

European SMEs and the Born Global concept

Professor Øystein Moen
Norwegian University of Science and Technology
Department of Industrial Economics and Technology Management
oystein.moen@ntnu.no
Norway

Associate Professor Alex Rialp-Criado
Universitat Autònoma de Barcelona
Department of Business/
Adjunct Professor
Norwegian University of Science and Technology
Department of Industrial Economics and Technology Management
Alex.Rialp@uab.cat
Spain

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INTRODUCTION

Newly established firms with early involvement in international markets have received considerable attention during the past 25 years. These firms have been labelled 'Born Globals' (Rennie, 1993), 'International New Ventures' (McDougall et al., 1994), 'Instant Internationals' (Preece et al., 1999) or 'Global Start-ups' (Jolly et al., 1992), while the research stream has often been defined as International Entrepreneurship (McDougall & Oviatt, 2000; Peiris et al., 2012). We will use the term 'Born Global', referring to firms with significant international sales within a short time after inception.

Originating both from Europe and outside Europe, we now have a number of papers focusing on Born Global firms. In addition, there have been several literature reviews, for example by Rialp et al. (2005), Aspelund et al. (2007), Jones et al. (2011) and Kiss et al. (2012).

The size of the home market, geographical and cultural distance to export markets as well as the industrial context and environment in which a firm is established may all be factors contributing to differences between Born Global firms. Knight et al. (2004) found US Born Globals to be more than three times larger than Danish Born Globals in terms of both annual turnover and number of employees. Andersson et al. (2015) suggested that the role of the government is more important for Chinese Born Globals than it is for Born Globals established in Western countries. While some studies, for example in Norway (Moen, 2002), questioned the concept of internationalisation as a gradual learning process, Zou & Ghauri (2010) presented case studies of high-tech new ventures from China and identified gradual learning and expansion processes. Bjørgum et al. (2013) showed that in the emerging wave and tidal energy industry, firms selected location and moved activities between countries in their early development phase in order to maximise resource access.

All these elements indicate that location may be important for Born Global firms. Few studies have compared Born Global firms based on the country in which they are established, and we have not

identified previous studies comparing Born Globals established in Europe with Born Globals from other parts of the world. We will focus on four distinct issues highly relevant to our understanding of Born Global firms within a European business context:

- a) How common are Born Global firms in Europe?
- b) Why are Born Global firms important?
- c) What are the most important characteristics and marketing strategies of European Born Global firms?
- d) Are European Born Globals different from Born Globals from other parts of the world?

We will identify some of the most relevant and important empirical studies focusing on European Born Global firms and present the key results from these studies with regard to characteristics, marketing strategies and performance.

HOW COMMON ARE BORN GLOBAL FIRMS IN EUROPE?

Moen & Servais (2002) based their study on samples of exporting firms with less than 250 employees from Norway, Denmark and France. They found that *'In Norway, France, and Denmark, 38.8%, 34.3%, and 30.7% of the exporting firms commenced their export activities within two years of establishment. This means that there are large numbers of newly established exporting firms'* (page 69). They further concluded that 75% of these firms had an export share higher than 25%. If a Born Global firm is defined as starting with export within two years from establishment and having more than 25% export share, then about 35% of small- and medium-sized exporting firms in these three countries may be defined as Born Globals. Moen (2002) used data from Norway and France, adding also a criterion related to year of establishment (i.e. after 1990). He found that 52.2% and 63.7% of exporting firms in Norway and France, respectively, were Born Globals.

Knight et al. (2004) introduced a related criterion in addition to export share (more than 25%) and exporting within two years from establishment, where the firms should have been established sometime during the past 20 years. Based on this, they described a large Danish survey with 57% Born Globals.

In Spain, Rialp & Rialp (2007) analysed a large sample (n=1102) of exporting manufacturing firms. They defined Born Global firms as having started with export within two years of establishment and having more than the sample average of approximately 40% export share. In their data, almost 23% of the firms were Born Globals. Their results also identified an increasing number of Born Global firms.

