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Exploring the antecedents of born-global companies' international development

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Abstract

In recent years the emergence of so-called born-global firms -firms which start their international activities from their start up- has challenged traditional theoretical assumptions about the incremental process of internationalization, giving birth to the development of a new stream of studies. In order to give a contribution to this area of studies, the purpose of this paper is to empirically test a model to explain how well some factors are able to explain the level of international development of born global companies. A mail survey was conducted within a sample of born-global Italian companies, belonging to the most representative industries for the Italian economy (metal products and machinery equipment; furniture; chemicals and food). Findings support the validity of a model including five significant predictors: uncertainty and dynamism in the firm's industry, operating in niche-based industries, markets' and segments' knowledge held by the founder/managers, product innovation and firms' innovativeness, access to networks. Findings are discussed and managerial implications are drawn.

Keywords: born-global companies; international entrepreneurship; networks; internationalization

Introduction

The traditional process of internationalization of the firm based on incremental stages (Vernon 1966; 1971; 1979; Johanson & Vahlne, 1977, 1990) has been questioned in recent years, due to emergence of the so-called born-global companies, which start their international activities from their birth, enter different countries at once and approach new markets for both export and sourcing (McKinsey & Co., 1993; Oviatt & McDougall, 1994; Gabrielsson et al., 2008; Cavusgil and Knight, 2009). Recently a new specific stream of research studying this phenomenon, among the others, has emerged: this area of studies is defined as International Entrepreneurship (Oviatt & McDougall, 2005, p. 540), i.e. “the discovery, enactment, evaluation and exploitation of opportunities – across national borders – to create future goods and services”.

More specifically several authors have tried to investigate factors leading new companies to follow a born-global development instead of following a stage path. In particular, seven factors have been isolated (Baronchelli and Cassia, 2008): increasing uncertainty and dynamism in the firm’s environment (Laanti et al., 2007; Oviatt & McDougall, 2000; Rasmussen & Madsen, 2002); characteristics of the home market (Gabrielsson et al., 2008; Madsen & Servais, 1997); characteristics of the industry/segment (Jolly et al., 1992; Freeman & Cavusgil, 2007); markets’ and segments’ knowledge (Laanti et al., 2007); entrepreneur and managers’ previous international experience with foreign markets (Oviatt and McDougall, 1995); product innovation and firm’s innovativeness (Knight and Cavusgil, 2004); access to network links (McDougall et al 1994, Madsen and Servais, 1997; Chetty & Cumpbell-Hunt 2004; Zain and Ng 2006).

Following this theoretical framework the purpose of this paper is to empirically test a comprehensive model trying to explain the link between some of the main factors mentioned

above and the international development of born global companies. The remaining of the paper is organized as follows: first of all a review of the literature about born global companies is presented and some hypotheses are formulated; after that the empirical analysis is described and results are discussed; finally some conclusions are drawn.

Theoretical framework

Due to the current scenario, SMEs can no longer stay out from the international arena and they need to be aware of foreign market opportunities creation and identification. Some factors are facilitating companies to approach the global market from the start-up phase, among the others: advances in technology regarding production, transportation and communication and the increasing level of entrepreneurs' international experience and foreign market knowledge (Madsen & Servais, 1997). These changing environmental conditions are creating the ideal context for the born global firms to emerge (Oviatt & McDougall, 1995, 2000).

Up to the 1980's the tendency for SMEs' was to focus on their country of origin, while the international business scenario was dominated by large multinational companies. This phenomenon was related to the fact that internationalization appeared to be a more challenging strategy for SMEs given their relatively low base of resources, capabilities and market power compared to traditional multinational companies (Zucchella et al., 2007). Despite the issues related to limited resources, an increasing number of SMEs started a rapid and precocious process of internationalization, with international operations starting from their foundation. In particular at beginning of '90s, some start-up companies began to see international markets as a "bundle" of business opportunities, rather than a threat to their own survival. Therefore the approach to new markets became one of the most important strategy

to pursue. In particular smaller companies, thanks to their simple and non bureaucratic organizational structure, appear to be immediately more creative, innovative, flexible and rapid to meet specific customers' needs on the both the domestic and the international markets (Knight 2001, Oviatt and McDougall, 1994). These companies have been defined in different ways (Crick, 2009): "Born Globals" (Madsen and Servais 1997, Rennie 1993, Knight et al., 2004), "International New Ventures (INVs)" (Oviatt and McDougall 1994) and "Innate Exporters" (Ganitsky 1989).

