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An overview of success factors of born-global SMEs in an emerging market context

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Abstract

As emerging countries take even more part in the global economy, born-global firms from these countries are becoming significant players as well. Born-globals are becoming especially important for smaller economies, which consist in large part of small and medium enterprises (SMEs). In the literature, topics related to born-global firms from emerging economies have mostly been overlooked. The purpose of this paper is to address part of this gap by focusing on the success factors of born-global firms within the context of emerging markets, by concentrating especially on research targeting emerging economies of Central and Eastern Europe.

Keywords: Born-globals, SMEs, success factors, emerging economy, CEE

1. Introduction

The opening up of markets such as China and Eastern Europe, the rapid development of the BRIC, the creation of Eurozone and a general tendency towards regional agreements and collaboration, have contributed to the birth of a global market. At the firm and individual level, consumer preferences has converged in such a way that industries need no longer only think local, but must act global (Yip, 2003). The growth in international business university programs, growing international mobility and number of students and professionals with international business experience and networks, have enabled to highly technically educated specialists and scientists to found and develop so called born-global firms (BGF) (Boter and Holmquist, 1996). These are newly-founded enterprises, that are significantly engaged in foreign activities right at inception or shortly thereafter. These activities include not only exports but also more sophisticated internationalization forms such as foreign branches or transnational enterprise collaborations (Oesterle 1999, p. 235pp.). The previous research on the practical significance of BGF shows that these arise mainly in the group of small and medium-sized enterprises (SMEs). Today, international entrepreneurial SMEs are capable of exploiting global market opportunities more rapidly and efficiently. These facts have contributed to the growing interest of scholars in research on the internationalization of SMEs (e.g., Oviatt and McDougall, 1994; Knight and Cavusgil, 1996; Autio, 2005; Rialp et al., 2005). It has been noted that outward market seeking or inward foreign resource acquisition, tends to be a successful strategy for born-global SMEs to

access and exploit the enormous global business opportunities that were previously exploited almost exclusively by large, established companies (Knight and Cavusgil, 1996; Madsen and Servais, 1997). As emerging economies play an increasingly noticeable role in the global economy, it becomes important to evaluate the extent to which theories developed in the context of advanced economies are applicable to emerging economies. As the necessary structural changes for participating more fully in the global marketplace are being instituted by the governments of emerging economies, the opportunities for BGF will increase and the likelihood that these types of firms establish in these economies will increase as well. Emerging economies often experience high environmental uncertainty with active government involvement and inefficient markets. Research from emerging and transitional economies which show a specific social, political and economic context compared to advanced economies has often challenged existing theories of international business (Xu and Meyer, 2013). Therefore, in here we examine and review the specifics and success factors of the international new venture (INV) theory in the context of emerging economies by concentrating in born-global SMEs.

2. Methodology

The term "success factor" is related with the work of Daniel (1961). The starting point of his research work was the need of managers to reduce the diversity of data and improve the availability of information for the management of the company. "Success factors" focus on those factors that contribute significantly to success (Daniel, 1961, p. 111ff). Research on success factors states that, despite the multi-dimensionality and multi-causality of success, central factors do exist that significantly affect the success of an enterprise (Leidecker and Bruno, 1984, pp. 23-32). Research works that concentrate on identifying success factors collect and systemize all possible variables or factors and determine their impact on success, which means finding those factors that qualify as critical to the success of the company (Bürgel and Zeller, 1997, p. 220). As stated by Rockart (1979), they represent the few key areas where "things must be going well" in order for the business to flourish. As a disadvantage of this approach, March and Sutton (1997, p. 699) consider the fact that the spread of knowledge on success factors makes these useless and that the disclosure of success factors is only useful when the competition has no prior knowledge of them. Therefore, success factors possess a sort of self-destructive properties. As the knowledge about them spreads, the factors that initially accounted for the differentiation between high performers and low performers tend to disappear. Also, the more powerful their explanatory ability, the faster the spread of knowledge around them. However, despite the mentioned shortcomings, research work concentrated on success factors is often considered important in different research contexts. The selected factors presented here are considered to have a high positive influence on BGF from emerging economies and are understood in line with Evers' (2011) definition, as "strategic attributes" which are "those resources and capabilities that enable the firm to develop and sustain competitiveness on international markets at an early stage in its life cycle".

