LEARN INTERNATIONALIZATION OF BORN GLOBAL FIRMS

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ABSTRACT

This study examines the internationalization of high-tech start-up firms (HSF) from small and open economies (SMOPEC). It explores how HSF may differ in their speed of internationalization relying on information collected via interviews with the CEOs or founders of 32 HSF that operate internationally. It uses a comparative cross-national multiple case study research design to answer the research questions. The findings provide the basis for developing propositions for further comparative analyses of the early and fast internationalization of HSF based in emerging and developed markets. The study contributes to the literature on networks, internationalization and international entrepreneurship.

Keywords: High-tech, start-up, small and open economy, early internationalization, fast internationalization, speed of internationalization, born global firm, Uppsala model, Lean internationalization, Paraguay, Switzerland

1 INTRODUCTION

Early and rapid internationalization of high-tech start-up firms (HSF), particularly in the sense of born global firms (BGF) (Cavusgil & Knight, 2015; Coviello, 2015), is one of the topics that has attracted most attention in international entrepreneurship (e.g. Bailetti, 2012), yet is among the least researched. One of the most important characteristics of the BGF is the rapidity and speed of internationalization soon after their incorporation (Acedo & Jones, 2007) and the development of their products and services (Neubert, 2015). So far, the international entrepreneurship field has placed more interest on the process of internationalization and in particular, on the distinct characteristics of firms that internationalize rather rapidly (Acedo & Jones, 2007) and not so much on the reasons for early and fast internationalization (Neubert, 2015).

Early and fast internationalization of BGF is considered as entrepreneurial and risk-seeking (Oviatt & McDougall, 2005). It is often associated with the ability, experience, and willingness of the entrepreneur (Hennart, 2013). Bacq & Coeurderoy (2011) and Verbeke, Amin Zargarzadeh, & Osiyevskyy (2014) found evidence that the entrepreneur went through the first phases of the Uppsala internationalization process model (Johanson & Valhne, 2009) before founding the new HSF.
BGF that internationalize early and fast are often HSF with innovative products and services, which operate in a small global market niche (Zucchella, Hagen, Denicolai, & Masucci, 2016; Andersson, Danilovic, & Huang, 2015). They have a higher probability to be located in a small and open economy (SMOPEC) (Luostarinen & Gabrielsson, 2006) with a limited home market potential (Andersson et al., 2015; Cannone & Ughetto, 2014). Due to its small size, HSF are often forced to internationalize early and fast to become profitable (Trudgen & Freeman, 2014). Hence, fast and early internationalization is highly significant (Neubert, 2016b), necessary for survival, and complex. The BGF has to manage innovation processes parallel to international market development with limited resources (Cavusgil & Knight, 2015; D’Angelo, Majochi, Zucchella, & Buck, 2015; Lemminger, Limkilde Svendsen, Zijdemans, Stavnsager Rasmussen, & Tanev, 2014).

The notion of early and fast internationalization is still not well understood and requires additional research (Acedo and Jones, 2007). Neubert (2016b) and Ciravegna, Lopez, & Kundu (2014) called for research about location effects of HSF based in different economies of Europe and Latin America. In a comparative cross-national multiple case study research design, the results of a previous study about Swiss HSF (Neubert, 2016a) are compared with a sample of Paraguayan HSF. Even though both countries are landlocked SMOPEC with almost no natural resources and a similar population (seven respectively eight million), Paraguay is an emerging and Switzerland a developed economy.