In Finland, Kuivalainen et al. (2007) selected exporting firms with more than 50 employees. Out of the 783 firms included in the final sample, 185 had started exporting within three years with more than 25% export share, equalling 23.6% Born Globals according to this slightly different definition. Jantunen et al. (2008) also focused on Finland and identified 12.5% Born Globals based on similar criteria as Kuivalainen et al. (2007).

Choquette et al. (2016) used public register data from all Danish manufacturing firms established between 1994 and 2008. In this large sample (n=23,201), Born Globals (defined as those exporting within three years from birth, with more than 25% export share) represented 5% of the total sample. Accordingly, of the 24% of firms with export involvement, Born Globals represented 20.8%. Using data (n=35,184) from the National Bank of Belgium, Sleuwaegen and Onkelinx (2014) defined global start-ups as those exporting within five years of establishment to at least five countries and two regions (at least one outside Europe). In this large dataset, 21% of exporting firms were identified as global start-ups.

Based on these results, it appears that the percentage of Born Globals in a regular sample of exporting firms is between 12.5–25.0%; but if we only consider firms established later (past 20 years/after 1990), the percentage found is 20.8–63.7%. Rialp & Rialp (2007) and more recently Choquette et al. (2016) found Born Globals in all manufacturing sectors. Preece et al. (1999) described an increasing number of Born Global firms in Canada. However, Choquette et al. (2016) did not find increasing percentages from 1994 to 2008 in Denmark, and it is possible that the percentage of Born Global firms is not increasing further in small, open economies.

Differences in selection criteria and samples appear to contribute to variation in the percentages of Born Globals observed, but it seems reasonable to conclude that Born Global firms make up a small fraction of all established firms, but a significant share of newly established exporting firms. They are present both in nations with limited domestic markets and also, as described by Cavusgil & Knight (2015), in large economies such as the US and China.

WHY ARE BORN GLOBAL FIRMS IMPORTANT?

Young firms are considered important in general. The Kauffman Foundation reported that about two-thirds of new jobs in the US come from young firms (Kane, 2010). Cavusgil & Knight (2015) found that empirical evidence from around the world suggests that Born Global firms *'account for a substantial portion of export growth'* (page 4).

In a report from the European Union entitled: *'Born Global: the potential of job creation in new international business'* (Eurofound, 2012), the importance of Born Global firms for economic development and employment is widely discussed, with strong attention on the need for policy development. The OECD (2013) further described how Born Global firms were important in recovery from the 2007/2008 financial crisis; a similar conclusion was reported from Israel by Almor (2011). Analysing public register data in Denmark, Choquette et al. (2016) concluded that Born Globals *'...Exhibit superior performance in terms of turnover levels, employment levels and market reach compared to all other start-ups'* (page 458).

It is known that a limited number of firms represent most of the growth potential in many economies; this is supported by the meta-analysis by Henrekson & Johansson (2010). It is expected that many of the firms with the highest growth potential will be Born Globals. The perceived growth potential is also the most important reason for researchers, policymakers, and investors focusing on these firms.

SELECTION OF IMPORTANT EMPIRICAL STUDIES FOCUSING ON EUROPEAN BORN GLOBAL FIRMS

In this part, we first identify important and relevant papers published in international journals. Google Scholar, SCOPUS and ISI Web of Science were used as search engines. We used the terms Born Global/Born Globals/International New Venture/International New Ventures and International Entrepreneurship and manually checked the results for empirical studies based on European samples (n>30), published in journals and using statistical analysis. First, we limited the search to studies with

more than 100 citations; this resulted in only 11 papers. Second, we searched further for relevant studies, with particular attention to geographical areas not well covered by the first 11 papers. We added another seven papers based on a subjective evaluation of relevance, and these total of 18 papers represent the starting point of our presentation of current empirically-based knowledge on Born Global firms in Europe.

Table 8.1 provides an overview of the selected papers. The samples originated from Denmark (4), Norway (3), Finland (3), Spain (3), Germany (2), the UK (2) as well as Italy, Belgium and France. Two studies were developed building on public registered data (Sleuwaegen & Onkelinx, 2014; Choquette et al., 2016) while the others collected data via surveys of managers.

