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Born globals – presence, performance and prospects

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ABSTRACT

The concept born global firms has gained a spectacular increase in interest from both academic and political circles. Rigorous quantitative treatment of born global firms are however rare in the international business/economics literature. Implementing unique data on all Swedish start-ups during 1998–2008 in the manufacturing sector, we conclude that born global firms are a very rare event, that their prevalence seems invariant to time, and that they perform similar to other matched "twin" firms with regard to profitability and productivity but report a considerably higher growth in employment and sales. These results are robust to a wider definition of born global firms and to the timing of performance measurements.

1. Introduction

Natura non facit saltum (nature does not make jumps) was how Alfred Marshall (1920) explained why persistence over time could be observed for most economic variables and processes. Born global firms, a cleverly coined concept introduced in a McKinsey study in the early 1990s, are however claimed to do just that, i.e. adopt global patterns of internationalization from their very inception.[1] The concept has gained a spectacular increase in interest from academic and political circles over the last 15–20 years. Yet, the evidence to support a general shift towards a different mode of internationalization for small and young firms is by and large non-existent.

A theoretical framework as to why global strategies could be a superior way for start-up firms to rapidly exploit entrepreneurial opportunities has been provided by the international entrepreneurship literature (Etemad & Wright, 2003; Chetty & Campbell-Hunt, 2004; Knight et al., 2004; Oviatt & McDougall, 2005; Rugman & Verbeke 2008; Johanson and Vahlne, 2009; Wan et al., 2011). Moreover, changing organizational, environmental and strategic factors are likely to foster continued internationalization (Zahra & George, 2002), in addition to falling costs related to trade liberalization, dismantling of regulatory barriers and technological progress (Cavusgil & Knight, 2015).

Still, solid empirical backing of the alleged extent and performance of born globals is extremely scarce and comparisons with rigorously defined control groups are, to the best of our knowledge, largely neglected. Rather, most of previous empirical analyses in the born global literature primarily relies on either qualitative case-based studies or survey data drawing on a relatively limited number of observations (Gabrielsson et al., 2008; Kuuvalainen et al., 2012). These methodologies have their respective merits, however, they are not an accurate tool to shed light on the pervasiveness of large-scale internationalization by young firms, nor whether their performance is superior as compared to other similar firms. The results of previous contributions also vary depending on methods and time periods considered. In a recent review of the literature, Zander et al. (2015) stressed that there is a gap in the empirical research on born global firms that remains to be filled.[2]

Some notable exceptions are studies by Sleuwaegen & Onkelinx, 2014; Sui and Baum (2014) and Choquette et al. (2017). Just like these contributions we apply a longitudinal empirical model. Even though there are adjacent issues addressed in those studies, their research design is different as are the specific research questions posed. We test various definitions of born globals and also adopt a more extensive set

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[1] The concept of born global firms seems to have been used first in a McKinsey study of manufacturing exporters in Australia (McKinsey & Co., 1993). The study highlighted a number of small and medium-sized firms that from inception competed against established players on the global arena. Numerous studies have since labeled the same or similar phenomena differently: e.g. global start-ups (Oviatt & McDougall, 1994)), international new ventures (McDougall et al., 1994) and instant exporters (McAuley 1999). We will however not dwell into the differences between these labels, but stick to the concept born globals.

[2] See also Rialp et al. (2005, 2015) and Bals et al. (2008) for literature reviews.

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of performance variables. Moreover, we demonstrate that the chosen methodology influences the level of the estimates while the overall direction basically remains the same. In particular, we implement a specific methodology to identify firms in the control group that are as close to our sample of born globals as possible, with the exception of internationalization. Hence, we stress the importance of a meticulous selection of an appropriate control group.

Our objective is thus to provide more conclusive evidence of the extent of born global firms, whether their share has increased over time and how they have performed as compared to other similar start-ups. A well-known characteristic of start-ups is their volatile performance, a considerable share of them even exit relatively soon after entering the market. But also for surviving firms there seems to be differences in growth dynamics between born globals and other firms (Cavusgil & Knight, 2015). In order to capture performance when a certain amount of stability has set in we focus on outcomes for firms surviving five years after inception. Hereby we can rule out temporary swings in their internationalization pattern.[3] Similar to previous contributions addressing this issue, export intensity is used as the criterion that distinguishes born globals from other firms.

Sweden is one of the few countries where it is possible to identify the entire population of born globals in the manufacturing sector. Implementing data between 1997 and 2008 we contribute with several new insights. First, irrespective of the strictness of definition (varying export intensities and years after inception), we conclude that becoming a born global firm is a quite rare phenomenon. Depending on the definition, the analysis reveals that between 0.6 and 3.3 percent of all Swedish start-ups in the manufacturing sector could be classified as born globals. In addition, we find that the share of born global firms is not increasing over time, rather a weak declining trend can be observed since the millennium shift.

