IMPACT OF GLOBALIZATION ON CONTEMPORARY BUSINESS

Preconditions for Born Global Internationalization: Network Approach

Rimante Morkertaite and Jurgita Sekliuckiene

Kaunas University of Technology
K. Donelaicio str. 73, LT-44029 Kaunas, Lithuania

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Abstract

A rapidly changing environment creates new challenges for companies seeking to expand their activities outside the country. On the other hand, the changes can be accelerators for new activities, new breakthroughs of ideas. Internationalization solutions of born global enterprises are often in response of changes in the environment and have a quick solution for engaging in the foreign markets, ambition and entrepreneurial activity. Rapid internationalization of small and medium-sized companies is often associated with strong partners and the need for the operation of a network. Therefore, networking is becoming a necessity for successful internationalization of born global companies.

Building on the extant literature and drawing on the network theory, this paper presents a conceptual model of born global firm internationalization and benefits from the networking in internationalization process. The theoretical research has shown that formal and informal networking is crucial for internationalization of born global enterprises, however there are positive and negative outcomes, which are discussed. The investigation contributes to born global literature, presenting networking-based rapid internationalization.

Keywords: born global, internationalization, networks, benefits from networking.

Introduction

Globalization has caused increasing integration of the markets and the economies. Therefore, companies operating in relatively small markets are seeking to grow outside the country, and the internationalization is becoming a mainstream of business growth. The intensive competition has determined researches for new forms of activities outside the country not only to large companies but also small and medium enterprises (SMEs). In order to compete in the international market and to make a more efficient use of the limited financial, time and other resources, small and medium-sized enterprises are constantly looking for new internationalization methods. Born global companies are mainly managed by entrepreneurial leaders. Entrepreneurial orientation emphasizes the importance of the initiative and innovation of organization; for such companies it is easier to establish themselves in international markets (Knight and Cavusgil, 2004). The leaders of born global companies see the international business as their fundamental vision of the organization, so that all the processes, decisions and activities are concentrated in order to accelerate internationalization process (Roudini and Osman, 2012). Rapid internationalization of small and medium-sized enterprises is an interesting object of both practitioners and theoreticians.

There is quite a lot of research on particular aspects of born global internationalization and its performance. However, the importance of networking for the company’s internationalization is a relatively new research sphere. The need for further explorations on the impact of networking to rapid internationalization among born global companies has been recognized by Andersson and Wictor (2004), Sharma and Blomstermo (2003), Autio (2005), Coviello and Cox (2006). Therefore, further analysis of born global firms, highlighting the importance of networking to companies’ internationalization becomes the object of this study. The aim of the paper is to reveal preconditions of born global internationalization through networks and highlight the benefits from networking. This study is contributing to the international business sciences by providing a better understanding of the importance of networking to performance of born global companies.

The study was carried drawing on literature analysis, revealing born global enterprise specifics and networking factor. In the study a conceptual framework of born global internationalization through networks is proposed.

Factors influencing born global companies and networks

Small and medium-sized enterprises, which internationalize rapid from the first day of their establishment, are referred to as born global companies (Knigh and Cavusgil, 1996, Knight and Cavusgil, 2004;
Rialp et al., 2005). According Falize and Coeurderoy (2012), a born global company from the outset seeks international markets and in a short period of time jumps over some traditional internationalization stages. Born global companies quickly achieve a high level of sales of goods or services of the foreign markets. Born global companies are driven by the emergence of both external and internal factors. External factors include the remote environment and industry effects:

- Technological development (production, communication, transportation systems, etc.) (Rialp et al., 2005);
- Globalization of markets, such as globalization of knowledge perspective, which has solved many of the international trade barriers (Knight and Cavusgil, 2009; Halldin, 2012);
- The industry in which acts a firm characteristics (Baronchelli and Cassia, 2011);
- Growing competition, which has created an increasing amount of niche markets (Knight and Cavusgil, 2009; Halldin, 2012);
- Internal factors are divided into the following:
  - Global entrepreneurial vision of the firm (Rialp, Rialp and Knight, 2005);
  - Organization competence, such as the company's ability to develop innovative products (Baronchelli and Cassia, 2011);
  - Company's innovativeness, flexibility and adaptability, which are derived from the company's small size (Knight and Cavusgil, 2009; Halldin, 2012);
  - Entrepreneurs' international experience, explained by the fact that modern businesses need more international experience and knowledge about foreign markets (Baronchelli and Cassia, 2011).

Both internal and external factors create an environment in which born global company has been formed. The smallness of firm leads to partnership needs, seeking synergies in the development of existing partnerships by engaging in networks. Gilchrist (2009) explains that networking is a process of information, knowledge, practice and experience (and sometimes resources) movement, sharing and exchange among the participants with a common interest - to create added value in a given field. The relationships between the participants in the network are due to reach the exchange of valuable resources and this interaction continues until both sides of this is helpful. In the established network companies split their activities, which means that they become dependent on each other (Sasi and Areni, 2008). Networks created by entrepreneurs are interpreted as an egocentric concept. These networks consist of direct bilateral communication with the center of the entrepreneur (Hite and Hesterly, 2001). Based on these networks, entrepreneurs, developing born global enterprises, receive the necessary information relating to the environment in which they operate or intend to operate.

