more than anything else. The growth in this sector helps the country to flourish and compete with the developed countries of the world like USA, UK, Australia, etc. The present study has explored that the firm cannot be successful till the time they may have a perfect blend of resources, no single resource proved significant in isolation to boost up the process of formation and internationalization. So the entrepreneur needs to be trained on resource management and should also know that how to compensate lack of one resource with other like as if they do not have more financial capital, they must have the knowledge how to capitalize their social capital. Also sometimes, lack of social capital is compensated with more of entrepreneurial or human capital.

As it has discovered during study that human capital have high weightage in startup success so it is recommended that Pakistani government has to pay attention toward the institutions teaching the IT related program and start imposing it as a necessary course for all levels so that the human capital which is found an extreme important factor during the whole study. The entrepreneur also needs to participate more in seminars and workshops which not only help to enhance human capital but also develop external contacts important for establishing new firms. Our youth becomes able to fight with the technicalities of future and bring their self in the line of developers of software not of their users. Government also has to support the currently working IT firms, so that they can serve our country.

9. RESEARCH LIMITATIONS

Regarding the limitation of the study, it is stated that the researcher cannot statistically generalize the finding because of qualitative in nature; therefore, the researcher cannot infer the result of empirical findings on the overall population than those included in the sample. Further studies should be carried by focusing on qualitative and quantitative technique both in order to identify the key resources and impact of that on internationalization. This study had fewer limitations of less time that impacts the study, more researches are required on the IT firms’ formation and internationalization to explore what are different level and need of resources for its creation and to get global how these resources differ.

10. FUTURE RECOMMENDATIONS

Given the fact that this is the resource-based view, and sample is taken on theoretical basis which are smaller in numbers, one could focus on the number of more firms and can also calculate the difference of resource's acquisition of SME’s and well established Firms. Other than that, focus should be on each resource separately and imply it on more population. It would also be interesting that one should focus on the innovativeness influence on the globalization of IT firm. The country like Pakistan is in developing stage, and we are lagging in the field of technological development, whether it is on software side or hardware. There is a need of researchers to focus on that Area of Country to analyze the reasons and issues regarding lower involvement. This study may help to get knowledge about the resources which are helpful for this type of venture creation and for those who are working domestically can get themselves facilitate from the information given by me about the resources required for the internationalization.

Table 1:
Profile of the study firms

<table>
<thead>
<tr>
<th>No.</th>
<th>Main Activities</th>
<th>Year of Foundation</th>
<th>No. of Employees</th>
<th>First international Market &amp; Mode</th>
<th>Ownership status</th>
<th>Financing</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Software development, Java, on requirement</td>
<td>1999</td>
<td>21</td>
<td>USA/ Outsourcing</td>
<td>Private</td>
<td>Private</td>
</tr>
<tr>
<td>B</td>
<td>Enterprise resource Planning (ERP), Security solutions.</td>
<td>1996</td>
<td>20</td>
<td>USA, Export distributor</td>
<td>Private</td>
<td>Private</td>
</tr>
<tr>
<td>C</td>
<td>Development, designing, marketing, and management system for Schools system</td>
<td>2002</td>
<td>12</td>
<td>Tunes, Italy/ Licensing</td>
<td>Private</td>
<td>Private</td>
</tr>
</tbody>
</table>
Table 2:
Summary of the Findings

