Researching different kinds of International Entrepreneurs

Dr. Per Servais

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Outline

- Introduction - traditional internationalization models
- The outliers – the exception from the rule
- Some definitions of International New Ventures/Born Globals
- Comparing types of firms – but which types?
- Some empirical evidence
- ........more empirical evidence
- conclusion - perspectives
Early internationalization studies

- Stages model or ‘rings-in-water’ (Uppsala, Wisconsin-Madison) and
- State and change model (Johanson & Vahlne, 1975)

- Firms embarks a slow and gradual process involving incremental adjustments because of limited (experiential) knowledge and resources – and in order to avoid uncertainty and risk taking
Internationalization in networks

- Increasing extent, intensity, and integration of relationships across borders

- Such relationships lead to more “homogeneous” markets and may become ‘bridges to foreign markets’ (Late Starters)

- Faster and more individual internationalization processes because of pull effects (follow the customer or partner) and push effects (more specialized markets) (Johanson & Mattsson, 1988)
Exceptions from the model

- Leapfrogging (Hedlund & Kverneland, 1985)
- Late Starters (Johanson & Mattsson, 1988)
- Innate Exporters (Ganitsky, 1989)
- High Technology Start-Ups (Jolly, Alahuta & Jeannet, 1992)
- Born Globals (Rennie, 1993)(Knight, 1996)
- International New Ventures (McDougall, Shane & Oviatt, 1994)

Not all firms do follow the process in the “Uppsala model”!
Defining Born Globals

Definition:
” A firm that from or near its founding obtains a substantial portion of its total revenue through sales in foreign markets”
(Knight & Aulakh,1996)

Operationalisation:
Established after 1976, have between 10 and 250 employees and have reached a foreign sales of minimum 25% within 3 years after birth and being a manufacturing firm
International Entrepreneurship

“a business organization that, from inception, seeks to derive significant competitive advantages from the use of resources and the sale of outputs in multiple countries”

(Oviatt & McDougall, 1994)

<table>
<thead>
<tr>
<th>Number of Countries involved</th>
<th>Few</th>
<th>Many</th>
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<tbody>
<tr>
<td>Few value chain activities coordinated across countries</td>
<td>1. Export/Import start-up</td>
<td>2. Multinational trader</td>
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<tr>
<td>Many value chain activities coordinated across countries</td>
<td>3. Geographically focused Start-up</td>
<td>4. Global Start-up</td>
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Factors behind the emergence of Born Globals (Knight, 1997)

- The increasing role of niche markets; Many firms specialize and focus on products that occupy a very narrow - but global niche

- Advances in process technology allows exporters to streamline production on an ever smaller scale.

- Advances in communication technology makes information readily and more quickly accessible to ALL firms.
Factors behind the emergence of Born Globals (Knight, 1997)

- Advantages of small firms - quicker response time, flexibility, adaptability and so on.

- The means of internationalization - knowledge, technology, institutions etc. becomes more accessible to all firms (education)

- The trend to global networks meaning that commerce is increasingly facilitated through partnerships with foreign business.
Madsen & Servais (1997)

**Founder:**
- Past experience
- Ambition level
- Motivation

**Organization**
- Competence
- Routines
- Corporate governance structure

**Environment:**
- Market
- Internationalization
- High/low technology
- Specialization

**Born Global:**
Propensity and further development
Comparison of types

- Experimental versus active or committed involvement (Cavusgil, 1980)
- Early Starters versus Late Starters (Johanson & Mattsson 1988)
- Studies of the Differences Between Small Exporting and Non-Exporting Firms (Yaprak, 1985; Keng, 1989)
- Born Global versus Born Local firms (Madsen & Servais, 2000).

In certain respects Born Global firms look like Local firms in others International Firms – nearly 20% of firms could be labeled "Born Globals!"
Rennie (1993) profile on exporters

Born Global Firm Profile

- Product or process development
- Small domestic sales only
- Begin export early
- Create international position
- Reach niche limits

Age

Size
What is Global?