Moller and Halinen (1999) and Johansson (2005) argue that a company with some of the participants share a horizontal relationships (with the competitors and their alliances, universities, scientific research centers, non-governmental organizations (NGOs), government agencies and others) and with others - vertical relationships (customer, customer partners, suppliers and partners). There are various horizontal and vertical forms of collaboration, such as partnerships, business associations, technology platform, integrated science, studies and business centers, clusters. According to Johansson (2005), company’s connections, their characteristics are closely linked to the needs of the company, i.e. with the company’s requirements from the network.

Companies have formal and informal network of contacts. Formal relationship is considered to be related to the business relationship between two or more participants (Coviello and Martin, 1999; Ojala, 2009). Formal communication includes goods or economic exchanges and certain resolution of specialized economic (mostly one-off) issues (Hite and Hesterly, 2001). In addition, formal relationships include relations, which are institutionalized for example, through contractual agreements, licensing, etc. Meanwhile, informal contacts can be identified as the social and economic exchange. These networks are closely related to the individual existing links, for example, contacts with former colleagues, volunteer relations and certain family or community relationships. Whereas official relations can ensure stability, access to resources, as well as the legitimacy of the contract, informal communication networks are promoting factors to formal relations. Informal communication is considered to be stronger and providing diverse information, creating trust and that is what is needed for the creation of formal links. Moreover, informal communication is often more important because of a lower demand for investment and its flexibility, and these qualities are necessary in the context of changing entrepreneurs business.

In both formal and informal relations, the strength of the relationship is essential; it depends on the participants’ communication frequency, intensity and reciprocity. The weak link is the case when participants of network spend little time and is inactively involved in the development of the relations. Weak ties are not suitable for complex knowledge transferring, but these relationships are much more flexible, requiring fewer resources and are used to obtain a broad range of straightforward information (Blomstermo and Sharma, 2003). Stronger links are created with higher confidence, freedom of communication between the participants in the network, which has an impact on the transmitted or received information content and easier transfer of complex knowledge.

**Reasons encouraging to form networks**

Reasons to form networks can be divided into several categories: 1) to reduce costs; 2) to increase revenue. It should be noted that both categories correlated with each other, so it is worthwhile to elaborate them.

Mostly networking companies are encouraging by a desire to reduce their costs (Glaister and Buckley, 1996; Ebers, 1997). Necessary amount of expenditure is too high for small and medium-sized born global enterprises and this amount is also increasing because of certain barriers.
and risks. In particular, small and medium-sized companies have limited resources which are required for internationalization. Enterprise expansion liabilities are all costs associated with the spatial distance incurred in order to internationalize (Falize and Coeurderoy, 2012). Thus SMEs aim to create networks in order to save the organization’s management and coordination costs (Ebers, 1997). Rapid internationalization creates additional transportation, communication, co-ordination at a distance and other costs. The management costs are usually much more complicated than acting only in their own context (Falize and Coeurderoy, 2012).

The time required for the learning and assimilating the basic knowledge about foreign markets, also becomes a barrier. SMEs in particular have a lack of knowledge about business organization in other countries. Internationalization of the company often occurs with new operations, with which the company must be able to cope (Falize and Coeurderoy, 2012). Enterprise collaboration is one of the fastest and most effective ways to absorb and assimilate knowledge, the maximum shortening the learning curve.

Another reason to encourage companies to look for cost-saving alternatives in networks is liability of newness. Born global companies are entrepreneurial start-ups with a lack of knowledge about the specifics things in international business, that’s why they often faced with the newness of the enterprise threats (Sharma and Blomstermo, 2003). Companies penetration in foreign markets speed directly depends on its ability to find clients, the right partners and establish a solid deals. Penetration into new market for inexperienced company is exposed to significant unnecessary costs such as: search engines costs for finding a reliable local agent; negotiating costs incurred in negotiating the terms of the contract; costs incurred for regular meetings and terms of the contract execution monitoring, etc. (Falize and Coeurderoy, 2012).

Another reason is associated with overcoming of foreignness liability. Small and medium-sized businesses often lack the additional resources that may be required in order to establish themselves in unfamiliar institutional environments. Trading in the international market can be risky due to the different political, economic, social and legal environments between the company’s home country and the country in which the company has decided to internationalize their activities (Falize and Coeurderoy, 2012). In case of not dealing with other entities and not prevailing their rules of behavior and values, the company risks closing all ways to a successful business expansion (Barkema and Drogendijk, 2007). Another group of factors encouraging companies to network is the aim to increase operating incomes (Ebers, 1997). Inter-organizational networks can be useful for this purpose, as the company strengthens position against competitors or part of competitors become partners belonging to the same network. Cooperation organizations gain greater overall competitive power, which gives a more favorable competitive position against opponents (Glaister and Buckley, 1996; Ebers, 1997).

