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Born Globals—Is there fire behind the smoke?

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ABSTRACT

Are Born Globals really different from firms with other start-up histories? We address this question based on a unique longitudinal data set that tracks all Danish manufacturing start-ups founded between 1994 and 2008 (23,201 firms). This novel application of register data allows us to provide the first detailed account of Born Globals compared to proper control groups of other start-ups. Chiefly we investigate firm performance, which in turn permits interference on socioeconomic impact. We find that the occurrence of BGs is not specific to certain sectors, nor does their frequency change in light of rapid ICT progress. However, we find that Born Globals have significantly higher turnover and employment levels as well as job growth rates. Moreover, they show a considerably wider market reach, but little to no productivity advantage compared to firms with less or later internationalization. Thus, Born Globals are special in some but not all aspects.

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1. Introduction

New ventures that from their inception generate a significant share of their turnover on international markets, so-called Born Globals, are a unique firm archetype. The main thrust of existing research has naturally aimed at identifying the antecedents and drivers behind the creation of such firms. In contrast, research questions addressing Born Globals' performance in comparison to other start-ups, and in turn their respective socioeconomic impact, have so far been much harder to assess. The main obstacle is a lack of data. Even though systematic empirical evidence is hard to come by, the literature has reasoned that Born Globals are associated with a superior performance and hence a series of desirable effects for the surrounding economy. For example:

"Born Globals are often drivers of national economic development and innovativeness" (Rialp, Rialp, & Knight, 2015)

"These 'born global' firms represent important contributors to many economies . . ." (Zander, McDougall-Covin, & Rose, 2015, p. 27)

Similarly, OECD (2013) argues that such firms played a central role in tackling the economic downturn in the aftermath of 2007.

Several other open questions surrounding Born Globals are on the agenda (Gray & Farminer, 2014). Recent reviews of the literature (Cavusgil & Knight, 2015; Zander et al., 2015) have called for comparative studies with other start-ups:

"From a methodological point of view, studying born global firms in isolation makes it difficult to determine what attributes are specific to rapid internationalizers, as opposed to small, entrepreneurial firms that internationalize more gradually. Among the issues to be considered in comparative studies between born global firms and those that internationalize less rapidly is that of how these firms mature." (Zander et al., 2015, p. 32)

Accordingly, a second pillar of assessing performance that scholars have called for are research designs that examine the later-in-life performance of Born Globals in longitudinal studies in comparison to proper control groups of other start-ups (Cavusgil & Knight, 2015; Zander et al., 2015). In sum, leading scholars of the field have pinpointed severe gaps in the literature, i.e. the need for evidence on the superior performance of Born Globals compared to other start-up firms and studies that follow the entities over time.

The present paper offers a first attempt at closing this gap. We want to understand in what ways performance outcomes (which in

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turn will contribute to socioeconomic impact) of Born Globals are different from firms with other start-up histories. We demonstrate the feasibility of a novel approach applying large-scale firm-level register data. Our unique longitudinal firm-level data set covers the population of all Danish manufacturing firms. This register-based firm-level data allows us to identify all start-ups established between 1994 and 2008. This arrives at a total of 23,201 firms that we are able to follow until 2011. With such data, it is possible – for the first time in the literature – to carefully design proper control groups consisting of firms that have a start-up and internationalization history different from that of Born Globals, i.e. new ventures that stay local or start-ups that feature less rapid or less intensive exporting patterns compared to Born Globals. This novel feature of control groups and the ability to follow firms over a prolonged period of time (including their possible closure) allow us to examine and compare central performance characteristics of Born Globals to other types of firms in their early years and later in life, based on statistical models.

We provide novel results on the distribution of Born Globals across sectors and time as well as a wide range of crucial performance measures compared to other types of start-ups. In particular, we consider turnover, employment, productivity, i.e. value-added activity/profitability, and market reach (each time both in terms of levels and growth rates). Moreover, monitoring firms over time enables us to track whether or not such characteristics stick with firms of a certain type throughout their lifetime.