The expression "Born Global" was coined in a survey for the Australian Manufacturing Council by the Mckinsey consultants (Rennie, 1993). The study showed clearly the existence of two types of exporters. The first one, including around 75% of the companies, called *domestic-based firms* was made of home market based firms, well established in local market, with tough skills, solid financial situation, and sound product portfolio. The second group, called *born global firms*, began exporting, on average, only two years after their foundation and 76 percent of their sales were made through exports. Andersson and Floren (2008, p. 37) maintain that "for the born global entrepreneurs, rapid internationalization is the entrepreneurial action that characterizes them as entrepreneurs".

A similar approach can be found in Oviatt and McDougall (1994, p. 49), where SMEs are labeled as International New Ventures (INV), i.e. "business organization that from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries".

Finally "Innate Exporters" are defined as (Ganitsky, 1989) the companies with innate know-how on international markets thanks to international outlook in the management. They can win the competition thank to high flexibility degree, but they are limited due to their inexperience and lack of resources.

This new approach questions the traditional assumptions about the SMEs' internationalization process. Evidence of this phenomenon can be found in different industries and geographical areas (for example, Gupta, 1989; Luostarinen et al., 1994; Rennie, 1993).

The increasing number of born global companies (or international new ventures) has attracted the interest of several researchers, leading to the creation of a new stream of research, defined as International Entrepreneurship, which is focused on firms that enter the global market shortly after their inception (Rennie 1993; McDougall et al. 1994; Oviatt and McDougall 1994; Knight and Cavusgil, 1996, Madsen and Servais, 1997; Coviello, 2006; Jones and Coviello, 2005; Zahra, 2005; Zahra et al., 2005; Jones, 2009; Jones et al.. 2009a, 2009b). This area of research is rooted both in previous studies on the new ventures approach to international markets developed in the end of the 1980's (Morrow, 1988) and in the above mentioned literature on born global firms and INVs (Oviatt and McDougall, 2005). According to Wright and Ricks (1994) this field of research focuses on the entrepreneurial behavior in different countries and entrepreneurial organizations that are crossing national borders. McDougall and Oviatt (2000, p. 903) define International Entrepreneurship as the "combination of innovative, proactive, and risk seeking behavior that crosses national borders and is intended to create value in organizations" . Shane and Venkataraman (2000, p. 18) give a further improvement in the definition and formalization of the concept suggesting that it should be regarded as the "examination of how, by whom, and with what effects opportunities to create future goods and service are discovered, evaluated and exploited". Finally Oviatt and McDougall (2005, p. 540) starting from this point introduce the following new interesting definition: "International entrepreneurship is the discovery, enactment, evaluation and exploitation of opportunities – across national borders – to create future goods and services". Drawing on this stream of research factors leading to the international

development of born-global companies are reviewed in the following paragraph together with hypotheses development.

Hypotheses development

The purpose of this paper is to test a comprehensive model including some of the main factors suggested by previous studies to explain the international development of born-global companies. Several authors have suggested some classifications of these antecedents. Andersson et al. (2004), for example, distinguish between firm-level and industry-level elements, while indicating the importance to better study decision maker attitudes and characteristics. In a similar way, Madsen & Servais (1997) state that factors explaining the propensity to behaving in a “born-global way” can be divided into three categories related to characteristics of the founder, the organization and the environment. Baronchelli and Cassia (2008) tried to isolate and categorize some of these factors. In particular they identified the following seven drivers classifying them as external (the first three drivers) or internal to the company (the remaining four drivers):

1) Increasing uncertainty and dynamism in the firm’s environment (Laanti et al., 2007; Oviatt & McDougall, 2000; Rasmussen & Madsen, 2002), including: the degree of external change, falling trade barriers, deregulations and privatizations, technology development. The rationale behind this antecedent is that as the level of uncertainty and dynamism increased, SMEs are pushed to quickly access international markets.

2) Dimension/maturity of the home market (Gabrielsson et al., 2008; Madsen & Servais, 1997), meaning that when the home market is perceived as too small or too mature, the firm is motivated to go abroad since its inception.

