ACCELERATED INTERNATIONALISATION – DRIVERS OF THE BORN GLOBAL FIRM

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The Born Global firm is a manifestation of the phenomenon of accelerated internationalization, and is increasingly active in the international economy changing the dynamics of international competition and challenging the traditional stage model of internationalization. This paper examines the characteristic features of the Born Global firm, and factors responsible for its emergence in the context of a dynamic global business environment.

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1. Introduction

In an age of instant nirvana and instant noodles can the instant MNE be far behind? Alibaba.com (China), eBay (USA) and Logitech (Switzerland) are names that you are probably familiar with. You may be less familiar with VDSL Systems (Finland), Four Soft (India) and Griaule Biometrics (Brazil). Variously described as 'global start-ups', 'born globals', or 'international new ventures', these firms characterize a geocentric orientation which enables them to start operating from day one in global markets as global players, servicing their customers wherever they are to be found. Characterized by features of accelerated internationalization these firms are increasingly active in the international economy changing the dynamics of international competition and challenging the traditional stage model of internationalization.

The last two decades has witnessed radical changes in the global competitive landscape led by the emergence of firms from the developing and emerging economies. Innovations in manufacturing, information and communication technology and increasing liberalization in the emerging markets have enabled the birth of this new class of start-ups that view the global market as their natural home. These young firms initially used a variety of entry modes including exports for their global venturing, but have subsequently used more complex forms of internationalization such as joint ventures, wholly-owned subsidiaries or

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franchising networks.

This paper examines the characteristic features of the Born Global firm, and factors responsible for their emergence in the context of a dynamic global business environment. The paper is organized as follows: following the introduction, Section II introduces the concept of the Born Global firm while Section III outlines their characteristic features, Section IV outlines a small global sample, Section V explains factors which act as drivers of the Born Global phenomenon and Section VI concludes.

2. The Born Global Firm

The Born Global Firm, also known as a 'global start-up', or an 'international new venture' "is a business organization that, since inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries" (Oviatt and McDougall, 1994). The term was originally coined for a group of Australian manufacturers who began exporting just two years after coming into existence (Rennie, 1993). Studies on the phenomenon of the born global have been based on a variety of theoretical dimensions and focused on a several different issues.

The traditional MNE (Caves, 1971;1996) based on the Uppsala Model is characterised as being a large, well established firm servicing multiple markets, making its global presence in incremental internationalizing steps (Johanson and Vahlne, 1977). The born global phenomenon is seen as to contradict the stage model of internationalization (Knight and Cavusgil, 1996), as it took decisive and firm steps in the global market, almost from inception.

Studies on the phenomenon of the born global have been based on a variety of theoretical dimensions and focused on a several different issues. These include explanations for its rapid internationalization: global niche strategies (Almor, 2000), the ability to raise capital externally (Bonacorsi, 1992), entrepreneurial vision and capabilities (Knight, 2000), and reliance on international networks and strategic alliances as a substitute for the firm's own assets (Coviello and Munro, 1995). Shorter product life cycles are another factor causing born global firms to adopt an international perspective regardless of their age and size (Oviatt and McDougall, 1994). The predominance of the Born Global phenomenon in technology and knowledge intensive industries is due to their short product life cycles which forces them to internationalize in order to be able to amortize their Rand D expenses (Rennie, 1993). Other important factors triggering the emergence of Born Global firms are significant advances in the production, transportation and communication areas, the increased importance of global networks and alliances, and the capabilities of its human resource, especially those of the founder/entrepreneur (Knight and Cavusgil, 1996) .

In context of the emerging economy, the role of institutional support including policy changes is also a significant explanatory factor for the emergence of the born global firm. In the Indian case for example, changes in outward FDI policies such as raising the permissible outward investment limit for Indian business served as an impetus for a sudden burst of M& A activity (Nayyar, 2008), and saw the emergence of the Born Global Acquirer (BGA) for the first time in the literature (Varma, 2010). The establishment of the National Innovation System (NIS) framework also explains how strategic government intervention and related institutional support contributed to skill formation and development of an entrepreneurial orientation, leading to the emergence of MNEs from the Indian IT industry.