2 LITERATURE REVIEW AND THEORETICAL FRAMEWORK

2.1. The Uppsala internationalization process model

In 1977, Johanson & Vahlne (2009) developed the Uppsala internationalization process model. Their first finding was that firms enter new foreign markets using a so-called establishment chain (Verbeke et al., 2014). In the first step of this gradual internationalization process, firms enter geographically and culturally closer markets (Cavusgil & Knight, 2015; Coviello, 2006; De Villa et al., 2015) with low-risk market entry modes, such as ‘export’, ‘licensing’ or ‘franchising’ in collaboration with a local partner (Neubert, 2016b). With growing international success and market knowledge, they increase their investments establishing for example a wholly owned subsidiary and gradually start to enter more distant foreign markets. Obviously, the level of resources dedicated to a foreign market might also decrease leading for example to a market exit (Neubert, 2011) or a disinvestment, if the market attractiveness is decreasing. Based on this framework, Paraguayan firms are expected to enter foreign markets like Bolivia and Brazil before they export to the European Union, and Swiss firms predominately export to neighboring EU member states like Germany, Austria, France, or Italy.

The second finding is the concept of liability of foreignness. Firms need a firm-specific advantage (FSA) in every new foreign market, which compensates at least for the liability of being a new foreign firm.
without significant client relationships or sufficient market knowledge. The larger the geographical, administrative, economical, and cultural distance between the home and the foreign market, the larger is the liability of foreignness (Johanson & Valhne, 2009) and the bigger the FSA needs to be. Local partners like distributors or resellers help to bridge these differences. The speed of internationalization depends on the speed of learning (Johanson & Valhne, 2009) about every new foreign market. This means that the firm must be able to transfer its FSA to a sustainable and relevant competitive advantage in every new foreign market to cover the cost or the liability of foreignness (Johanson & Valhne, 2009).

In 2009, Johanson & Valhne (2009) revised the Uppsala internationalization process model and introduced the concept of liability of outsidership. This concept reflects the increasing importance of networks (Johanson & Valhne, 2009; Coviello, 2006) and tries to explain the internationalization of BGF. As the main market entry barrier for BGF is the access to client networks and to market opportunities. Thus, the speed of internationalization depends on their ability to develop these local networks and market opportunities into a new client relationship.

According to Johanson & Valhne (2009), the Uppsala model can also be applied to firms that start to internationalize soon after their birth like BGF (Cavusgil & Knight, 2015). A BGF, as defined by Cavusgil & Knight (2015), is a young firm that is active through early export sales (Cavusgil & Knight, 2015; Coviello, 2015). The market entry mode ‘export’ is also the first step in the establishment chain of the Uppsala model (Johanson & Valhne, 2009).

2.2 A new type of firm – The born global firm

Most empirical research on early and fast internationalization focus on HSF in the sense of BGF (Servantie, Cabrol, Guieu, & Boissin, 2016). A BGF (Cavusgil & Knight, 2015; Knight & Liesch, 2016) is a young firm that is active through early export sales (Coviello, 2015). Thus, the BGF concept focuses on a market-seeking internationalization strategy using for example a global exporter internationalization model (Neubert, 2013a). This is the link with the establishment chain of the Uppsala internationalization process model (Johanson & Vahlne, 2009). Both concepts focus on the market entry mode ‘export’ as a first step to enter a new foreign market. Further, the word ‘global’ in BGF should not be understood in the sense that BGF export immediately to all global markets. Often, BGF start to export to a limited number of the most attractive markets or to a region like for example a free-trade area (Coviello, 2015).

2.3 Early and fast internationalization

In 2015, Cavusgil & Knight wrote that the internationalization of BGF might challenge the traditional Uppsala internationalization process model. According to Johanson & Vahlne (2009), the Uppsala
model can also be applied to firms that start to internationalize soon after their birth like INV (Oviatt & McDougall, 2005), LGS (Rasmussen & Taner, 2015) and BGF (Cavusgil & Knight, 2015), because the speed of internationalization depends on the firms’ ability to learn about new foreign markets and to adapt its FSA to the respective market needs. Due to advances in communication and transportation technologies and the emergence of global social networks (Coviello, 2015) even firms from traditional industries might internationalize faster and earlier.