The approach we propose has several advantages, but also costs compared to survey-based research or case studies that have been the backbone of the literature. The type of longitudinal study that we are able to conduct is, as proposed by Cavusgil and Knight (2015), a stronger method when studying and comparing start-ups. One of the reasons is, that we can avoid the survivor bias present in other research designs, i.e. our sample covers the complete population of start-ups, and thus includes firms that during our 17 years of observation shut down. In contrast, the typical snapshot of a survey- and case-based study by definitions only samples among survivors. Moreover, the customary single-sector studies (e.g. high tech sector) can be biased by sector-specific changes that potentially influence outcomes, and hence results are difficult to generalize. Again, the current longitudinal study can avoid this issue by covering all manufacturing firms, across all sub-sectors. Still, these advantages come at a cost. First, our research design can only address questions that are meaningfully answered based on standard accounting data (i.e. information that firms are required by law to report to government authorities and similar registers).¹ Second, register data is only accessible in anonymized form, thus, we cannot identify specific firms, let alone go back and harvest additional information or interviews.

A central design feature of our empirical approach resides in the fact that we compare the performance of Born Globals (say in terms of turnover, employment, productivity and export scope) to those of other firms that since their inception either never internationalized or did so at a slower pace and/or on a smaller scale. In particular, we group firms, i.e. the population of all start-ups, into four exclusive sets: Born Globals, Born Exporters, Late Exporters or Stay Locals. Accordingly, we assess Born Globals in comparison to a range of meaningful classes of other firms (control groups): those that export less in their start-up phase, those that export later in their lifetime, and lastly those that never export during our period of observation. To the best of our, this has not

been done in the literature to date, but it is of paramount importance in order to identify if Born Globals are a phenomenon in its own right or simply a subgroup that is indistinguishable from say other start-ups with low-intensity international activity.

The papers most closely related in spirit to the current approach are Sui and Baum (2014), who focus on the survival of different types of international start-ups, and Sleuwaegen and Onkelinx (2014), who compare the behaviour of newly internationalized firms to that of established exporters. In fact the works of Sui and Baum (2014) and Sleuwaegen and Onkelinx (2014) apply the same type of tools (e.g. regression analysis) and data (e.g. large-scale firm-level register data) that we utilize here. Yet, these authors do not address general performance differences of Born Globals, and consequently, neither do they assess socioeconomic impact.

Still, some recent studies provide suggestive first evidence of such performance differences. For Israel, Almor (2011) argues that high tech companies and especially Born Globals allowed the Israeli economy to escape from the brunt of the Great Recession of 2008. Similarly, as highlighted by Cavusgil and Knight (2015), studies by Eurofound (2012), Eurofound (2013), Eurofound (2016), the official agency of the European Commission with a mandate to provide policy-relevant research, assess that Born Globals – more than other start-ups and exporters – can contribute to the economic and labour market recovery in Europe; an argument also evoked by the OECD (2013).

Obviously, such first evidence and the general assumptions in the literature concerning the superior socioeconomic performance of Born Globals must be viewed against the downside of specific and potentially costly challenges that early and intensive exporting will bring. For example, Born Globals' need for globalization knowledge from the start as well as new and complex risk profiles due to foreign market exposure should clearly affect performance in a negative way (Luostarinen & Gabrielsson, 2006). Additionally, since Born Globals are international start-ups, they will face liability of foreignness in regard to their foreign local competitors (Zaheer & Mosakowski, 1997) and liability of newness in relation to established competitors (Stinchcombe, 1965; Zahra, 2005).

In sum: the jury is still out. To date, research has not been able to properly test and systematically verify if there is a superior performance of Born Globals compared to other firms. Thus, we do not know if Born Globals really are unique in their performance, let alone whether they actually are distinctive engines of socioeconomic development for their home economies. Accordingly, in this paper we seek to understand if Born Globals are different compared to firms with other (less international) start-up histories. We ask: is there fire behind the smoke?

The remainder of the paper is structured as follows: In Section 2, we provide a brief review of the literature on Born Globals in order to synthesize four theoretical hypotheses. Then the empirical approach adopted in our paper is presented, followed by a presentation of the data (Section 3). Section 4 presents our empirical results. Section 5 discusses results and implications for future research. Section 6 concludes.

2. Theory and hypothesis development

The current paper dives into the performance of Born Globals in comparison to other start-ups. In other words, we focus on the actual firm performance that follows after the creation of the entity. Based on existing literature, we develop four central hypotheses that are suitable for statistical testing with large-scale firm-level register data. As simple as this exercise might seem, we uncover a range of central but previously untested hypotheses and insights.

¹ In our case, data access is granted through Denmark Statistics. See Section 3 for further details on the data.

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