<table>
<thead>
<tr>
<th>Factors</th>
<th>Case A</th>
<th>Case B</th>
<th>Case C</th>
<th>Case D</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>General Information of Cases</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Age</td>
<td>47</td>
<td>29</td>
<td>43</td>
<td>37</td>
</tr>
<tr>
<td>No. of Employees</td>
<td>20-22</td>
<td>20</td>
<td>12</td>
<td>15</td>
</tr>
<tr>
<td>Year of Formation</td>
<td>1999</td>
<td>2006</td>
<td>2002</td>
<td>2004</td>
</tr>
<tr>
<td>First Export</td>
<td>2007</td>
<td>Since Inception</td>
<td>2004</td>
<td>2010</td>
</tr>
<tr>
<td>Activity</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>General Human Capital</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td>MBA (Finance)</td>
<td>MCS (M.Phill)</td>
<td>MBA –IT (PhD. MS)</td>
<td>MCS</td>
</tr>
<tr>
<td>Overall work Experience</td>
<td>Has worked in PECO as Assistant marketing Manager for 2 years, as trading consultant in KSE for 4 years</td>
<td>Worked in same industry from last 5 year</td>
<td>Have worked in PSEB for 2 years, 2 years in TELENOR, worked with foreign capital</td>
<td>Have worked for 1.5 years as assistant in Cable network</td>
</tr>
<tr>
<td><strong>Specific Human Capital</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industry Specific Knowledge</td>
<td>Nil</td>
<td></td>
<td>Engaged in software development since 1994 &amp; with Tunis based company for school management software since 2002</td>
<td>Engaged in this sector since 7 years</td>
</tr>
<tr>
<td>Starting Experience</td>
<td>Have worked with his parents in Furniture Business</td>
<td>Nil</td>
<td>Has worked as free lance, engaged in several activities before start up.</td>
<td>Have worked with his parents in Merchandise Business</td>
</tr>
<tr>
<td><strong>Broadness of H.C</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No. of Field Experience</td>
<td>Management, Marketing / emphasis on Aptitude and IQ level along with related knowledge</td>
<td>Teaching / More emphasis on related skills, abilities and working experience preferred</td>
<td>Has worked as consultant, Marketing, Management / Focus mainly upon Marketing, developers.</td>
<td>Has worked as operator, developer and manager/focus on related skills and Marketing personnel</td>
</tr>
<tr>
<td><strong>Entrepreneurial Capital</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Autonomy</td>
<td>He thinks himself responsible for everything, didn’t depend upon employees</td>
<td>Moderate High : High: Strong Self confidence</td>
<td>High: Self determinant personality</td>
<td>High: Self determinant personality</td>
</tr>
<tr>
<td>Pro-Activeness</td>
<td>Highly conscious for satisfaction of their Customer</td>
<td>Is very flexible in managing time period, has done his work with commitment</td>
<td>High:</td>
<td>Less proactive</td>
</tr>
<tr>
<td>Innovativeness</td>
<td>He thinks to innovate now to get competitive edge in Market</td>
<td>Always work on demand. Innovativeness is</td>
<td>He wanted to innovate, to evolve, to change,</td>
<td>Innovation is the key to success in IT</td>
</tr>
<tr>
<td>Risk Taking</td>
<td>He think himself risk averse., wanted to grow consistently</td>
<td>High Tolerance:</td>
<td>High Risk Taker: think more risk you take more are the chance to grow</td>
<td>Moderate Risk Taker, Consider overall business as a risk</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td><strong>Social Capital</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internal Social Capital</td>
<td>High: Learning and helping environment. Support dept availability</td>
<td>High: Friendly and cooperative environment, team works preferred</td>
<td>High: Friendly, Involved and supportive</td>
<td>High: Involvement of internal environment is key to success</td>
</tr>
<tr>
<td>External Social Capital</td>
<td>High: 90% of business referred from existing clients.</td>
<td>Contacts with the leading firms in U.S. US Network is their Backbone</td>
<td>My strength is my good public relation with all S.W exporters of Pakistan and specially super technologies in American company</td>
<td>High: To Get globalized, Network is necessary</td>
</tr>
<tr>
<td><strong>Financial Capital</strong></td>
<td>Finance have no importance for this business, real requirement is Human Capital</td>
<td>Financial capital doesn’t ever create problems for us.</td>
<td>Finance has its vital importance but for venture creation of IT firm it is not highly required thing</td>
<td>Finance have very low impact for this business</td>
</tr>
</tbody>
</table>

**REFERENCE**


Cooper, A. C., & Bruno, A. V. (1977). *Success among high technology firms:* Herman C. Krammert Graduate School of Industrial Administration of Purdue University.


