The Internationalization of Born Globals: Entrepreneurship, Internet, and Entry Strategies

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ABSTRACT

The purpose of this paper is to review extant research on born globals, and propose a conceptual framework that integrates the internationalization process of born globals. The framework, which is particularly needed for examining the internationalization process of born globals, is composed of three phases: (1) Entrepreneurship orientation, internet-enabled capabilities; (2) Entry strategies and (3) International performance. In addition, this study describes the degree of internet-enabled capabilities and entrepreneurship orientation may influence entry strategies of born globals, which would further impact on their international performance.

INTRODUCTION

Internationalization is one of the distinct topics in international management literature (Werner, 2002). Under the rationale of the Uppsala school, SMEs would not be international at or near their beginning of founding. However, it is no longer the case. The impact of the globalization of markets and industries has changed the pattern of the internationalization of SMEs fundamentally. More and more evidence suggests the increasing number of born global firms, which are beyond the explanation of the conventional stage theory of the internationalization of firms (McDougall, Shane & Oviatt, 1994; McDougall & Oviatt, 1996). Besides, a number of researches indicate that the phenomenon of born global firms is a widespread and worldwide trend (Knight & Cavusgil, 2004; Rennie, 1993).

Basically, these studies indicate that the phenomenon of the born global firms as a contradiction to the stages theory. The phenomenon is particularly evident in small and open economies such as Finland, Denmark and Taiwan. Compared to other countries, born globals in these countries face tougher difficulties and challenge due to their resource constraints, origin and other gaps. For example, most of the successful international SMEs (born globals or global start-ups) in Taiwan aim their target market to U.S., China, and other international markets, instead of the domestic market. Generally speaking, these born global firms lack both the managerial and financial resources required to reach the global markets (Luostarinen & Gabriellsion, 2004). Therefore, it is an interesting issue for both scholars and practitioners to explore the nature of these early globalized firms’ success.

Overall, the extant internationalization theories may not be adequate to indicate the widespread phenomenon of born global firms.

The rest of this paper is organized as: (1) In the next section, we provide a conceptual framework and a couple of propositions, which provides the rationale for the international process of born globals. (2) Next, we offer discussions with born globals, along with some additional theoretical and managerial insights for both scholars and practitioners interested in the phenomena of born-global firms. (3) Finally, conclusions are given in the last section of this article.

LITERATURE REVIEW

Born Globals

In recent years, the patterns that firms internationalize have changed dramatically along with the changing global competitive environments. Since globalization has removed the geographical barriers that used to segment the national and international markets (Levitt, 1983), SMEs can thrive by expanding into international markets from or near the
inception of their founding. Despite their small size and resource poverty, more and more studies indicate these early internationalized firms achieve their success in a global rationale. In a variety way, scholars in this field named these early internationalized enterprises as “born globals”, “global start-ups”, and “international new ventures” (Autio, Sapienza, & Almeida, 2000; Oviatt & McDougall, 1994). Fundamentally, born globals are synonymous with “global start-ups”, and “international new ventures”.

Thus, to be consistent with extant literature, we define born globals (global start-ups) from the definitions of two prior researches. First, Oviatt and McDougall defined born global firms as “business organizations that from inception, seek to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries” (Oviatt & McDougall, 1994:49). Second, Knight and Cavusgil (2004) define born globals as “business organizations that, from or near their founding, seek superior international business performance from the application of knowledge-based resources to the sale of outputs in multiple countries” (Knight & Cavusgil, 2004:124).

In the field of international business, researchers have observed the widespread phenomenon of born globals in virtually all trading countries in numerous industry sectors (Moen & Servais, 2002; Rennie, 1993). In the environmental context, the reasons of the early adoption of born globals are behind two trends: globalization of markets and technological advances in information and communications technologies (Knight & Cavusgil, 2004). The globalization of homogeneous products has decreased the barrier for born globals to entry foreign markets. Besides, the internet and communication technologies decrease the costs and risks for born globals to internationalize. Nonetheless, these reasons only explain partial of the emergence of born global firms. A key factors of the widespread emergence and their success lies in their internal environment. Unfortunately, there has been little research that attempts to explain on the internal factors that characterize the key success of born globals. Therefore, we believe our study can fill the gap in this area. In this regard, this study identity the phases in the international process of born globals and link them to subsequent international performance.