Second, we extend the analysis to comprise a set of different performance variables while implementing a large number of controls. One distinguishing feature of our analysis is that we can control for internationalization through foreign local presence, which supposedly decreases the psychic distance to foreign markets. Yet, only a tiny share of start-up firms have established affiliates abroad. In addition, we can identify new firm formation due to spin-offs and mergers, which are excluded from the data set. Our results reveal that becoming a born global firm positively impacts size and sales performance, whereas no such effect can be established in terms of profitability. The results for productivity varies with the length of the time period studied.

Third, we extend the analysis to include a control group of identical “twin firms”, with the exception of degree of internationalization, through a matching procedure. That enables us to compare born globals with a carefully selected and relevant control group to pinpoint differences in performance. We also look at persistence over time and find the results to be basically robust to such extensions. Finally, our access to data on export destinations allows us to briefly discuss the scope of internationalization.

The rest of the paper is organized as follows. The dominating theories of firm internationalization and the previous literature on born global firms are reviewed in Section 2 which forms the basis for our hypotheses. In the subsequent Section 3 the data is described and some descriptive statistics presented. Section 4 presents the model and the methodology used in the analyses, while Section 5 reports the regression results. The paper concludes by a discussion and summary of the findings, and also suggests some avenues for future research (Sections 6 and 7).

2. Firms’ internationalization and performance: Previous research

Before embarking on the empirical analysis, we like to position the born global literature in relation to the most influential theories of firms’ internationalization. Most studies on internationalization at the firm level can be found in the management and business administration disciplines. Overwhelmingly the literature deals with two modes of internationalization; foreign direct investment (FDI) and exports. Even though these regularly are analyzed separately, there are obvious links between them, e.g. where FDI generates exports through intra-firm trade. Overall, internationalization can be considered as a means to scale up production, exploit firms’ proprietary assets and take advantage of foreign market opportunities.

With regard to smaller firms’ internationalization the traditional approach builds on stage theories, a sequential process where firms start exporting products to their neighboring markets and thereafter gradually enter other more distant markets. Two main models have dominated the incremental stage approach to the internationalization process: the product life cycle theory by Vernon (1966, 1971, 1979) and the Uppsala internationalization model (Johanson & Vahlne, 1977, 1990, 2006, 2009). The former theory states that the internationalization process follows the product life cycle. Hence, as production enters more mature phases of the product cycle, production is located to other, often advanced, countries in order to serve local markets. At later stages, production facilities are set up also in low-cost countries. A related strand in the economics literature can be found in the spatial distribution of a firm’s value-added chain across different countries (Fujita et al., 1999).

Also the Uppsala internationalization model emphasizes how the enterprise gradually increases its international involvement. It distinguishes between psychic and physical distance where the former includes differences in languages, cultures, political system etc., while the latter refers to geographical distance. As knowledge of foreign markets gradually increases, the psychic distance decreases and the firm tends to expand its sales to foreign countries even further.

Both the Vernon and the Uppsala models have however been criticized for not being able to fully explain the internationalization of small firms in today’s global market (Andersson & Wictor, 2003; Chetty & Campbell-Hunt, 2004). A new paradigm, the so-called “global approach”, was claimed to have emerged. According to for instance Gabrielsson and Kirpala (2012, p. 3), “A new breed of companies has increased in the last two decades”. This approach is not captured by more conventional models and it is neither, as yet, proved empirically.[4] Thus, the jury is still out as Choquette et al. (2017) puts it.

There is also scattered evidence that small- and medium-sized firms do not follow an incremental stage approach. Rather a global strategy is adopted, either through exports and imports to a number of countries or through local presence (Autio et al., 2000; Shrader et al., 2000; Fan & Pan, 2007; Weerawardena et al., 2007; Zhou et al., 2007). A global strategy is claimed to allow firms to exploit advantages associated with global value added chains and to enhance their market knowledge, thereby empowering firms’ networks and strengthening their competitiveness.

The reasons why we should expect new firms to adopt global strategies was first outlined by Knight and Cavusgil (1996). They argue that structural change together with technological progress explain the emergence of born globals. More precisely, the alleged rise in born global firms can be attributed: i) increased specialization fostering niche markets where competitiveness requires firms to increase their customer base by going global, ii) advances in technology regarding production and transportation, reducing traditional economies of scale factors, iii) advances in communication technology, facilitating monitoring and coordination, iv) advantages of small firms in terms of being more flexible and adaptive, v) globalization itself in terms of liberalizing trade, dismantling location obstacles together with more international experience at the individual level, and, finally, vi) trends

[3] This is suggested by Zander et al. (2015).

[4] See also Cavusgil & Knight (2015) and Zander et al. (2015).