3. Characteristics of the Born Global Firm

(i) *Speed of internationalization*

The first criterion to differentiate BGFs from traditional internationalizes is the speed of internationalization. It can be described by two different time spans, namely:

(a) The time span between founding and the first foreign market entry

Various studies have used a number of different criteria of speed of internationalization in order to distinguish the traditional firm from the born global. A commonly accepted criterion is postulated by Rennie (1993), Knight and Cavusgil (1996) and Kandasaami and Huang (2000) who consider a time span of two to three years from the time of founding. This definition is based on the consideration that it is hardly possible to speak of a global vision when the first internationalization step takes place after more than three years.

(b) The time span between the first and the following foreign market entries

The time span between the first and the second foreign market entry is only mentioned by a few authors (Lindqvist, 1991; Autio, Sapienza and Almeida, 2000; McNaughton, 2000; Stray, Bridgewater and Murray, 2001). Melin (1992) points out that firms in technology-intensive industries show shorter time spans until their next internationalization step than firms in other industries. The study of Stray, Bridgewater and Murray (2001), however, reveals that technology-based firms show different speeds of internationalization. Generally, it is agreed that this time span should be shorter than between founding and first foreign market entry.

(ii) *The geographic scope of internationalization*

The geographic scope of internationalization of a BGF can be measured by the following criteria:

a. number of countries
b. number of cultural clusters
c. number of geographical regions in which the firm is present.

To call a firm global, Kandasaami (1998) demands that it should have activities in at least five countries. Other authors claim that a further distinction between cultural clusters (Hofstede, 2001) and geographical regions is necessary to clarify the physical and geographical distance of foreign markets from the home market. For example, Switzerland and South Africa fall into the same cultural cluster but represent two different geographical regions. Therefore, according to Lummaa (2002), speaking of BGFs requires at least activities in two cultural clusters and geographical regions. The corresponding criterion for this paper is that the firm must have a geographical presence in at least three countries.

(iii) *Foreign Sales*

Besides the number of foreign markets, the proportion of foreign sales compared to total sales of a firm presents a further criterion of BGFs. Kandasaami and Huang (2000) suggest a minimum ratio of 10% of foreign sales compared to total sales. Madsen, Rasmussen and Servais (2000) claim at least a ratio of 25% is necessary to speak of a BGF. The study by Lummaa (2002) revealed in three of four cases even a ratio of 90%. This paper considers a ratio of 10% of foreign sales to be sufficient.

4. Born Global Firms - A Global Sample

IBS Software Services (India)

IBS was incorporated in 1997 in response to the global opportunity for a software solutions company in the fast growing travel, tourism and logistics industry. It began operations from Technopark, Trivandrum, which is among the various government initiatives meant to assist the nascent but fast growing IT industry. Its activities are focused on mission-critical operations of major airlines, airports, oil and gas companies, seaports, cruise lines and tour operators world-wide. It also provides a range of services that include software development, technology consulting, application development, re-engineering and maintenance, on site software development, business intelligence, data warehousing and support services.

It began global operations in 1998, had a presence in three different geographies by 2001 and made its first overseas acquisition in 2002. It has used a strategic mix of alliances and acquisitions to emerge as a leading international player in the travel space. Some of its notable alliances were with Oracle Corporations, Sun Microsystems and BEA Systems in 2001 and with Cendant Corporation USA in 2004 and important acquisitions were Top Air, Avient Technologies, Discovery Travel Systems and VISaer Inc. The company's capability development is visible through the highest possible quality certifications it has gained for its business and development processes, workforce capability processes and security. It is SEI CMMI Level-5 and PCMM Level 5 assessed ISO 9001:2000, TickIT and ISO 27001:2005 certified.

eBay (USA)

eBay was founded in California in 1995, and it is among the largest platform for internet auctions worldwide. The first international operations were realized in the UK and in Canada in 1998 by an adjusted internet presence especially designed for local customers. In 1999, eBay entered into a strategic partnership in Australia and expanded to Germany by acquisition. In the following year, eBay entered France and Japan, and in 2001 Korea and Taiwan (Mahnke and Venzin, 2003). In 2005, ten years after its founding, the company is present in 29 countries with a ratio of 46% foreign sales compared to total sales of US$4.5 billion and has more than 6,000 employees worldwide (eBay, 2006; Busch *et al.*, 2004).