3) Specific characteristics of the industry/segment: several studies have highlighted that born-global firms are more likely to be found in high-tech industries (Jolly et al., 1992; Fernhaber et al., 2007) or in niche markets (Freeman & Cavusgil, 2007). On this point it should be observed that Cavusgil (1994) defines as born global those companies which normally compete in niche markets and are very flexible and move fast. Therefore they are successful due to their:

- skill to satisfy customized or specialized product requests from new customers;
- advances in technology processes and cost reduction that help to reduce the minimum order quantity, opening the opportunity to operate in international markets;
- advances in communication technology that let managers to work easily in international markets;
- quicker response time, flexibility, adaptability.

4) Availability of markets' and segments' knowledge, gathered from two suitable sources: the personal previous experience of founder and managers (Laanti et al., 2007) or the accessibility to and the interaction with local and international networks (Laanti et al., 2007);

5) Entrepreneur and managers' previous international experience with foreign markets (Oviatt and McDougall, 1995), for example due to their education, their international living and their work experience. Among the others, Madsen and Servais (1997) remark that the uncertainty faced by companies due to the new, not known, opportunities abroad can be reduced due to the managers' knowledge of the export markets;

6) Product innovation and firm's innovativeness: due to shortened product life cycles and increasing innovation intensity, companies are requested to innovate and own innovation

skills to compete successfully (Knight and Cavusgil, 2004); born-global companies have a higher level of these capabilities, allowing them to enter international markets;

7) Access to network links (McDougall et al. 1994, Madsen and Servais 1997, Chetty & Cumpbell-Hunt 2004, Zain and Ng 2006, Sullivan and Weerawardena, 2006; Coviello, 2006, Ojala, 2009; Prashantham and Dhanaraj, 2010), which help to identify and pursue international business opportunities thanks to “bridges to other networks”. Networks help firms to overcome constraints linked to limited financial and human resources, facilitate market selection and entry-mode decision, give access to local market knowledge and increase their initial credibility.

Drawing on these previous analyses we tested a comprehensive model including six of the above factors, considering home market and industry characteristics as one unique factor, focusing on the niche concept.

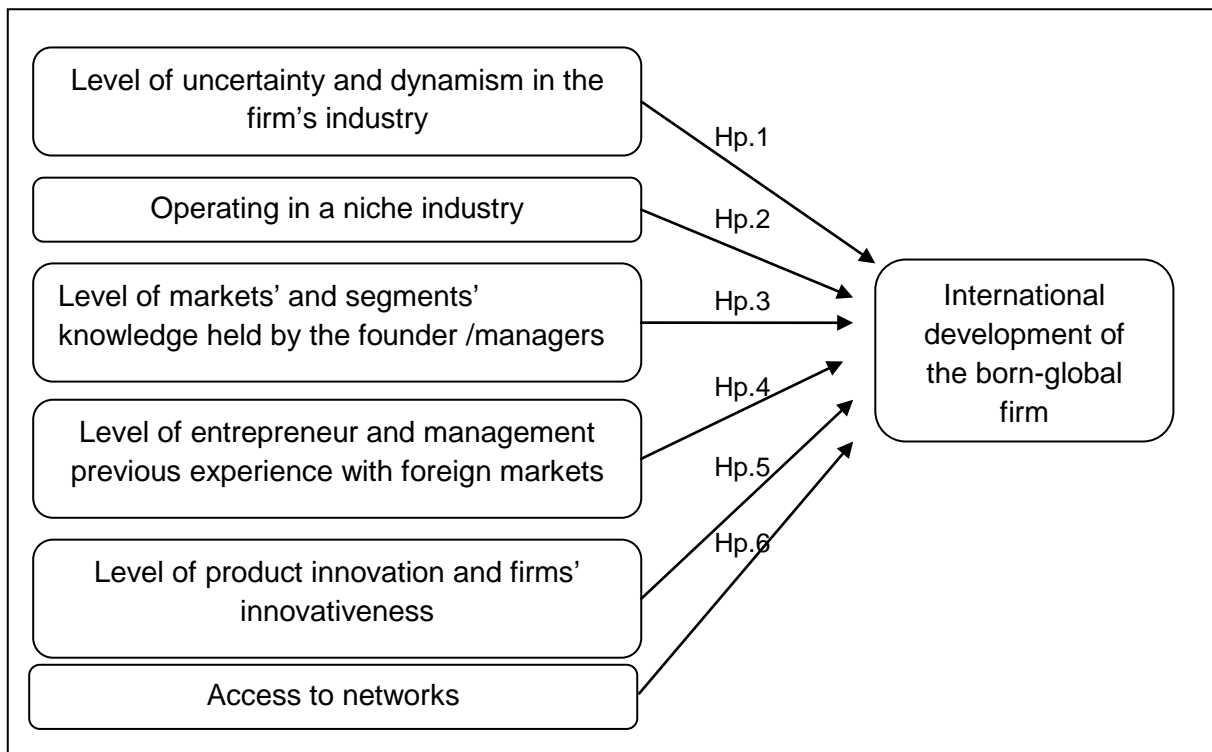


Fig. 1: the suggested model.