Research Framework and Propositions

From the perspective of the resource-based view (RBV), it helps to explain that a firm’s competitive advantage originates from its valuable, rare, and inimitable resources (Barney, 1991, 1997; Penrose, 1959; Rumelt, 1984; Teece, Pisano & Shuen, 1997; Wernerfelt, 1984). These resources are often characterized with the following properties: intangible, embedded, and knowledge-based (Peng & York, 2001). For born global firms, such resources and knowledge are the keys that explain the existence of such newly-emerged “born global” trend. Generally speaking, these born-global companies, in spite of their constrained resources and inexperience, develop their competitive advantage from a combination of sources / theories: R&D (e.g. intellectual property, patents/ the resource-based view); membership in the network (e.g. guanxi/ network theory); flexible responsiveness to the environment (dynamic capabilities), and the learning organization theory.

In addition, previous literature indicates that the patterns of internationalization of firms are influenced by products, firm-specific factors, industry, and other external environmental variables (Bell & Young, 1998). Since the extant literature has not reached a consistent agreement on what constructs should be used in explaining the internationalization process of born globals, we provide the specific constructs and linkages within the conceptual model in Figure 1.

Figure 1. Schematic Depictions of the conceptual framework of Born Global Firms
In a nutshell, we propose that the internationalization process of born globals is comprised of three phases: Phase 1 (Entrepreneurship orientation, Internet-enabled capabilities); Phase 2 (Entry Strategies), and Phase 3 (International performance). In born global firms, both entrepreneurship orientation and internet-enabled capabilities have a positive relationship with entry strategy, which would further have a positive relationship on their international performance. Basically, the conceptual framework introduces the purpose of this research clearly: we try to depict the sequence when born global firms taking international expansion near or at the beginning of their founding. In addition, there is one thing noteworthy in the framework: entry strategies. We emphasize the concept of entry strategies for one reason: previous studies did not link the connection between born globals and their strategies. Most of them directs some aspects of born globals and links them directly to their performance. Nevertheless, we believe, during the process of international expansion, entry strategies play a mediating role between them. Accordingly, these phases provide a useful framework for analyzing born globals’ entry strategy approaches.

Internet-enabled capabilities

The advent of the internet era has significantly changed the patterns and competitions for firms to conduct business (Amit & Zott, 2001; Porter, 2001). The internet enables firms to improve their competitive advantage and new ways to deal with business in information and communication (e.g., e-mail, websites, and e-commerce). Particularly, the widespread trend of internet is not the privilege of MNEs only. Due to its simplistic nature and cheap costs, many SMEs and born global firms also have the access to become internet-enabled firms from or near the inception of their founding. Fundamentally, extant literature point out the two phenomenons that internet has changed business: First, Internet can enable smaller firms to conquer the problems like geographic distance, obtaining information, and entering foreign markets at a comparatively lower cost (Hamill, 1997; Poon & Jevons, 1997). Second, more and more evidence indicates that a group number of start-up firms are embracing and make good use of internet technologies to help them become global from inception of their founding (Loane, McNaughton, & Bell, 2004).

Traditionally, there has been a fruitful study in the related field. For example, researcher posits the links between internet and exporting (Samiee, 1998); internet and SME internationalization (Hamill, 1997). In a similar vein, we tend to shift the focus from such a mainstream to the relationships between internet and its influence on born globals. It is natural to connect the internet-enabled capabilities to international performance. However, we propose a refinement to the relationships. Considering international expansion, we believe the entry strategies of born global firms play a mediation effects between internet and performance. The reasons are in the following:

First, it might be postulated that born global firms with internet-enabled capabilities are easier to assess on the informations of foreign markets than those with a lower degree of internet-enabled capabilities born globals. Due to their internet-enabled capabilities, born global firms can obtain the information needed via the net, which lowers the risks of failure of choosing the inappropriate entry strategies.

Second, prior literature indicates marketing knowledge as one of the important factors on small firms’ export performance (Leonidou & Katsileas, 1996; Moen, 1999; Yeoh, 2004). In a similar vein, we believe such a case also exists in the international expansion process of born global firms. For internet-enabled born globals, they have the capability on easy assess to obtain new and updated knowledge about foreign customers and competitors. Such an internet-enabled capability makes the opportunity for born globals to choose right entry strategies, which would further differentiate themselves with other competitors on product features, customer segmentation.