Cavusgil & Knight (2015) developed a list with a number of drivers for fast and early internationalization. First, there are internal characteristics, which drive internationalization. Agile and adaptable HSF with profitable high quality products and services, and strong marketing and sales capabilities internationalize earlier and faster. Further, Cavusgil & Knight (2015) mention the abilities of the entrepreneur like international experience, the existence of a global vision, innovativeness (Casillas & Moreno-Menendez, 2014), or entrepreneurial and market orientation. Romanello & Chiarvesio (2016a; 2016b) point out the entrepreneurial capabilities like networking, opportunity creation (Zucchella et al. 2016), and product promotion play an important role during the early market entry stage (Neubert, 2016b). Thus, the ability to acquire new clients in new foreign markets is a required key competence for an international entrepreneur. Depending on the personality of the decision-maker and market conditions, the respective processes are well structured or rather unplanned (Nummela, Saarenketo, Jovela, & Loane, 2014).

2.4 Influence of the location on the speed of internationalization

Multiple authors call for further research about the effect of BGF’s home country on the speed of internationalization (Knight & Liesch, 2016; Hitt, Li, & Xu, 2016), because findings from studies, which analyze the fast and early internationalization of high-tech firms from developed economies, are not necessarily transferable to emerging economies (Zander, McDougall-Covin, & Rose, 2015). So far, there is still little research focusing on BGF from EE (Gonzalez-Perez, Manotas, & Ciravegna, 2016). The existing studies of for example Musteen, Datta, & Butts (2014) and Ciravegna, Lopez, & Kundu (2014) emphasized the importance of social networks respectively the networking ability of the entrepreneur as driver for the speed of internationalization. Hitt et al. (2016) and Zucchella, et al. (2016) found out that the reputation of the home country and the quality of institutions also influence early and fast internationalization.

3 RESEARCH METHOD

3.1 Research questions

The statement of the research problem has led to the following two research questions:
• Research question 1. What are the perceptions of subject matter experts about the significance of early and fast internationalization for high-tech firms?

• Research question 2. What are the perceptions of subject matter experts about how high-tech firms may differ in their speed of internationalization?

3.2 Method

The choice of the research method is based on the purpose of this study. This study uses a comparative cross-national multiple case study research design to answer the explanatory (= how/why) research questions (Yin, 2014). According to Hennart (2013), a qualitative comparative case study research would help to answer the research question. In contrast to an experimental design or a survey, a multiple case study has more flexibility (Stake, 2010), allows an in-depth analysis of a complex research problem (Yin, 2014) within a highly contextualized environment (Rosenberg & Yates, 2007), and a comparison between different cases and countries (Baxter & Jack, 2008). The primary source for data collection is qualitative, semi-structured, in-depth, face-to-face interviews with SMEs (Yin, 2014). The data of the Swiss sample was collected in July and August 2015. The data of the Paraguayan sample was collected in October and November 2016 using the same research design.

3.3 Sample

The choice of the sampling strategy is based on the purpose of this study. This study uses a purposive case selection strategy (Seawright & Gerring, 2008), because it produces a representative sample (Seawright & Gerring, 2008) with typical and successful examples of the total population. After a random sample (= probability sampling) is drawn from a database of Swiss and Paraguayan HSF (Zikmund, Babin, & Carr, 2012), the typical cases of the sample are selected (Seawright & Gerring, 2008). According to Eisenhardt (1989) and Yin (2014), this sampling strategy produces a statistically representative sample, if at least six to ten cases are selected. This study uses a sample size of twenty Swiss and twelve Paraguayan cases to allow a better triangulation of data and to strengthen the results of the whole study (Yin, 2014).

4 FINDINGS

The results of this comparative cross-national multiple case study are presented in this chapter to answer the research questions individually. First, the findings of the survey from Switzerland are presented. Second, the findings of the survey from Paraguay are presented.

4.1 RQ1: Significance of early and fast internationalization
The analysis of the data collected from the SME interviews revealed the following themes. These themes individually and together will answer the research question one.