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KEY RESULTS FROM THE SELECTED STUDIES

Aspelund & Moen (2001) divided firms in three generations based on year of establishment: the traditional exporters, the flexible specialists and the Born Globals. Their results suggest that Born Globals are technologically advanced, use niche strategies and have strong customer orientation compared to other exporting firms. A key result of the study was the support for an idea of generations of firms with distinct and unique characteristics. Moen (2002) used the same dataset from Norway but also added responses from a sample of firms in France that had answered a translated version of the survey. The idea of generations of firms was further developed, and it was found that Born Global firms evaluated the home market as unattractive (poor demand conditions) while export markets were regarded as more favourable. This suggests that market-related perceptions also might influence the degree of international focus. Moen & Servais (2002) combined the data from Norway and France with a survey from Denmark. A key result was found in terms of how firms with rapid international involvement outperformed firms starting to export with a longer timespan from establishment. They

concluded, *'The results indicate that the future export involvement of a firm is, to a large extent, influenced by its behavior shortly after establishment'* (page 49).

Knight et al. (2004) used data from both the US and Denmark. When we consider the results based on Danish firms, the firms were found to have rapid international growth and customer orientation, and marketing competence was strongly related to international performance.

Rialp & Rialp (2007) used a resource-based view in order to build their analyses of a large sample of Spanish exporting firms. Their results show that intangible resources characterise Born Global firms, more specifically this is reflected in the existence of an export department, the percentage of employees with higher training/studies or more positive perceptions of export profitability among managers.

Acedo & Jones (2007) built their study on a sample of small- and medium-sized firms in Spain. Speed of international activity is an important element in international entrepreneurship research, and the authors focused on how psychological aspects (cognition) influence speed. One important result is that risk perception has a strong impact on internationalisation speed.

Kuivalainen et al. (2007) used a sample of Finnish firms. They divided Born Global firms into two groups: 'true Born Global' and 'Born International' based on market/country distance and export turnover. The results show that true Born Globals *'performed better than their less international counterparts on all three measures (sales, profit and sales efficiency)'* (page 264).

Jantunen et al. (2008) also used a dataset from Finland and looked at the importance of the strategic orientation of managers of Born Global firms. All Born Global firms had high scores for entrepreneurial orientation, while an important and significant difference between Born Globals and other firms was that there was more focus on learning orientation among Born Globals.

Sommer & Haug (2011) studied small- and medium-sized German firms. They used the theory of planned behaviour to analyse intentions, knowledge and experience. The results showed that the most

important impact on international intentions was related to perceived behaviour control (to what extent the individual perceived himself being able to perform the behaviour); this was followed by significant influence also from experience and knowledge. These results, like that of several others (Acedo & Jones, 2007; Zahra, 2005) point towards the importance of cognitive aspects when attempting to understand the behaviour of Born Global firms.

Harms & Schiele (2012) built their sample on German finalists in an 'Entrepreneur of the Year' contest. They used effectuation and causation approaches to understand the choice of entry modes. The results suggest that experienced entrepreneurs use effectuation (emergent strategies) rather than causation (rational planning) approaches. Further, if the entrepreneurs used causation approaches they tended also to select exporting as the entry mode. The study was built on a limited sample in terms of firms included (n=65), but represents a promising approach investigating how different approaches to decision-making processes are linked to actual strategy choices among Born Global firms.

Dimitratos et al. (2012) used data from medium-sized firms (50–249 employees) in the UK and the US. They focused on measurement development, contributing with a new opportunity-based instrument to measure international entrepreneurship. The study found support for a significant relationship between international entrepreneurial culture and international performance.

Baronchelli & Cassia (2014) collected data from Italian SMEs (n=53) and investigated determining antecedents of Born Global firm performance defined as export share. They found four significant positive factors (market and segments knowledge, firm innovativeness, access to networks and being part of a niche-oriented industry), while dynamism of the industry apparently had a negative impact on export share.