Third, as firms enter and expand into foreign countries, the knowledge transfer between headquarters and subsidiaries are becoming more and more important (Goshal & Barlett, 1988). Even for a single venture like early start-ups, they are no exceptions, too. Traditionally, the knowledge transfer within business units is timing-consuming and expensive. Therefore, it used to be the privilege of larger MNEs. However, with the advent of internet, born globals can transfer knowledge at an instant pace, regardless of constraints of distance and time (Bennet, 1997). Moreover, born globals can conduct business overseas directly by establishing a virtual channel (e.g., websites, e-commerce and e-business). To be more specific, the internet has enabled born globals to choose the appropriate entry strategies. Therefore, the internet is providing born global firms advantages to conduct business overseas. As a result, we further posit the positive relationship between internet-enabled capability and their entry strategies. That is, we assume a...
positive relationship exists between the internet-enabled capabilities of born globals and entry strategy. Hence, the following research proposition can thus be postulated:

*P1: In a born global firm, a positive relationship exists between its internet-enabled capabilities and its entry strategies.*

**Entrepreneurship Orientation**

Scholars define international entrepreneurship as “new and innovative activities that have the goal of value creation and growth in business organizations across national borders” (McDougall & Oviatt, 1997: 293); “the development of international new ventures or start-ups that, from their inception, engage in international business (McDougall, 1989: 388). In addition, they also specified international entrepreneurship as “a combination of innovative, proactive, and risk-seeking behavior that crosses national borders and is intended to create value in organizations” (McDougall & Oviatt, 2000: 903). Although there is no paradigm on the entrepreneurship in international business academics, extant research have links it connections to born globals (Contractor, Hsu & Kundu, 2005; Oviatt & McDougall, 1995, 2000). Specifically, Ramussan and Madsen discuss the question why owners of born globals founded their firm as a born global (Ramussan & Madsen, 2001). Furthermore, scholars also empirically verified the impact of entrepreneurship characteristics on export performance of born globals (Contractor, Hsu & Kundu, 2005). Traditionally, in the literature of entrepreneurship in international business, main stream research attempts to focus on either a comparison of entrepreneurship in different countries (Ohe et al, 1991), or comparisons between exporters and non-exporters (Kedia & Chhokar, 1985). In a prior study, Contractor, Hsu, and Kundu verify the positive relationship between entrepreneurship characteristics and export performance in international new ventures (Contractor, Hsu, & Kundu, 2005).

We tend to shift the focus of this study from export performance to international performance. We postulate that entrepreneurship orientations also have a positive impact on international performance, via the mediating effects of entry strategies. The reasons to discuss international performance, instead of export performance, are under two rationales: First, prior literature are conducted under the logic that firms start international expansion at stages, usually after a long time period since the inception of a firm. Nevertheless, such a rationale cannot explain the internationalization process of born global firms. Second, in the reality, born globals have varieties of choices when they are taking international expansion, such choices like licensing and start-ups are certainly not limited to exports. As a result, we choose to investigate international performance instead of export performance. We believe such an indicator like a prior study measured, are more comprehensive and suitable for the nature of our research (Knight, Madsen, & Servais, 2004).

However, we believe a further refinement in the relationship between entrepreneurship and international performance is necessary. That is, entrepreneurship orientation of the owners and managers of born globals may effect on the entry strategies during their international expansion. In addition, the entry strategies will also have a positive impact on their international performance. Hence, the proposed relationships are suggested below:

*P2: In a born global firm, a positive relationship exists between entrepreneurship orientation and its entry strategies.*

**International Performance**

Since a lot of prior studies measured international performance at the aggregate level, there are some problems for assessing venture performance, mainly because of the complexity of the international environment (Knight & Cavusgil, 2005). For example, previous literature measure firm performance from three dimensions: perceived success, firm growth, and financial returns (Aspelund& Moen, 2005). In this study, *International Performance* was defined as “the extent to which firm objectives are attained in foreign markets as a function of specific orientations and strategies”, following the definition used by Knight and Cavusgil (Knight & Cavusgil, 2005). According to the definitions, we believe that entry strategies will have a positive effect on international performance.
Entry Strategies

From a global perspective, one of the phases to study the entry strategies of new ventures often takes a look from the perspective of firm’s resources and capabilities. It makes no doubt that the technical and R&D capability and resources that ventures have may have lots impact on its international performance (Covin & Stevein, 1990; Robinson, 1999).