4.1.1 Findings from Switzerland

Early and fast internationalization is considered essential for the survival of HSF from SMOPECs like Switzerland due to the small size of its home market (Neubert, 2016a; Zander et al., 2015). Consequently, early and fast internationalization is part of the business model as well as the strategic and financial plan (Neubert, 2016a; Andersson et al., 2015; Cannone and Ughetto, 2014). Investors use these documents to calculate the corporate value, to invest, and to hold the founders accountable, if they are not reaching the planned and agreed goals (Neubert, 2016a).

The study of Neubert (2016a) revealed that Swiss HSF face significant delays of in average two and more years in the execution of their international market development activities in comparison to the time originally planned in their business plans. This comparison is based on the business plan, which the SME have used to calculate the valuation of their HSF for their last external capital increase before internationalization. The reasons are an often unstructured and unplanned internationalization process (Neubert, 2016a), unexpected long sales cycles (Neubert, 2016a), and missing resources. Despite of these delays HSF couldn’t benefit from government programs like for example export guarantees and export support due to program restrictions and missing expertise (Neubert, 2016a).

This information is highly important because many SMOPEC invest significant resources in the development of a national HSF sector (Trudgen and Freeman, 2014; Almor, 2013). While policy makers have a national perspective, and support the local creation of new jobs and economic growth (Gerschewski et al., 2014), SME have a global perspective on their HSF.

4.1.2 Findings from Paraguay

Early and fast internationalization is considered essential for the survival of HSF from SMOPEC: Especially younger HSF with internationally experienced and educated founders and investors and above the average size consider early and fast internationalization as essential for the survival of HSF from SMOPEC like Paraguay.

Immediate internationalization is part of the business plan of 58% of all SME: Due to an less developed professional private equity and venture capital market, Paraguayan HSF rely on their family, friends, and founders to finance their start-ups. Especially friends and business angels are quite conservative, risk averse, and lack international experience. Consequently, they don’t push hard for early and fast internationalization.

Paraguayan HSF don’t ask for financial support from the government or from government agencies: However, they would appreciate (indirect) support in the sense of a better technical training and international promotion.
Paraguayan HSF face significant delays in the execution of their international market development activities in comparison to the time planned in their business plans: The majority of the SME indicate that a lack of resources like for example specialized human resources, and higher required quality standards abroad are the main reasons for delays.

Paraguayan HSF are starting to internationalize in neighboring markets like Bolivia and Brazil using low risk market entry modes like export in combination with strong local distribution partners and/or they are following their existing clients. This research finding confirms the Uppsala internationalization process model (Johansen & Vahlne, 2009).

Paraguayan HSF are born regionals, because they internationalize within their home continent (Gabrielsson, Gabrielsson, & Dimitratos, 2014). There are some younger HSF with internationally experienced founders, which might also be considered as born global (Cavusgil & Knight, 2015).

4.2 RQ2: Difference in the speed of internationalization

The analysis of the data collected from the SME interviews revealed the following themes. These themes individually and together will answer the research question two.

4.2.1 Findings from Switzerland

Swiss HSF differ in their speed of internationalization due to the timing of the recruitment of international sales managers (Neubert, 2016b), because they bring in a market perspective, experience, and a network of potential clients. International sales managers acquire the first clients and distributors, and maintain long-term relationships with them (Kumar & Yakhlef, 2015). This is especially important, if the founders have no sales background.

Another driver of the speed of internationalization is the existence of market opportunities (Neubert, 2016b). These market opportunities (Coviello, 2006; Gabrielsson et al., 2014) are created based on the existing network of the management team, investors, or the sales management team. In a quite unstructured process, the existing networks are leveraged to grab low hanging fruits and to generate quick wins in the sense of showcase projects or lead users (Neubert, 2016b).