Rodríguez-Serrano & Martín-Velicia (2015) investigated absorptive capacity among Spanish Born Global firms. They found that market orientation had a strong impact on absorptive capacity, and that such absorptive capacity is a key success factor for Born Global firms.

Sleuwaegen & Onkelinx (2014) and Choquette et al. (2016) used different types of data, although both studies used large public registered datasets to analyse the Born Global phenomenon. Choquette et al. (2016) concluded that Danish Born Globals have significantly higher turnover, levels of employment and job growth rates as compared to other firms. From Belgium, the data presented by Sleuwaegen & Onkelinx (2014) identified the highest growth rates in Born Global firms, but also the highest failure rates.

WHAT ARE THE MOST IMPORTANT CHARACTERISTICS AND MARKETING STRATEGIES OF EUROPEAN BORN GLOBAL FIRMS?

When we summarize the results of the studies presented, Born Global firms in Europe may be generally described as follows.

They are very proactive in international markets since inception or shortly thereafter. Most of these firms start exporting as their first and primary foreign entry mode. They tend to export their products and/or services before two or three years from inception and sell more than one-fourth of their production abroad. Some of them also develop other, more committed ways of internationalisation, collaborating with foreign partners and even undertaking foreign direct investments and operating in a wide variety of markets around the world.

Characterised by limited financial and tangible resources. Due to their young age, most Born Global firms tend to be of rather small size. Therefore, their level of endowment of tangible, financial and human resources is usually smaller as compared with large multinational firms. Nevertheless, international activities are a feasible and profitable option for Born Globals largely due to their possession or accessibility to more knowledge-based and/or knowledge-intensive resources (intangibles).

They can be identified in a wide variety of industrial sectors. While many researchers have tended to consider that the Born Global phenomenon is highly concentrated in high-tech activities, there is

evidence of this phenomenon also in more traditional, mature and even low-tech sectors (Madsen & Servais, 1997; McAuley, 1999; Moen, 2002).

Their founders and managers show a high level of international entrepreneurial orientation. Born Global firm management tends to perceive the world as their natural marketplace from the very beginning. Many Born Globals are created by international entrepreneurs and/or managers with a high entrepreneurial orientation that overcomes the borders of the home market and allows them to identify and exploit international opportunities in foreign markets. Such an international entrepreneurial orientation (Covin & Miller, 2014) is highly associated with a global vision and international experience, as well as with a risk-taking and proactive competitive posture with a clear orientation towards innovativeness in the form of new products and/or processes.

They often emphasise a differentiation/focused competitive strategy based on quality and technological leadership. Born Global firms typically emphasise product differentiation strategies offering unique and highly distinctive products and/or services with a better design and superior quality as compared to their competitors, which provides them with consumer loyalty on a global scale. They are often highly innovative companies recognised for technological leadership in their product category. The combination of differentiation and niche focus strategies becomes especially suitable for Born Global firms due to their resource scarcity and relative specialisation and also because such target market niches become a relevant source of opportunities for small-sized firms. Their high-quality products and services are especially adapted to meet the specific needs of a given market segment, stimulating client loyalty. In fact, many of these firms are established based on the innovative development of new products and/or technological processes.

They exploit the potential of ICTs. New technologies, such as the Internet for example, allow Born Global firms, even the smallest ones, to obtain and process information very efficiently and to communicate with suppliers, customers or partners around the world and at a marginal cost. Such technological improvements in information systems are changing the traditional limits between firms

and help them manage business models widely distributed in geographic terms much better. Many Born Global firms also take advantage of ICTs to conduct proper market segmentation and focus on meeting the highly specialised needs of specific market niches identifiable in different countries on a global scale.

They leverage intermediaries in foreign markets. Most Born Global firms leverage independent intermediaries and/or distributor resources located abroad to properly promote and channel their foreign sales. By directly exporting through allied networks of foreign distributors, their operations abroad can become more flexible, entering and leaving some countries relatively easily and rapidly. Occasionally, these local intermediaries are those who identify a profitable market opportunity that they channel toward a given foreign supplier. Most experimented Born Global firms may combine export activities with other entry and development strategies in foreign markets, such as joint ventures or foreign direct investments. However, the lower cost and level of operational risk associated with exporting combined with the possibility of taking advantage of foreign partners' resources makes exporting the most adequate foreign entry strategy.