3. Defining born-globals

The process of internationalization of enterprises usually starts after a long successful activity in the home market. Driven by the demand of foreign customers or the active search for new

markets, enterprises decide to offer their products and services outside their home country many years after being founded. The theoretical reference concept for this gradual internationalisation is based on the learning theory of Johanson and Vahlne (1990) called “The Uppsala internationalization Model (U-M)”. It postulates that companies’ first select forms of internationalisation with low market binding and low risk before they move to more sophisticated forms of internationalisation in the wake of increasing market knowledge and knowledge of the internationalization process in general. Thus they follow a sort of “rings in the water” internationalization path. In parallel, an expansion from psychic near to psychically distant markets takes place. This has been for many years the dominant pattern of internationalization. However this pattern is being increasingly challenged because of innovations in manufacturing, information and communications technology, changes in market conditions in the process of globalization and global customers. Because BG are not bound by any path dependency that grips older, more traditional firms, their business models are often aggressively expansive (Knight and Cavusgil, 2004). According to Knight and Cavusgil (1996), operationally a born-global can be defined as a firm that has a share of foreign sales of at least 25% after having started export activities within three years of its inception. Thus, the higher speed and larger scope of international operations are the decisive characteristics distinguishing BGs from other companies. The other characteristics specific to BGs according to Cavusgil and Knight (1997) are the generally small size of these firms, which is mostly due to the relatively young age and the early internationalization without previous growth processes. Furthermore born-globals are considered to have less than 500 employees and less than \$100 million of annual sales. Generally these firms begin exporting one or several products within two years of their founding and tend to export at least 25% of total production. However, the definition of the born-global firm provided by Cavusgil and Knight’s (1996) makes sense within the context of a large and developed economy. An emerging economy may find a less aggressive model more suitable. A born-global firm within the emerging economy context will likely have annual sales of less than \$50 million, less than 500 employees and achieve a 25% export rate no earlier than 3-4 years after the inception of the firm. The ability to raise capital, understand targeted niche markets and develop networks will take longer. Information in an emerging economy may be available as quickly as it is in a developed economy, nevertheless the path to fully exploiting that information has a set of barriers specific to the emerging market environment. Consequently, the ability to achieve the higher end of less than \$100 million in sales as well as exporting 25% of production within two years may be an impossible mark for emerging market born-globals. As for the number of years for internationalization that defines a born-global firm there is a disagreement in the literature: e.g. Rennie (1993) states two years, while Knight and Cavusgil (2004) three years. Freeman and Cavusgil (2007) summarize that in general, the literature suggests that born-globals internationalize within 2-6 years after their establishment. A born-global can also be defined considering the proportion of foreign revenues to the total turnover. Knight and Cavusgil (2004) as well as Madsen et al. (2000, p. 247) require at least a share of 25%, for a company to be considered a BG. Gabrielsson et al (2004) and Luostarinen and Gabrielsson (2006) a share of 27-50 percent. The study of Lummaa (2002, p. 55) detected in three of four cases even a share of 90%. Nevertheless, there is a general agreement that such ratios do not capture the full phenomenon in specific country settings and therefore, should not be included into a definition (Kuivalainen et al, 2007), (Persinger et al., 2011). Preferred industries, in which BG firms are present, include information technology, biotechnology and multimedia applications. An example of a rapid internationalization is E-bay, which was founded in 1995 in California and provides now one of the world’s largest auction platform for trading on the Internet. A large portion of

born-globals are technology-based springing from university incubators or technical departments, this is what explains a particular focus of many studies on technology born-globals (Rialp *et al*, 2005). Born-globals are flexible and lack deeply rooted administrative routines (Autio *et al*, 2000; Knight and Cavusgil, 2004). They are also characterised by an international marketing and entrepreneurial orientation (Knight and Cavusgil, 2004).