The size of their home market (Zander et al., 2015) is the third driver for the speed of internationalization. A small home market increases the pressure to internationalize early and fast (Neubert, 2016b). Therefore, founders from SMOPECs only use business models with IP protected and innovative products, which are globally scalable respectively focus on value chain activities with lower market entry barriers (Neubert, 2016b), and implement structured internationalization processes soon after incorporation (Neubert, 2011; 2013a; 2013b; Zander et al., 2015).

Based on a first mover niche market strategy (Neubert, 2016b), Swiss HSF use less resource-intensive market entry modes like export, licensing, and franchising (Neubert, 2016b; Almor, 2013), because they
allow for a faster global market penetration and the simultaneous entry in several markets (Neubert, 2015).

4.2.2 Findings from Paraguay

Paraguayan HSF differ in their speed of internationalization due to the following reasons. They acknowledge the importance of an international strategy and a well-structured market development process before going abroad. However, in practice they often follow their clients, use their network, and exploit market opportunities without analyzing the market attractiveness. This unplanned internationalization often results in reduced speed of internationalization.

Second, Paraguayan HSF prefer to cooperate with local distributors instead of developing their own network or depending on market opportunities abroad. Thus, the access to competent local partners is a key driver for the speed of internationalization.

More than 75% of all SME are aware that a Paraguayan HSF needs to offer a unique, innovative, and high quality niche market product at attractive prices to be competitive abroad. They understand that the FSA must be higher than the liability of outsidership in the foreign market.

The availability and the access to qualified human resources in the product development and client service department is also crucial. Thus, most SME call for government support to increase the quality and quantity of graduates with technical degrees.

The fifth and final reason for a difference in speed of internationalization are product characteristics. One example is the IT industry. Paraguayan HSF, which develop high quality cloud based applications as plug-in of an ERP system internationalize earlier and faster than developers of fully integrated, stand-alone software products.

5 CONCLUSIONS

This study provides new evidence on the speed of internationalization of HSF from emerging and developed SMOPEC. It analyses how these BGF differ in their speed of internationalization using a comparative cross-national multiple case study research design with 32 SME interviews as primary source for data collection.

Switzerland is a developed economy. The brand “Swiss made” has an excellent reputation for high technology products, quality, and reliability. The access to capital and the existence of powerful research institutions has led to a diverse start-up ecosystem with HSF from different industries (e.g. medtech, biotech, IT). The reputation and the framework conditions of a location is one important driver for the speed of internationalization. HSF from emerging economies are mainly from the IT industry focusing on application research based on technologies from developed countries. Chen,
Saarenketo, & Puumalainen (2016) call it the liability of their country of origin in comparison to
developed markets.

In spite of the differences that distinguish both countries-of-origin, the vast majority of both Swiss and
Paraguayan SME consider early and fast internationalization as important for the enduring survival of
their HSF. It would be interesting to expand this finding to other emerging and developed economies.
Both, Paraguayan and Swiss HSF face significant delays in the execution of their international market
development activities in comparison to the time estimated in their business plans. The main reason is
an often unstructured and unplanned internationalization behavior. HSF often enter new markets
based on their networks, use market opportunities or follow existing clients without analyzing the
attractiveness of foreign markets.

Most SME understand that this unstructured internationalization behavior reduces the speed of
internationalization. They acknowledge the importance of a structured market development process
starting from a detailed evaluation and selection of foreign markets before they actually enter them.
While Paraguayan HSF start their internationalization primarily in neighboring countries, Swiss HSF
have a global approach.

HSF from both samples apply an establishment chain using low risk and low cost market entry modes
like ‘licensing’ or ‘export with local distributors’ to increase the speed of internationalization. They
adapt their products and pricing strategies to local market needs, focus on market niches to speed up
internationalization and to create a FSA, which compensates for the liability of foreignness and
outsidership.

The findings of this study contribute to the field of research of international entrepreneurship, because
researchers will gain a better understanding of how and why HSF from SMOPEC differ in their speed
of internationalization. The findings of this study contribute to managerial practice, because they will
help managers to increase the efficiency of international market development.

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