However, this study seeks to look at this issue from another perspective. One of the most important issues during the process of starting up a company is the perception and selection of market opportunities (Shane & Venkataraman, 2000; Timmons, Muzuya, Stevenson, & Bygrave, 1987). Particularly, many failure examples indicate that since new ventures did not choose the right market opportunities, the speed of their cash flow is faster than the profits brought by their customers (Timmons & Spinelli, 2004). In the literature of entrepreneurship, past researches indicate the typology of market selections. On the one hand, Lieberman and Montgomery (1998) uses entry timing as a distinguishing criterion to separate the new ventures as first movers and late movers. On the other hand, Park & Bae (2004) categories markets as emerging markets and existing markets by product life cycle. In addition, they think different entry timing makes new ventures obtains different strength and weakness. Thus, we decide to define entry strategies as “the seven different strategic types to seek and pursue business opportunities, such as (i) reactive imitation, (ii) proactive localization, (iii) import substitution, (iv) creative imitation, (v) global niche, (vi) early market entry, (vii) global innovation” (Park & Bae, 2004). Thus, based on the definitions given above, the characteristic and performance of each strategic type will have a positive influence on its international performance. In other words, different entry strategic types of born globals result in different behavioral patterns in technology and marketing strategies, and they also have to deal with different difficulties and managerial issues, which will further influence its international performance. Hence, the following research proposition can thus be postulated:

P3: In a born global firm, there exists a positive relationship between its entry strategies and its international performance.

DISCUSSIONS

Contributions and Managerial Contributions

In this study, two closely related managerial implications emerged from this research. First, this study provides born global practitioners a set of strategies when entering foreign markets. Due to their nature in the lack of resources, practitioners may make good use of these entry strategies when entering into foreign markets. Second, the conceptual framework provided in this study show the importance on of both entrepreneurship and the internet. Owners and managers of born global firms shall be aware of their importance when they are conducting business operations in the real world.

Moreover, the conceptual framework may also generate some specific normative implications for government policy makers. First, born global firms’ observed high rate of direct international expansion often leads to suggestions about giving them special policy helps. On the bright side, this study should enlighten to the authority concerned when they are making policies to support the survival of born global firms. To be more precise, policy makers should widen the category on the support of born global firms, instead of only on R&D expenditures and export promotions.

Limitations and Directions for Future Research

In a nutshell, our framework also bears a few limitations. First, we did not introduce the concept of culture in the context of our framework. However, we believe such culture plays an important role in the field. For example, future research should investigate the impact of culture on the international performance of born globals. In addition, a possible avenue for follow ups is to make a comparison of born global firms in Asia and western countries. Such a study would contribute both to the academics and practitioners, significantly.

Second, the limitations of this framework suggest directions for future researchers to build a more sophisticated internationalization process model. For example, we have only proposed three phases on the internationalization
process of born globals. There is still plenty of room for researchers to further refine and develop the framework in a more systematically way.

Third, scholars may identify and proceed with many specific empirical research topics derived from this framework. Via such a framework, we believe our study provides some food for thoughts for similar future researches. For example, researchers can operationalize the phases and constructs in our framework, and empirically tests the validity of this framework.

Fourth, we offer a possible avenue for future research: the conceptual framework provided in this study is applicable regardless of national contexts. Hence, researchers can sustain the general validity of the model by conduct empirical studies in multiple countries. Even if there are some differences inconsistent with the framework, such a research would be valuable if appropriate reasons are given in the manuscripts.

Our framework also bears some specific normative implications for born global managers. First, the framework may serve its function as a road map for born global firms. Although born globals do not have much resource on systematic planning as other multinational enterprises, born global owners and managers can make good use of our framework to prepare directions and strategies on their international expansion. For instance, we indicate the importance of internet on born global firms. What implies here for practitioners is to invest their resources on the internet, and conduct business via the internet. In addition, our framework has a potential to help born global owners and managers to identify entry strategies to avoid serious blunders and wasted efforts.

CONCLUSIONS

Research on the phenomenon of born globals is an important issue for international business researchers and practitioners. This paper proposes a conceptual framework of internationalization process with particular relevance to born global firms. Once we integrate previous literature within the framework, it tends to have more explanation power, especially in the context of born globals. However, our framework is not a replacement of the incumbent models. On the contrary, we believe that it is an enhancement of the prior literature. For researchers, the framework may serve as a platform to generate new ideas and discuss relevant issues; for practitioners, the framework may serve as a road map to analyze and capture a variety of distinctive capabilities of born global firms.

REFERENCES