“Our suggestion is to use the proportion of foreign activities outside the firm’s own continent as a more valid measure of the firm’s international or global scope. Considering today’s market conditions involving easy and inexpensive transportation as well as communication, many firms sell products or source input from neighboring countries, at least. A new Belgian firm sourcing input from France and selling its product in the Netherlands is probably more the rule rather than the exception. “

(Madsen & Knudsen, 2004)
Conceptual foundations

- Knight & Cavusgil (1996) defines a Born Global as a firm established after 1976 having a share of foreign sales of at least 25% and having foreign operations within three years after inception.
  - This definition is, however, difficult to use in a European setting
  - We intend to use the proportion of foreign activities outside the firm’s own region = continent (and not just outside its own country) as a more valid measure
- Sales and sourcing
- Cut off point = 25%
Method

The unit of analysis of is the business firm in Denmark

Business firms established in 1982-2001 are the main focus of the study

- Only manufacturing firms with a minimum of 10 employees as at 1 February 2004 were included
- In order to obtain a sufficient number of larger firms in the sample we did include also forms established before 1982 and having 50 employees or more in 2004

A total of 3048 firms met the criteria

- The final population was reduced to 2957 business firms
<table>
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<tr>
<th>Only sales within Denmark after 3 years</th>
<th>Sourcing abroad after 3 years, but less than 25% outside Europe</th>
<th>Sourcing abroad after 3 years, 25% or more outside Europe</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Only direct sourcing within Denmark after 3 years</strong></td>
<td><strong>350</strong> Born Local Firm</td>
<td><strong>123</strong> Born International Sourcer</td>
<td><strong>17</strong> Born International Sourcer</td>
</tr>
<tr>
<td><strong>Sales abroad after 3 years, but less than 25% outside Europe</strong></td>
<td><strong>100</strong> Born International Seller</td>
<td><strong>209</strong> Born Regional Firm (European)</td>
<td><strong>30</strong> Born Global Firm</td>
</tr>
<tr>
<td><strong>Sales abroad after 3 years, 25% or more outside Europe</strong></td>
<td><strong>17</strong> Born International Seller</td>
<td><strong>34</strong> Born Global Firm</td>
<td><strong>17</strong> Born Global Firm</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>467</strong></td>
<td><strong>366</strong></td>
<td><strong>64</strong></td>
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</table>
A consulting firm with 2 founders a Dane a Lithuanian.
3 employees, established 2003
14 customers in Denmark all very small cloth designers
Q4YOU

Many small Clothing designers are facing problems in managing the production process abroad. Q4YOU are taking care of the production drawings of the collection, collecting suppliers for the production, shipping of textiles to production facilities, movement of the collection to different production sites, shipping of the final goods to various customers. In a sense Q4YOU is taking over the supply chain management on behalf of the customers, leaving these to concentrate on collection development and marketing of the products. The customers internationalize in terms of sales but all other international activities are internationalized by Q4YOU via the outsourcing process.
Conclusion

- Born globals are found in all industries! but not all born globals are alike - on the surface they share some common features - but their organizations, offerings and environments are quite different.
- Very problematic with the size definition (micro firms needs to be included!)
- Manufacturing firms are eroding – other types of firms needs to be included (services e.g.)
- Need for new typologies of INV’s, longitudinal studies and a more holistic approach to internationalization (Fletcher, 2001).
Perspectives

* We have some knowledge about international new ventures, but not so much about their customers (which firms will use a new unknown supplier?), and the competitors (are they local or international, small or large?).
* Nor do we know so much about their sourcing activities and especially about the international sourcing activities (why source internationally? Quality-availability-price?)
* Are they early starters in the process of outsourcing? (in contrast to local firms they might create an competitive advantage through global outsourcing?)
Challenges for public policy makers

- Export support revisited? Very few INV’s used public programs!
- Specific contacts and contracts rather than general market knowledge?
- Industry rather than countries?
- Support to industry networks (sales, distribution, service)?
- Entrepreneurial support should include an international aspect focus on business model rather than business plans!
The mindset; a possibility or a threat?