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Maturing born globals and their acquisitive behaviour

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ABSTRACT

Born globals are becoming more common in our interconnected world. While a body of knowledge exists regarding the establishment and early growth of born globals, we know less about how these companies develop. Arguing that acquiring new knowledge, technologies, and products will enable companies to survive beyond their initial success, the current study specifically aims to explore the value of technology-motivated acquisitions, and their effect on performance. To this end, the study employs a hybrid methodology; statistically studying 108 acquisitions conducted by 45 maturing, technology-based born globals in Israel over a period of 10 years, and further substantiate the findings with an in-depth case analysis of four sample companies. The results indicate that technology-motivated acquisitions are valuable in terms of both financial performance and independent survival, but that there likely exists an optimal threshold, indicating that such a strategy, though beneficial, should be carefully managed.

1. Introduction

Research pertaining to the early internationalization of new ventures has developed tremendously during the last two decades (Gabrielsson & Kirpalani, 2012). Often called born globals or international new ventures, these companies display international business behaviours that are markedly different from those of incrementally internationalizing SMEs (Kudina, Yip, & Barkema, 2008). As defined by Knight and Cavusgil (2004), born globals are “entrepreneurial start-ups that, from or near their founding, seek to derive a substantial proportion of their revenue from the sale of products in international markets” (Knight & Cavusgil, 2004:124). Such companies seem to feature predominantly in technology intensive industries, in which competitive advantage is often based on the possession of unique know-how (Autio, George, & Alexy, 2011) leveraged through a niche-focussed, proactive international strategy (Rialp, Rialp, & Knight, 2005).

However, such strategy is likely to result in dependency on a specific technology (or specific product) creating problems once the market is saturated or their product/technology is outdated. Yet, we have limited knowledge regarding the nature of mature born globals, including the threats they face and how they overcome them (Casillas, Barbero, & Sapienza, 2015). Recent research focussing on related issues has started to emerge, with contributions looking into subjects such as stages of growth (Gabrielsson & Gabrielsson, 2013), paths of growth

(Almor, 2013), and survival (Sui & Baum, 2014). Thus, we know that the born globals’ continued survival is dependent on not only the exploitation of existing resources and capabilities, but also on the (relatively quick) development of those needed in the future (Gabrielsson, Gabrielsson, & Dimitratos, 2014; Riviere & Suder, 2016; Trudgen & Freeman, 2012). Further, whereas environmental (external) drivers are found to be more influential for short-term performance, internal ones (e.g., resources and strategy) are more crucial to the born globals’ long-term success and survival (Efrat & Shoham, 2012).

However, existing resources and processes can limit the opportunities for learning outside the areas in which the companies already excel, and the latter may thus benefit from the acquisition of external input in order to remain innovative. Such acquisitions both enable the expansion of the born globals’ knowledge base and enhance their technological capabilities (Cohen & Levinthal, 1990; Teece, 1998, 2003), which can contribute to the development of broader product offerings, the faster introduction of new products, and the creation and exploitation of new business opportunities (Graebner & Eisenhardt, 2004).

Based on the above arguments, we aim to explore the use of mergers and acquisitions (M&As) as a potentially beneficial strategy for maturing technology-based born globals. In this study, we will examine the impact of M&As on the financial performance and independent survival of born global companies that are maturing. Within the context of this

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study, independently surviving companies were those that continued to exist independently throughout the period examined, neither failing (e.g., due to bankruptcy) nor exiting, nor being acquired (Bruno, McQuarrie, & Torgrimson, 1992). We draw upon the resource-based view (RBV) (Barney, 1991), and study the acquisitive behaviours of 45 technology-based Israeli born globals that conducted a total of 108 M&As between 1999 and 2009. As a small economy, known for its technology-intensive cluster, Israel makes a good case for the study of high-tech born globals. In order to better understand the facets of such a complex phenomenon, we employ a hybrid approach based on both quantitative and qualitative methodologies, and include both statistical analyses and in-depth case studies of four born globals from the sample.

Long-term independence, which is important for many founders, also has national relevance due to the companies' contributions to the local economy (e.g., through economic growth and employment). Thus, an examination of the possible strategies available to those companies that opt for independent survival is important at both the company and societal levels. Our research contributes to the field of international business (IB) by integrating the born global literature with that of M&As, thus advancing the knowledge of strategies suited for maturing born globals. Further, by looking at born globals more mature than those that have been the subjects of earlier empirical studies, we also add to the understanding of the born global phenomenon.

2. Theoretical framework

According to the resource-based view (RBV) (Barney, 1991; Wernerfelt, 1984), performance differences among companies are attributed to differences in their respective resource bases. The combination and deployment of valuable, rare, imperfectly imitable, and non-substitutable resources create company-specific capabilities that put them in an advantageous position compared to their competitors. A company's ability to identify, accumulate, and use such resources is thus crucial to its competitive advantage (e.g., Grant, 1996).

Other studies using RBV to understand born globals have found that their competitive advantages are based on value-creation through technological innovativeness, product differentiation, and quality leadership (e.g., McDougall, Shane, & Oviatt, 1994), which enable the development of cutting-edge technology products (Knight & Cavusgil, 2004). Such competitive advantages are enforced by the opportunistic first-mover advantages gained from exploiting entrepreneurial opportunities across borders (Almor & Hashai, 2004; Rialp et al., 2005; Zahra & Bogner, 2000).