Logitech (Switzerland)

Another example of rapid internationalization is the personal computer peripherals producer Logitech. Founded 1981 in Switzerland, the company relocated its head office to Silicon Valley within one year. In 1986 and 1988, production sites in Taiwan and Ireland were established (Alahuhta,1990). Currently, Logitech has wholly foreign-owned subsidiaries in the U.S., Hong Kong, Taiwan, China and Switzerland as well as distribution centres and sales offices in the U.S., Europe and Asia. In 2005, Logitech has more than 7,000 employees and sales of US$ 1.5 billion, out of which 50% are in Europe, 36% in North America and 14% in Asia (Logitech, 2005).

Alibaba.com (China)

Alibaba.com was founded in 1999 in China by Jack Ma with financial and strategic support from partners in USA, Japan and Europe. Created as a platform to provide opportunities for linking Chinese suppliers with the international market, it is presently a B2B platform which receives revenues from multiple countries making a huge contribution to regional economic development. The firm is characterised by the ability to create value by combining resources from multiple foreign sources in such a way that the liability of foreignness was never a disadvantage.

Wireless Commerce Ltd. (Finland)

Established in January 1999, Wireless Commerce Ltd.(WCL) is a world leading innovator, providing platforms and applications for mobile commerce with a two way focus on SMS marketing applications and mobile auctions. Within two years of incorporation the firm had a presence in four countries and three cultural clusters. Its highly flexible m-commerce platform, Wireless Commerce Engine is a business-to-business packaged solution that allows clients with wide ranging business models to offer m-commerce services to their customers.

Griaule Biometrics (Brazil)

Griaule Biometrics was founded by two engineering alumni from Goiânia (state of Goiás) in the Unicamp incubator in 2002 (Unicamp - Business Incubator for Technology-Based companies). It provides solutions in biometrics, develops software to recognize fingerprints, network logons, point of sale identification, and civil and criminal identification for security applications. The company obtained its first international big customer in 2005, three years after its founding, and currently the Griaule sells its products in over 80 countries, basically using the internet as a channel. Overseas sales represent 80% of revenue comes from US, Mexico, Italy, Venezuela and Israel. However, the major markets are the United States, followed by Europe. In countries where it has the highest incomes, Griaule has also focused on hiring professionals to develop sales and to help distributors to better understand Griaule products and target potential customers. It also has plans to enter the Asian market (Ribeiro and Pimentel, 2012)

5. Drivers of the Born Global Firm

Organisations are considered as 'bundles of resources' (Barney, 1991) consisting of 'all assets, capabilities, organisational processes, firm attributes, information and knowledge controlled by a firm' which help it to attain sustainable competitive advantage. These resources are critical in the process of internationalisation and also for the born global firm. Capability-based resources are particularly important for start-ups, as they deal with diverse environments across numerous foreign markets.

In the case of the born global firm we may classify resources and capabilities as under:

(i) *Entrepreneurial Resources*

In the context of international entrepreneurship, the creation of new ventures may be explained as a nexus of individuals and opportunities (Gregorio *et al.,* 2008). Accordingly the geographic dispersion of key elements in the entrepreneurial process: *individuals* - including their experience and other resources, and *opportunities* for new international combinations of resources and/or markets leads to new venture creation. This viewpoint is based on the characteristics of opportunities; the individuals who discover and exploit them; the process of resource acquisition and organizing; and the strategies used to exploit and protect the profits from those efforts" (Shane, 2003). Opportunities are situations in which people believe they can use new means-ends frameworks to yield novel resource combinations for generating profit (Shane, 2000). Individuals typically discover opportunities based on their prior knowledge which comes to bear on how they perceive external stimuli. To them, entrepreneurship is viewed as focusing on opportunities that may be bought and sold, or they may form the foundation of new organisations.