Author, year	Term	Definition
(Di Gregorio et al, 2008, p.194)	INV	INVs are seen as arising from the cross-border nexus of individuals and opportunities. Some INVs may result from opportunities to leverage domestically based resources across national borders; others are created to exploit opportunities for novel combinations of international resources. INVs may also simultaneously engage in cross-border combination of resources and international market expansion.
(Oviatt and McDougall 1994, p.49)	International new venture (INV)	“a business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries.”
(McDougall et al, (2003, p.69)	INV	“... a firm that began receiving revenues from international business activities while not more than 6 years old”.
(Knight et al, 2004, p.649)	Operational definition of a born global	“firms less than 20 years old that internationalised on average within three years of founding and generate at least 25 percent of total sales from abroad.”
(Knight and Cavusgil 2004, p.124)	Born global	“business organizations that, from or near their founding, seek superior international business performance from the application of knowledge-based resources to the sale of outputs in multiple countries.”
(Kuivalainen et al, 2007)	Apparently born global vs. genuine born global	‘Apparently born global’ or ‘born international’ are the firms exporting only to close markets, with the export ratio of 25 percent (an arbitrary cut-off point). ‘Genuine born globals’ are the firms that operate in distant markets and multiple regions and fulfil more or less the definition of a global firm as per Levitt, 1983.
(Luostarinen and Gabriellson, 2006 p.780)	Born global vs. born international	“International firms are firms for which international business is the largest source of revenue (over 50% of total sales) and whose major foreign markets are located on their domestic continent.” “Global companies are companies that have usually first started to internationalize their operations and, on top of that, have entered global markets, deriving most of their income (over 50%) from non-domestic continents.”
(Tanev 2012)	True born global	"A true born-global firm is a new venture that acts to satisfy a global niche from day one."

Table 1: Several definitions of the terms born-global and international new venture.

4. Success factors of born-global Firms from emerging economies.

Generally, firms rush entering foreign markets because of fear that competitor's entry would hinder their later internationalisation efforts. Research conducted in an emerging-economy context show that the rapid internationalisation of SMEs is mainly motivated by a number of push factors related to the domestic market. Specifically, case studies of Polish (Nowiński and Rialp, 2013) and Estonian (Vissak, 2007) international new ventures show that the smallness of the domestic market was the main push factor for the internationalisation of SMEs (Kazlauskaitė et al., 2015). Weerawardena et al. (2007) point out as critical factors to the rapid internationalization of SMEs the market focused learning capability, the internally focused learning capability and the networking capability. In here we present findings from several authors resulting from an in-depth review of research in the field of BGF and suggest the most important factors for the early internationalization of BGF from emerging economies. The analysed success factors are in line with Evers' (2011) definition of "strategic attributes", meaning "those resources and capabilities that enable the firm to develop and sustain competitiveness on international markets at an early stage in its life cycle". These "strategic attributes" are listed below. However, it should be mentioned that the factors deducted in this study are not the only ones responsible for the success of born-globals, since several perspectives do exist on how BGF can be analyzed.

Role of strategic management

Jantunen et al (2008) point out the importance of strategic management of BGF which takes three forms: entrepreneurial, learning and international growth orientation. They emphasize specifically the entrepreneurial orientation by suggesting that it involves aggregate measures which influence the firm's level of innovativeness, pro-activeness and risk-taking. According to Madsen and Servais (1997), analysing the background of the decision makers is important for understanding how born-globals from emerging economies proceed in their internationalization efforts. For instance, global orientation of the firm management was one of the fast internationalisation enablers among Estonian born-globals (Vissak, 2007). Some factors, such as education and experience from living abroad, may have contributed to significant reduction of the psychic distance of decision makers to certain markets. However, entrepreneurs from emerging markets do often show an autocratic management style, what emphasises the role of the national culture in investigating features of an entrepreneur that contribute to the rapid internationalisation of the firm in the emerging economy context (Madsen and Servais, 1997). On the other hand, Kazlauskaitė et al., (2015) state that the international business experience of the top management or entrepreneur is a less likely an enabler of early internationalisation among firms from emerging economies, compared to their counterparts in advanced economies. Entrepreneurs from emerging economies act in a context-specific way, what should be explained through different institutional and cultural context characteristics. According to Wood et al (2011), BGF from emerging markets do intentionally align (at an early stage) their internal strategies and operations with the international environment. In doing so, they increase their perceived legitimacy by reducing the reputational challenges related to their market origins.