From the model the following six hypotheses were derived, one for each of the factors; the hypothesized sign of the relations is the one suggested by previous literature:

Hp. 1: the international development of born global companies is directly and positively related to the level of uncertainty and dynamism in the firm's industry.

Hp. 2: the international development of born global companies will be higher when the industry in which they compete tends to be niche-based.

Hp. 3: the international development of born global companies is directly and positively related to the level of markets' and segments' knowledge held by the founder/managers.

Hp. 4: the international development of born global companies is directly and positively related to the level of entrepreneur and management previous experience with foreign markets in general.

Hp. 5: the international development of born global companies is directly and positively related to the level of product innovation and firms' innovativeness.

Hp. 6: the international development of born global companies is directly and positively related to the level of access to networks.

Methodology and results

To test the model we decided to perform a cross-sectional survey. In particular we selected a sample of Italian SMEs belonging to the most representative industries for the Italian economy (metal products and machinery equipment; furniture; chemicals and food). In particular to identify SMEs we first of all followed the statistical definition of small and medium firms of the European Union (2005), according to which small and medium firms

employ fewer than 250 persons. The list of companies was obtained by the local Chamber of Commerce, by setting the following criteria: the firm should have been founded in the previous 10 years, it should employ fewer than 250 people, and should be located in some specific provinces of the Lombardy region (Bergamo, Brescia, Monza Brianza). We obtained a final list for this research composed by 800 companies. Each company was post-mailed the questionnaire. In 80 cases the questionnaire could not be delivered due to incorrect address (in most of cases the firm was not operating any more), giving a final sample list of 720.

84 questionnaires were returned, but only 53 (final size of sample) of them were valid for our research because in the other cases the firms did not have any exporting activities abroad. The average number of the employees of the 53 firms was 28.92. Five of the firms had one or more subsidiaries abroad, as well.

Data were analyzed using SPSS Statistical Software. Six independent variables were measured in the survey, through multi-item seven-point Likert scales (completely disagree-completely agree). Before testing the hypotheses, it was necessary to verify whether the 19 items included in the questionnaires were able to measure the six constructs. For this purpose, confirmatory factor analysis was used as this instrument is suitable when multi-item scales are used to measure constructs (Floyd & Widaman, 1995). All items had substantial loadings (above 0.40) on the intended factor and the six factors explained 70.6% of the variance (Floyd & Widaman, 1995). The factor analysis with varimax rotation for the independent variables, together with the items used in the research, is shown in table 1.

Item	Factor loading					
	1	2	3	4	5	6
Uncertainty and dynamism in the firm's industry						
The market in which we operate is getting more dynamic due to falling barriers in products' transferring						.829
The market in which we operate is getting more dynamic due to better circulation of information						.841
Niche-based industry						
In our industry we produce niche goods					.671	
We produce a single category of goods					.651	
We apply a unique approach to selling/marketing					.798	
Markets' and segments' knowledge						
Our company had previous information about the foreign markets in which we operate		.789				
The existence of previous relations with foreign subjects allowed us to develop quickly a presence in foreign markets		.690				
The previous knowledge of the market by the founder/managers facilitated an easy access to foreign markets		.830				
The experience gained during the first foreign experiences was useful for the following activities abroad		.697				
Entrepreneur and management previous experience with foreign markets in general						
The entrepreneur/managers developed contacts with costumers during their previous professional experiences			.881			
The entrepreneur/managers developed contacts with suppliers during their previous professional experiences			.702			
The entrepreneur/managers had previous experience in other companies of the same industries			.751			
Product innovation and firms' innovativeness						
Our firm produces highly innovative products	.778					
We have the capabilities to anticipate clients' requirements	.759					
We are able to anticipate our competitors in creating new products	.833					
Our products have high performance both in the local markets and in the foreign markets	.654					
Access to networks						
We have contacts with trustable people who work within our industry in foreign markets				.637		
We have relations based on trust with our foreign customers				.618		
We have satisfying relations/alliances with foreign operators				.648		

Table 1: Factor analysis (varimax rotation) of the independent variables.