International entrepreneurship may thus be conceptualised as a capability which allows a firm to leverage resources via a combination of innovative, proactive, and risk-seeking activities to discover, enact, evaluate, and exploit business opportunities across borders to achieve superior business performance (Zhang *et al.,* 2009). The early internationalisation ability of a firm is rooted in its innovative abilities leading to the development of organisational capabilities consisting of critical competences and embedded routines. The possession of entrepreneurial and managerial knowledge about international markets and operations is thus a critical determinant of early foreign market entry and subsequent superior performance of a BG firm (Autio *et al.,* 2000).

(ii) *Institutional Resources*

Institutions are conceptualized as 'the rules of the game in a society' (North, 1990: p. 3; Scott, 1995) and institutional transitions are defined (Peng, 2003, p. 276) as the 'fundamental and comprehensive changes introduced to the formal and informal rules of the game that affect organizations as players'. The policy of economic liberalization in countries such as India, has been a defining feature of the economic environment (Hoskisson *et al.,* 2000) changing an inward looking attitude not only in its trade and investment policies, may be considered akin to an institutional transition as it has exposed firms to a new different business environment characterized by increasing competition, changing regulations, increasingly demanding customers, and emergence of new business opportunities (Ray, 2003).

Economic liberalisation measures such as deregulation and privatisation in hitherto protected economies such as India have been the source of both strategic opportunities and threats. These may therefore translate into both defensive strategic positioning aimed at protecting their position in the domestic market (which precludes internationalisation) or an assertive strategy aimed at leveraging new strategies through internationalisation (Ray and Chitoor, 2007). In this context, the paper posits that government induced policy changes and institutional forces can act as a catalyst towards accelerated internationalisation and the appearance of BGF.

(iii) *Network Resources*

The term 'network' denotes a set of connected actors. These actors may be either organisations or individuals, and the relationships that tie them together may take many forms such as those between customers, suppliers, service providers, or government agencies. The most significant role of networks in emerging economies is that it substitutes for external markets (Khanna and Palepu, 1997). The lack of an adequate legal framework and a stable political structure in emerging economies has resulted in the underdevelopment of strategic factor markets (Barney, 1986), which leads to difficulties in creating the competitive advantages necessary for international expansion. Networks substitute for the undeveloped external markets for product development, financial capital, and entrepreneurial and management know-how in emerging economies (Khanna and Palepu, 1997). Institutional network ties refer to linkages with various domestic institutions such as government officials and agencies, banks and financial institutions, universities, and trade associations and provide critical advantages for firms in emerging economies. From the resource dependence perspective institutional networks are the resources that firms depend on in order to be able to operate in a market.

In addition to getting permission from the government, links with domestic trade associations and professional bodies can provide intelligence on different markets and access to those markets for international operations. Also, owing to the lack of credit history and the liability of foreignness, it is difficult or costly for emerging-market firms to secure financial support in the host countries.

On the other hand, the banking systems in most emerging economies are relational in nature, and banks are willing to provide long-term loans. Hence, links with domestic financial institutions are another valuable tie that firms need to obtain for successful international venturing.

6. Conclusion

This paper has focused on an emerging phenomenon called the Born Global firm which characterises accelerated internationalisation. Born global firms are emerging in substantial numbers worldwide, and reflect an emergent paradigm, with the potential to become a leading species in the ecosystem of international business. In this sense, the born-global phenomenon is heartening because it implies the emergence of an international exchange system in which any firm, regardless of age, experience, and tangible resources, can be an active international business participant. Although large global corporations and the negative aspects of globalization often dominate reports in the popular press with respect to the emergent world order, the increasing role of born globals implies a more optimistic view. In relative terms, born globals might be seen to herald a more diverse international business system in which any firm can succeed internationally and present an interesting research opportunity.

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