Role of technology

The accelerated rate of technology changes and development have given rise to new possibilities and created challenges for technology-based BGF from emerging economies which are adopting innovative strategic solutions. According to Badawy (2009), BGF utilizing, implementing and mastering of technological capabilities can help lagging economies increase their self reliance. The concept of technology “leapfrogging” has contributed to the advancement and growth of emerging economies. As encountered often in the telecommunication literature, “leapfrogging” has especially helped developing countries participate in the post-industrial society by skipping over stages of development and contributed in “catching up” with the technological trends prevalent in developed countries. It also implies that technological expertise and innovation help BGF to gain a leadership position within their specific industry (Knight and Cavusgil, 2005). For instance, ICT was found to empower Polish firms to learn about target foreign markets, promote the firm, take advantage of lower transaction costs and acquire customers (Nowiński and Rialp, 2013). Emerging-economy firms are more likely than firms from advanced economy contexts to seek early internationalisation. This is due to foreign market arbitrage opportunities, domestic market entry barriers and the unattractiveness of the domestic market. (Kazlauskaitė et. al, 2015). Furthermore, Madsen and Servais (1997) consider market characteristics as a prerequisite for the success of born-globals. Born-global firms have nowadays the opportunity to launch at a more successful pace into the international scene owing to new possibilities in the markets such as in communication, transportation, niche products etc. Arnold and Quelch (1998), do mention that technology breakthroughs such as internet, digital systems, telecommunications etc, have contributed to a shift in the perception of emerging markets’ characteristics from ‘sources of cheap raw materials’ to ‘potential new market possibilities’ and opened them to multinational companies, which on the other hand have also contributed to shaping these markets. Madsen and Servais (1997) do further agree that these changes have increased the HR skills and enabled the exploitation of such opportunities. In order for BGF from emerging countries to attain international efficiency levels and compete with their more developed competitors, they should innovate at different levels such as in processes, products, materials, service delivery etc.

Role of product differentiation

According to Porter (1980), born-global firms tend to offer improved, different, distinctive or innovative products, thus emphasizing a differentiation strategy. Whereas Cavusgil and Knight (2009), mention that BG are often associated with the development of new product or services. Because of their specialized resources, BGF do especially find huge opportunities in niche markets, where other companies may not satisfy special needs due to production problems arising from an increasing specialized demand and customized products.

Role of networks

The crucial role played by network relationships in the internationalization of BGF is highlighted by many scholars, therefore we consider networks as key factor that contribute to a successful performance of born-globals from emerging economies in foreign markets. Network relationships can help discover opportunities, gather new information to diminish risks and the in-built uncertainty of international markets (Selnes and Sallis, 2003). Oviatt and McDougall (1995) emphasize the high importance for new firms to relate with customers, suppliers and other

personal relationships. However, other studies, show that as international new ventures from emerging economies tend to have limited international connections, they count more heavily on domestic networks (Nowiński and Rialp, 2013). A study of Bulgarian SMEs' also revealed the relevance of domestic ties (Manolova et al., 2010), where the size of domestic personal networks of the entrepreneur were found to have a positive effect on the degree of internationalisation. However, the effects of inter-firm networking on the degree of internationalisation, were insignificant. It is also worth mentioning that prior research on the scope and speed of internationalisation builds mainly on findings from Asian and Latin American countries, which emphasizes the relevance of further research in the Central and Eastern European region (Kazlauskaitė et. al, 2015).

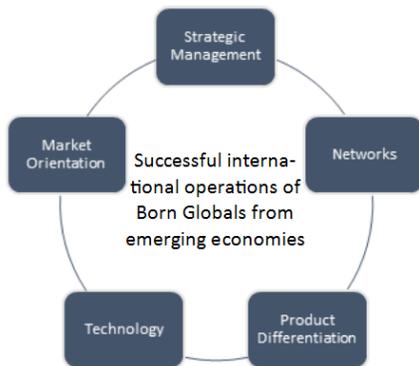


Figure 1: Illustration of success factors contributing to successful internationalization of born-globals from emerging economies.

5. Conclusions

Research on the born-global phenomenon has grown over the last two decades into a fascinating field of studies, however little has been studied in the context of emerging economies. Although the key arguments of the international new venture theory do also apply in the context of emerging economies, it does not wholly explain the motives, moderating forces and enablers of new venture internationalisation where further research on the phenomenon is needed. In here we identified five success factors which apply in the context of emerging economies, however these are not the only ones responsible for the success of born-globals, since several perspectives do exist on how born-global firms can and should be analyzed.

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