The dependent variable, i.e. the level of international development of the born global company, was measured as categorical, with five different classes: up to 10% (class 1), between 11% and 25% (class 2), between 26% and 50% (class 3), between 51% and 75% (class 4), more than 76% (class 5) of the firm's total revenues deriving from exporting activities. It should be remarked that, as mentioned before, firm that do not have exporting activities were not included in the research.

Ordinal regression was conducted to test the causal relationships between the independent variables and the criterion variable. This methodology was chosen because the dependent variable was measured as an ordered, non-interval outcome variable (O'Connell, 2006). Findings are summarized in tables 2 and 3, showing respectively model fitting information and parameter estimates. Model fitting information is useful to verify whether the model provides adequate predictions. Table 2 shows log-likelihood values for the intercept-only (without the predictors) model and the final model (including the predictors). The difference of log-likelihoods (36.224) is usually interpreted as chi-square distributed statistics (McCullagh and Nelder, 1989). Given that the chi-squared statistic is significant, we can conclude that the model provides better estimations than the intercept-only model. Moreover the pseudo r-squared values (which can be considered as approximations of the percentage of the variance explained by the model) are satisfying: Cox and Snell's $R^2=0.537$, Nagelkerke's $R^2=0.561$, McFadden's $=0.244$.

Model	-2 Log Likelihood	Chi-Square	df	Sig.
Intercept Only	148.406			
Final	112.183	36.224	6	.000

Table 2: Model fitting information

Table 3 indicates the estimation for each of the six independent variables. As regards the hypothesized causal relations, 5 of the 6 independent variables were found to be related

significantly to the born global approach development of the firm. Only “entrepreneur and management previous experience with foreign markets in general” was not significant, given that $\text{sig.} > 0.05$.

The interpretation of the results depends on both the sign and the magnitude of each independent variable’s estimate. As regards the sign, a positive sign (which was found for the following variables: niche-based industry, markets’ and segments’ knowledge, product innovation and firms’ innovativeness and access to networks) indicates that the independent variable and the dependent variable are positively related: an increase in the predictor will cause an increase in the dependent variable (and vice-versa). On the contrary, a negative sign (which was found for “uncertainty and dynamism in the firm’s industry”) highlights a negative relation between the independent variable and the dependent variable.

The magnitude of the estimate indicates the intensity of change in the dependent variable due to one unit increase in the predictor. For example, if the value of “niche-based industry” increases of one unit, the probability that a company belongs to the export class 2 (11-25% of revenues deriving from exporting activities) instead of to class 1 (up to 10% of revenues deriving from exporting activities) will increase by 1.130.

	Estimate	Std. Error	Wald	df	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
Uncertainty and dynamism in the firm's industry	-1.057	.329	10.287	1	.001	-1.703	-.411
Niche-based industry	1.130	.338	11.182	1	.001	.468	1.793
Markets' and segments' knowledge	1.369	.339	16.292	1	.000	.704	2.034
Entrepreneur and management previous experience with foreign markets in general	-.140	.285	.242	1	.623	-.699	.418
Product innovation and firms' innovativeness	.559	.297	3.538	1	.060	-.023	1.141
Access to networks	.670	.304	4.847	1	.028	.074	1.266

Table 3: Parameter estimates.

Hence the findings show that a firm will have a higher foreign sales/total revenues ratio when it belongs to a niche-based industry (hp. 2), its founder/managers have a higher level of markets' and segments' knowledge (hp. 3), it produces an innovative product (hp. 5) and it has a wider access to networks (hp. 6). Therefore hypotheses 2, 3, 5 and 6 are supported. On the contrary the relation between the degree of industry's uncertainty and dynamism and born-global companies' international presence was significant but the sign was negative, thus disconfirming previous studies and hypothesis 1. In other terms, as the level of uncertainty and dynamism in the firm's industry increases, the foreign sales/total revenues ratio diminishes. The only not significant variable was the entrepreneur and management previous experience with foreign markets in general (hp. 4), which includes personal work experience obtained by the entrepreneur and/or his employees before founding or joining the current firm.