DISCUSSION

Part 1: Are Born Globals in Europe different from Born Globals in other parts of the world?

In order to understand the establishment and development of Born Global firms from European countries, it is highly relevant to address their potential differences as compared to Born Global firms established in other parts of the world. Our presentation of empirical results suggests that European Born Globals have many similar characteristics to Born Globals in other parts of the world (in example internationally proactive, exploiting ICT-based opportunities). One reason may be the distribution of the existing studies, where there are many from European countries and few originating from developing countries. Further, as described by Andersson et al. (2015), studies from developing countries often adopt concepts and focus similar to studies from Western countries without adjusting for the local context. In this section, we will address the possible differences more in detail.

However, we also notice possible differences. First, when considering growth, Knight et al. (2004) used a similar selection criteria in Denmark and the US, targeting firms with at least 25% export share and established during the past 20 years. They found that the US Born Globals were larger, having on average 213 employees compared to 63 in Denmark, while average turnover was \$36 million in the US compared to \$10 million in Denmark. Export share was higher in Denmark (71%) than in the US (47%). The geographical distribution of sales was different: 89% of the Danish firms stated that another European country was their most important export market, while the US Born Globals had more variation (Europe, 38%; Japan, 29%; other Asian countries/Australia, 21%). In both countries, high export growth rates were observed. Empirical evidence is limited, but we note that in this study with similar selection criteria, the US Born Globals appear to be three times larger than their Danish counterparts.

Second, one factor that may influence the higher growth potential of US-based Born Globals is the difference in access to funding. Venture capital firms play an important role in both the establishment and growth processes. Wikipedia lists the major venture capital firms in the world and their locations, with 79 out of 89 of the largest venture capital funds (equalling 88.7%) being located and based in the US, while only seven are based in Europe. With regard to hedge funds, *Business Insider* reports that 18 of the largest 20 are located in the US (equalling 90%) and the remaining two are located in the UK.

A highly successful Born Global firm is Tesla Company, established in California in 2003. In 2015, about 50% of sales came from international markets. In April 2016, Tesla showed higher stock market value than General Motors and was the most valuable US automaker. We will highlight two important questions: First, do European countries have the venture capital and funding resources necessary in order to develop this kind of company? Second, if a company such as Tesla had been established in a European country, would it have been acquired by non-European investors and maybe relocated? The empirical evidence is scarce, but there is a need for more insight in how funding, mergers and acquisitions influence the development of Born Global firms.

Third, the internationalization process and strategies may be different when examining Born Globals from developing countries. Zou & Ghauri (2010) stated there is limited research on the internationalisation of firms from developing countries, and they argue that high-tech new ventures from emerging markets will follow an incremental and gradual internationalisation process. Based on three case studies from China, they observed a gradual internationalisation process, leading them to suggest that cultural differences and the need for learning may explain this result. Later, Andersson et al. (2015) discussed differences between Western and Chinese Born Globals and suggested that the latter would be more often established in traditional/mature industries and more likely to use a cost advantage or low price strategy compared to Born Globals in Western countries. From China, we also note examples of highly successful Born Globals. One example is the mobile phone and electronics producer Xiaomi. Founded in 2010, the company launched its first phone in 2011 and is now valued at US\$46 billion. While its main market is China, it also exports to countries in Southeast Asia and is targeting expansion into countries such as Russia, India and Brazil. Xiaomi could be regarded as an example of a successful Chinese Born Global firm following a low cost strategy, selling its products at a price about half of that of iPhones but with similar specifications.

Part 2: What do we not know about European Born Globals?

Based on the previous sections, we lack knowledge about differences between European and non-European Born Global firms with regard to growth rates, strategies and access to funding. Moen et al. (2008) found that business angels investing in Born Globals were significantly different from business angels investing in other firms. We need much more information about who invests in these firms at different development phases and how this influences Born Global firms.

