Conceptualisation of the Australian ‘born global’ experience – some preliminary issues

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Abstract

Since the development of the ‘born global’ concept, there has been an increasing amount of research into this form of internationalisation. Much of the research has underestimated rapidly changing markets and has tended to overlook the incidence of born globals within other traditional industries. To further develop our understanding of the born global phenomenon, this paper aims to integrate the key factors of pattern, scope and pace of internationalisation to examine if any critical interrelationships between these factors exist. Several propositions are formulated. On the basis of these propositions, a conceptual framework is developed for future research.
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Introduction

In the early 1990’s, McKinsey and Company focused their research onto firms that were internationalising rapidly from their inception. These early internationalisers were termed ‘born globals’. Within the last decade the body of research on these firms has significantly increased as researchers have aimed to enhance our understanding of born global firms, specifically why these businesses expand overseas so quickly and how they internationalise so rapidly.

While a large proportion of the current research on born globals remains focused on ‘high-tech’ start up firms, little is known about the differing characteristics between born global firms. Studies that apply a more specific high-technology focus may be limited in scope, underestimating the growing trend of firms in multiple market segments who also rapidly internationalise. Currently, there is a limited amount of research adopting a multiple market sector approach (Rialp et al., 2005a). Research that has taken a multiple sectoral approach to born globals analysis tends to compare them to firms that have internationalised along ‘traditional’ staged or process model methods, often with differences between the age of firms as well as the firms’ global aspirations (Bell et al. 2003; Moen, 2002). These studies of early internationalisers have focused less on ‘high tech’ firms and incorporated more manufacturing and/or services firms in their research (Chetty & Campbell-Hunt, 2003, 2004; Liesch, Steen, Middleton, & Weerawardena, 2007). Although this research broadens the born global literature, their focus remains on comparisons to traditional process models of internationalisation as well as the impact of born globals on smaller domestic economies.

Consequently, the purpose of this study is two-fold. Firstly, the objective is to introduce a conceptual framework to the literature that incorporates three key areas of born global internationalisation. Secondly, extant research suggests that a greater understanding of the born global phenomenon, within a broader industry/market focus, is required (Rialp et al. 2005a). Moreover, critical interrelationships between how and why born global firms internationalise need to be explored within the context of a firms industry.

Literature review

Since McKinsey and Company’s initial Australian based research in 1993 the existing literature on born global firms has greatly expanded. The increase in the incidence of the born global concept is a reflection that born global firms are becoming increasingly widespread (Knight & Cavusgil, 1996; Madsen & Servais, 1997; McDougall, Oviatt & Shrader, 2003; Preece, Miles, & Baetz, 1999; Rialp et al. 2005a; Rialp, et al. 2005b). Despite the expanded academic focus on born globals, there is currently no common definition for rapidly internationalising firms used consistently throughout the literature (Rasmussen & Madsen, 2002; Rialp et al. 2005a; Svensson, 2005). This has led to a number of definitions for firms
that rapidly internationalise shortly after inception. ‘Born Global’ (Rennie, 1993) and ‘International New Ventures’ (McDougall et al., 1994), remain the most widespread of the definitions.

Regardless, the core concept of born global firms remains consistent. The main focus of these firms is rapid growth through international sales. They achieve this by focusing on niche markets with the successful utilisation of entrepreneurial thinking (Knight & Cavusgil, 1996). These small firms target niche ‘gaps’ so that they may remain competitive while their success is frequently attributed to entrepreneurs, who have the vision and drive to avoid following a slow evolutionary path of development (McDougall, Oviatt & Shrader, 2003). Research also highlights that these firms often produce highly specialised goods and have access to, or quickly develop, broad international networks (Rialp et al. 2005a).

Industry focus

A large proportion of the research focus on born globals remains devoted to ‘high-tech start up’ firms (Rialp et al. 2005a). These are defined as a legally independent company that operates within one or more high technology sectors (Burgel & Murray, 2000). Early research within Nordic countries discovered that nearly 50% of high tech ‘start ups’ could be defined as born global firms (Rialp et al. 2005b). Several authors assert that the specific association with high-tech sectors is due to the conceptual approach of the international new venture definition (Bell et al., 2003; Sharma & Blostermo, 2003). However, researchers have stressed that born globals are not necessarily a highly sector-specific phenomenon (Aspelund & Moen, 2001; Bell et al., 2003; Knight et al., 2003; Madsen, Rasmussen & Servais, 2000; McDougall, Moen, 2002; Oviatt & Shrader, 2003; Rialp et al., 2005b). Crucially, early research concluded that the phenomenon of born globals would become more widespread and extend beyond the high-tech sector (Madsen & Servais, 1997; Preece, Miles, & Baetz, 1999; Rialp et al. 2005b).