Discussion and implications

Drawing on the growing stream of research of International Entrepreneurship, the purpose of this paper was to empirically investigate a comprehensive model including several factors to explain the international development of born global companies.

The findings demonstrate the existence of five significant predictors -uncertainty and dynamism in the firm's industry, niche-based industries, markets' and segments' knowledge held by the founder/managers, product innovation and firms' innovativeness, access to networks-, which together can explain a large portion of the variance in the born-global company international presence. In particular two findings need to be highlighted.

The first one refers to the negative impact of uncertainty and dynamism in the firm's industry and its international development. This result disconfirms previous studies and it seems to indicate that uncertainty in the environment acts more as a barrier than as a pushing factor for SMEs' internationalization. We need to consider that data were collected at the beginning of 2010, when the global economic environment was still affected by a strong financial crisis, which may have enhanced respondents' perception of uncertainty.

Another important result regards the variable "entrepreneur and management previous experience with foreign markets in general" which was found to be not significant. Even if this finding was unexpected, we can observe that another variable related to entrepreneur and managers, namely the level of "markets' and segments' knowledge" held by them before entering foreign markets, was the strongest predictor of the dependent variable in the estimated model. As a consequence we can suggest that the variable "knowledge of the markets and segments" may have implicitly incorporated also the experience of the entrepreneur and managers with foreign markets. Moreover the distinction between home market and foreign markets may have been perceived as not particularly significant by

respondents, considered that they view the world as their marketplace. The knowledge of the international niches/segments/markets in which they operate could therefore be more relevant than the knowledge of foreign markets in general (McKinsey & Co., 1993).

In general, it should be noted that some of the factors included in the model are beyond the control of the firm (e.g. market uncertainty) while some others are internal to the organization. Nevertheless we can find some interesting suggestion for SMEs managers on their approach to international markets. Firstly companies should count on markets' and segments' knowledge of the founders/managers and networks links to overcome cultural differences on international business management. Moreover investments in product innovation can accelerate born global companies' process of internationalization. Finally the positioning in an international niche market seems to be a successful strategy for SMEs companies. The results have implications for policy makers, as well, suggesting that in order to support international entrepreneurs, local authorities should for example facilitate their access to networks through a variety of initiatives.

Conclusions

This paper has given a contribution to the stream of research about the born-global approach by testing a comprehensive model and offering some empirical evidences, corroborating and extending previous theoretical developments. Based on a research on a sample of Italian SMEs, the study has highlighted four factors that have a positive impact on the international development of born global companies: positioning in niche-based industry, holding previous markets' and segments' knowledge, focusing on product innovation and firms' innovativeness and gaining access to networks. Among these factors, positioning in niche-based industry, focusing on product innovation and firms' innovativeness and gaining access

to networks reflect the fundamental drivers of successful born global companies' international competitive strategies in the current worldwide scenario.

Moreover, it should be noted that some of these factors are beyond the control of the firm (e.g. market uncertainty) while some others are internal to the organization. Nevertheless we can find some interesting suggestion for SMEs managers on their approach to international markets. First of all companies should rely on markets' and segments' knowledge of the founders/managers that can help to reduce the uncertainty related to the approach to new markets and to overcome cultural differences on international business management. Moreover networks links can help to overcome constraints related to limited financial and human resources. They also facilitate market selection and entry-mode decision, give access to local market knowledge and increase company's initial credibility. Finally our research suggests that SMEs companies should approach international markets with a specific focus on niche strategy due to their limited resources availability.

The results have implications for policy makers, as well. In order to support international entrepreneurs, local authorities should increase investment to facilitate their access to international networks, should support universities that focus on master courses with international students exchange to create market knowledge and experience for the new managers, should organize new investment policies for innovative SMEs that create innovation in both products and process that enhance the firm's success in international markets.

In interpreting the results, some limitations of this study must be remarked, as well. Firstly, the low response rate does not allow for immediate generalization of results and some other studies with different samples (for example born global companies from different countries) would be fruitful. Also the current worldwide economic scenario may have influences some

results, in particular those related to the negative effect of the level of uncertainty and dynamism in the firm's industry. Moreover the level of international development of born global companies was estimated only in relation to the level of their foreign sales, thus ignoring the sourcing side of their activities (i.e. buying supplies and resources abroad). The latter could be an interesting area for future studies.

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