The importance of innovation in securing the sustainability of competitive advantages is highly accentuated by the RBV. If a competitive advantage is to endure over time, a company needs to both renew its resources and recombine and redeploy the resulting capabilities (Barney, 1991; Wernerfelt, 1995). The sustainability of a competitive advantage is dependent on the requirement of imperfect imitability (Eisenhardt & Martin, 2000), meaning that the underlying resources are difficult to transfer between companies. Unfortunately, imperfect imitability also hampers the ability of companies to put 'old' resources to 'new' uses. Thus, the capabilities underlying the competitive advantages of born globals may not be equally useful when factors outside company control (e.g., demand) change. In situations in which companies lack the required resources and capabilities, the theory suggests acquiring resources that are developed outside of the company. Externally developed knowledge can help companies enhance their resource bundles, achieve strategic renewal, and secure input to their own innovation processes (Anand & Singh, 1997; Graebner & Eisenhardt, 2004; Harrison, Hitt, Hoskinson, & Ireland, 2001). Companies can access external resources by choosing among several strategies, they can select lower commitment modes—such as strategic alliances (Hagedoorn, 2002; Teece, 2003)—or higher commitment ones—such as M&As (Hitt, Hoskisson, Johnson, & Moesel, 1996). Further, venture capital (VC)—corporate VC (CVC) and foreign VC (FVC) in

particular—can help to access externally developed knowledge, enabling the enlargement or restructuring of a company's resource base (Barney, Busenitz, Fiet, & Moesel, 1996; Keil, Autio, & George, 2008).

3. Maturing born globals: hypotheses development

In spite of their relatively recent establishment, small size, and lack of organizational experience, the operation of born globals seems to be similar to that of larger multinational enterprises (MNEs) in that they target international markets, seek international venture capital, and spread their value chains over multiple countries (Cavusgil & Knight, 2015; Oviatt & McDougall, 1994). Because of the apparent mismatch between these behaviours and the predictions of traditional internationalization theories (i.e., the Uppsala model, Johanson & Vahlne, 1977), emerging born globals have gained a lot of attention. 'Maturing born globals', on the other hand, are much less researched.

Recent studies have been aimed at better understanding the development process of born globals over time. Some have proposed that these companies evolve in stages (Hashai & Almor, 2004; Gabrielsson, Kirpalani, Dimitratos, Solberg, & Zucchella, 2008; Gabrielsson & Gabrielsson, 2013), while others have suggested that the process is more complex, involving de- and re-internationalizations (Freeman, Deligonul, & Cavusgil, 2013), as well as retrenchments (Gabrielsson & Gabrielsson, 2013). According to these studies, the nature of born globals changes over time, from entrepreneurial organizations that use emergent strategies and depend mainly on their technological capabilities, to more analytical ones that employ planned and systematic (deliberate) strategies (Rialp-Criado, Galván-Sánchez, & Suárez-Ortega, 2010) while also depending more on managerial capabilities (Ljungquist & Ghannad, 2015). Gabrielsson et al. (2008) suggested that born globals eventually reach a 'break out' phase, during which they develop into 'traditional' multinational enterprises. Other researchers have argued that only a few born globals are capable of becoming international market leaders (e.g., Li & Deng, 2017; Trudgen & Freeman, 2014), as many fail to survive (Mudambi & Zahra, 2007), while others choose to exit through acquisition by larger MNEs (Almor, Tarba, & Margalit, 2014; Weber & Tarba, 2011). Some authors also propose that, although early internationalization can increase the probability of growth, it might decrease the probability of survival due to liabilities resulting from newness and foreignness (e.g., Sapienza, Autio, George, & Zahra, 2006).

A commonality among the above described findings is that survival depends not only on the exploitation of existing resources and capabilities, but also on the development of new knowledge suited to meet future market needs (Gabrielsson & Gabrielsson, 2013; Gabrielsson et al., 2014; Riviere & Suder, 2016; Trudgen & Freeman, 2012; Zahra & Bogner, 2000). First-mover advantages may erode over time and, although globally focussed differentiation initially enables technology-based born globals to grow, niche strategies can create dependency upon a very specific product life cycle. While technological products can be upgraded and updated, they still belong to a single industry that will eventually decline when challenged by new ones that produce technologically superior substitute products (Almor, 2013; Fernhaber, McDougall, & Oviatt, 2007). Also, born globals often rely on a limited set of knowledge and managerial practices, which may lead to a state of rigidity and inertness towards environmental changes (Leonard-Barton, 1992), and constrain their capacity to create new entrepreneurial opportunities (Nelson & Winter, 1982). The creation of new technologies, products, and capabilities is time consuming, resource draining, and risk intensive. Consequently, this study proposes the use of acquisitions as a constructive option to meet these challenges; we pose that maturing born globals will increase their chances to remain independent and do well financially if they are capable of continuing their growth through the successful acquisition of other companies.

Before continuing with the hypotheses development, we would like

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