By focusing on high technological firms the existing literature fails to adequately distinguish differences between individual born global firms. Consistent with emerging niche global markets arising via advances in new technologies, researchers have emphasised that born globals should not be defined solely as businesses that implement and/or sell ‘cutting edge’ technology (Aspelund & Moen, 2001; Bell et al., 2003; Knight et al., 2003; Madsen, Rasmussen & Servais, 2000; McDougall, Moen, 2002; Oviatt & Shrader, 2003; Rialp et al., 2005b). Andorssson & Wictor (2003) posit that industry characteristics should remain of high importance when examining a firm’s international development and expansion and this should be reflected within the born global literature. Boter & Holmquist (1996) found that industry characteristics are of greater importance than a firms’ nationality when it comes to understanding the international behaviour of a firm. Crucially, the authors found that those firms who were defined as innovative, a common concept of born globals, try to create global niches rather than be restricted by industrial ‘wisdom’.

Broader studies of early internationalisers have focused less on ‘high tech’ firms and incorporated more ‘low tech’ firms such as manufacturing and service firms in their research (Chetty & Campbell-Hunt, 2003, 2004; Liesch, Steen, Middleton, & Weerawardena, 2007). These studies have helped broaden the born global literature, but their focus remains on comparisons to those firms who follow traditional internationalisation models.
Conceptual framework - pace, scope & pattern of internationalisation

The contrast in born global internationalisation to traditional internationalisation paths has led many authors to investigate behaviours exhibited by born global firms abroad. Multiple studies have led to a number of common factors being found directly related to born global firms. These factors can be seen as the speed or pace of the internationalisation process (Aspelund & Moen, 2001); the scope of international market selection (Shradar, Oviatt & McDougall, 2000); the importance of psychic distance and personal networks (Crick & Jones, 2000) and the relationship with entry modes and international strategy (Burgel & Murray, 2000).

Bell et al. (2003) proposed an integrative model of born global internationalisation and related these key factors into three main areas, described as the pattern, scope and pace of internationalisation. These three concepts form the basis of four propositions detailed below.

Pace of internationalisation

The extant literature shows considerable differences of opinion to the speed required to be defined as a ‘born global’ firm. Rapid internationalisation, the defining characteristic of a born global firm, is seen to fall within two years from inception (McKinsey, 1993) to three years (Knight & Cavusgil, 1996) to six years (Zahra, Ireland & Hitt, 2000), to seven years (Jolly, Alahuhta & Jeannet, 1992) to eight years (McDougall, Shane, & Oviatt, 1994). This lack of definitive pace of born global firms has led to a lack of fully realised comparisons between studies within the literature (Andersson & Wictor, 2003).

The pace of firm internationalisation has been linked to improvements in transportation technologies, communication, changes in production and the increased knowledge of human capital (Madsen & Servais, 1997). Research has also suggested that the size of the domestic market (Madsen & Servais, 1997; McNaughton, 2001, 2003), the experiences and abilities of the entrepreneur (Autio, Sapienza & Almeida, 2000; Knight & Cavusgil, 2005; Oviatt & McDougall, 2005), commitment of management (Freeman & Cavusgil, 2007) and the industry itself (Rialp et al. 2005a) all have an impact on the pace of internationalisation.

In an attempt to link the entrepreneurial literature and the speed of firm internationalisation together, Oviatt & McDougall (2005) propose that entrepreneurs act as mediators to technology, and competition. This is then influenced by knowledge of the foreign market and network relationships and finally has a direct impact on the firms internationalisation speed. This is achieved through the relationships between the initial market entry process (pattern of internationalisation), the number of markets (scope of internationalisation) and the commitment of internationalisation through sales revenues (Oviatt & McDougall, 2005). In their study on Australian and Swedish entrepreneurs Andersson & Evangelista (2006) found that there are a number of common characteristics in firm founders that influence the establishment of born global firms. Hence, proposition 1 is framed as follows:
P1: The pace of Australian ‘born global’ firm internationalisation is determined by entrepreneurial decision making, rather than factors related to technology, competition and industry structure characteristics

Scope of internationalisation

Traditional incremental internationalisation methods assume that the number of geographic markets that a firm serves is related to the age and size of the firm (Bilkey & Tesar, 1977; Johanson & Vahlne, 1977, 1990; McNaughton, 2003; Moen & Servais, 2001). Australian born global firms contradict this assumption by internationalising virtually from inception into a larger number of foreign markets (McKinsey, 1993). McNaughton (2003) proposed a negative relationship between the number of geographic markets the firm serves to the length of time that elapsed between the inception of the firm and the beginning of export activity. This indicates that the earlier that a firm internationalises from inception the more likely it is that it enters a larger number of markets.