In addition, we will point to several important areas with limited insight in need for more research. Few studies have focused on how acquisitions and mergers relate to Born Global firms. Henrekson & Johansson (2010) state that mature firms basically grow through mergers and acquisitions; as such, Born Globals may be important for industrial renewal and represent a growth opportunity for

established industrial firms. Also, more focus is needed on the extreme examples of successful Born Global firms. Several questions need to be asked about these firms, such as where in the world were they started? How did they develop and grow? What were the defining decisions? How did they gain access to resources? The extreme cases are particularly important, because it is possible that even among Born Global firms, a very small fraction may be drivers of a large part of increased employment and value creation within an economy.

Further, what are the public policy initiatives that may stimulate the establishment of these firms and contribute to their positive development when once established? In this context, how important are pre-establishment processes, taxation systems, individual motivation or knowledge access, and how would these firms be assisted best from a policy perspective. Especially in Europe, a critical component of the economic integration in this region, the Single European Market (SEM), that represents the enactment of the economic goals of the EU (Benson-Rea & Gerke, 2018), may have significant impact on European businesses' international business strategy. In future research, the role of the EU integration, as well as the role of large research initiatives as Horizon 2020 and processes related to Brexit need to be addressed as the political, regulatory and economic environment may influence both establishment of and development of Born Global firms. In their longitudinal study of the various factors that concur to the long-term survival and organic growth of internationalizing and innovative SMEs in the Swedish life-science industry, Nordman et al. (2018) discuss the importance of policy initiatives. Suder (2011) use the term *Born Europeans*, many of these may take advantage of the EU single market with more open borders and harmonization of regulations. Further research on all these issues would be greatly welcomed.

FINAL REMARKS

Henrekson & Johansson (2010) performed a meta-analysis of studies focusing on firm growth. They concluded '*The survey of existing studies clearly shows that a small number of high-growth firms are particularly important for net job creation*' (page 240). We expect that Born Global firms are an

important share of these high-growth firms. This reflects to studies more than two decades ago, when for example Rennie (1993) described Born Global firms as strikingly competitive, emerging in increasing numbers and being highly important for job creation. These conclusions still appear valid, and we have much better knowledge of these firms thanks to the large number of research studies. From a society perspective, Born Globals are particularly important as they are the new generation of firms meeting the most competitive environment with high failure rates while also being the few firms with the highest growth potential.

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Table 8.1: Selected Europe-based empirical studies of Born Global firms

Authors	Year	N*	Sample data from	Authors from
Moen and Servais	2002	677	Norway (335), Denmark (272), France (70)	Norway, Denmark
Moen	2002	405	Norway (335), France (70)	Norway
Knight, Madsen and Servais	2004	292	US (186), Denmark (106)	US, Denmark
Aspelund and Moen	2006	335	Norway	Norway
Madsen, Rasmussen and Servais	2006	272	Denmark	Denmark
Luostarinen and Gabrielson	2006	89	Finland	Finland
Rialp and Rialp	2007	1102	Spain	Spain
Kuivalainen, Sundqvist and Servais	2007	185	Finland	Finland, Denmark
Acedo and Jones	2007	216	Spain	Spain, UK
Mudambi and Zahra	2007	275	UK	US, UK
Jantunen, Nummela, Puumalainen and Saarenketo	2008	299	Finland	Finland
Sommer and Haug	2011	116	Germany	Germany
Dimitratos, Voudouris, Plakoyiannaki and Nakos	2012	162	UK (91), US (71)	UK, Greece, US
Harms and Schiele	2012	65	Germany	The Netherlands
Baronchelli and Cassia	2014	53	Italy	Italy
Sleuwaegen and Onkelix	2014	35,184	Belgium	Belgium
Rodriguez-Serrano and Martin-Velicia	2015	102	Spain	Spain
Choquette, Rask, Sala and Schoder	2017	23,201	Denmark	Denmark, Germany

* Sample size includes the total number of firms included in the study; in some cases, this included only Born Global firms; in other cases, all types of manufacturing firms (both exporting and non-exporting) were included.