The number of markets that a born global firm serves can be viewed as an entrepreneurial strategy adopted to overcome the limits of a small domestic market (McNaughton, 2003). This may be because nations with small home markets such as Australia can have many immigrants and higher language proficiencies that increase the propensity for firms to become born global (Madsen & Servais, 1997). Fan & Phan (2007) conclude that the larger the size of its home market, the less likely it is that a born global firm will choose to go international at inception. Like the stage models of internationalisation, they further conclude that the number of international markets that a born global firm will enter, and other market entry decisions such as psychic distance, are determined by its production capacity (Buckley & Casson, 1998; Fan & Phan, 2007). Hence, proposition 2 is framed as follows:

P2: Australian ‘born global’ firms are more likely to enter international markets at their inception because of the small size of their domestic market.

Pattern of internationalisation

Little attention has been paid in the born global literature regarding the mode of entry for early internationalising firms (Burgel & Murray, 2000). In their review of a decades’ worth of born global literature, Rialp et al. (2005a) note that as exporting born global firms are seen to be common, many case studies emphasise this entry mode. Compared with multinational enterprises, younger ‘resource-poor’ firms, such as born globals, tend to favour exporting as their primary entry mode because of the high degree of international business flexibility that it offers (Knight & Cavusgil, 2004). Exporting also allows firms to be more strategically flexible in the number of markets they enter (Rialp & Rialp, 2007).

In contrast to ‘traditional’ internationalisation approaches, born global firms also appear to minimise the relevance of psychic distance in strategic decisions related to market entry (Madsen & Servais, 1997). The stages approach assumes that new firms will enter markets geographically closest to those which the firm has already experienced (Johansen &
Vahlne, 1977). However, researchers have emphasised that rapidly internationalising firms do not enter new markets based on psychic distance but instead strategically focus on the size of the market and its ability to be a 'lead' market (Bell, Crick & Young, 2004; Knight & Cavusgil, 1996). A possible explanation for the ability of born global firms to ignore the familiarity of psychically close markets is that they are often found to be involved in advanced, niche technologies or knowledge intensive industries (Autio et al. 2000; Bell, McNaughton & Young, 2001; Knight & Cavusgil, 2004; Knight, Madsen & Servais, 2004). The specialisation required for these types of niche, technology driven products overcomes the cultural distance that can hinder firms following incremental stage driven paths of internationalisation (Fan & Phan, 2007). Hence propositions 3 and 4 are framed as follows:

\[ P3: \text{Australian 'born global' firms are unlikely to consider psychic distance when assessing potential international markets.} \]

\[ P4: \text{Australian 'born global' firms will adopt exporting as an entry mode with the aim of enhancing their strategic flexibility in entering international markets.} \]

The extant research suggests that a greater understanding of the born global phenomenon, with a wider sectoral focus, is still required. The proposed conceptual framework, detailed in Fig. 1, aims to integrate the propositions developed with the key factors of pattern, scope and pace of internationalisation.

**Conclusion**

The foregoing discussion indicates that the born global concept is a more complex phenomenon that the current literature suggests. Currently, the generalisability of results garnered from studies on the born global phenomenon has been diminished because of the context specific nature of the firms analysed and the emphasis of individual studies. Consequently, expectations of results are solely based on a limited number of works within the literature. Thus, extant research suggests that a greater understanding of the born global phenomenon is still required. The objective of this paper is to integrate the key factors of pattern, scope and pace of internationalisation into a conceptual framework which allows critical interrelationships between how and why born global firms internationalise to be assessed.
Figure 1 – Conceptual framework

P1: Process of entrepreneurial decision-making
P2: Small size of domestic market
P3: Assessment of psychic distance
P4: Use of exporting to enhance strategic flexibility

Internationalisation

Pace
Scope
Pattern

Born global firm
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