Expected benefit from networks is recognition of a new market. Belonging to the network organization has an opportunity to increase their visibility in the market, enhance their reputation, image, prestige, and this, in turn, has a direct impact on company revenues increase.

An economy of scale ambition is not only a mean of overcoming the threats, but also an obvious benefit for the company. Often, small and medium-sized enterprises are unable to make proper use of their existing production technology capabilities, due to small orders degrade conditions to acquire the necessary resources (Glaister and Buckley, 1996). Access to resources (financial, human, etc.), skills and competencies is another aspiration of born global companies. Companies cooperating in networks hope for easier access to the information. Cooperating organizations have a potentially better access to the multiplicity of information that would otherwise be difficult to achieve. This reduces the time and financial costs of the company (Wilkinson and Young, 2005).

Specialization benefits also promote born global companies for networking. Mostly company does not develop full value chain of specific product. It specializes in a certain stage of the process, and the rest (e.g., details, resources, processes, etc.) purchases from other organizations with which it has a certain relationship. Specialization in one area gives the company a more favorable competitive position in relation to non-specialized firms.

### Stages of internationalization

There are plenty of disagreements between scholars about internationalization process, as the organizations uses networking to ensure a place into foreign markets. The internationalization stages of born global companies are:

1. **Identifying opportunity**
2. **Acting upon the opportunity**
3. **Realizing an opportunity**

First of all born global company must identify the opportunities for itself, find the ways to use them effectively and finally realizing them (Johansson, 2005). The main focus will be on technological and market opportunities. Technological and knowledge growth absorption progress are the most important aspects of technological capabilities. It is the technological opportunities that are most vital for born global companies start-ups. However these opportunities by itself cannot give best results so far, so then market opportunities (opportunities that already exist and newly designed) also become important. Market opportunities can have a significant impact on network connections. The network in this case become not only required for additional company source, but also the possibility of continuous development and transformation tool (Sarasvathy, 2001). In order to identify opportunities for technological development, it is useful for born global companies to have relations with vertical connection people, researchers or patent representatives. When the possibility of development are carried out it does not mean that the company will automatically establish market opportunities. In order to create economic value, identified opportunities should be compared on the market itself.
The company must realize which development opportunity may solve the problems that occur. All of this is a market opportunity through its relationship with the environment development. In this case connection relations play an important role, because it is through them that companies are provided with useful information.

Second entrepreneurial internationalization stage is very dependent on the company’s business model. Business model development is quite a long process, which is influenced by the environment contacts. Close ties with the partner can block the searching for alternative solutions because of exposing only by cooperation, on which company depends, business model (Chesbrough and Rosenbloom, 2002). In this case, the entrepreneurial company could suffer painful consequences because consumer segmentation, value proposition development, cost structure, and other processes are formed not according to the company’s technological capability, but taken over by the partner’s business model to whom the company has a strong relationship.

In the third stage of entrepreneurial internationalization SMEs has to realizing an opportunity. This whole process is an integral part of networking (Lechner and Dowling, 2003). The networks creates synergy effect (Sasi and Areni, 2008), necessary for realizing technological and market opportunities. This occurs because of the networking companies find themselves in an effective business system that enables its members to work and be more productive and efficient.

Conceptual framework

According to the presented theoretical insights (Johansson, 2005; Sasi and Areni, 2008; Falize and Coeudery, 2012; etc.), the authors of the paper propose a conceptual framework of born global internationalization through networks (see Figure 1).

Proposed framework combines complex factors which determining networks of born global companies, entrepreneurial internationalization stages of the process, synergy effect resulted through networking and possible impact on company operating in networks. Synergy effect is achieved due to the following reasons:

- Membership of the network enables enterprises to get specific information about markets, technologies, resources, and other important aspects of a business in an easier, faster and cheaper way (Chetty and Wilson, 2003). Participants of network exchange available experience, share advices with each other, seek for experiential learning, acquire important skills for internationalization. On the same time grows confidence in each other and there is unity among the links forming a network. Companies use networks to acquire the techniques, how to avoid the institutional
and cultural barriers in order to establish their business in those markets.

- Manolova et al. (2010) note that with useful information and relevant resources company takes the internationalization actions much more confidently, which allows the company to avoid opportunistic behavior.

- Networks of born global company serves for implementing a number of activities (Andersson and Wictor, 2004). The network partners can co-operate in many areas: sales and logistics; production; administration; research and development and etc. Cooperation among the organizations can take advantage of economies of scale through shared resources, orders preparation, joint marketing formation, production capacity sharing and others. Thus, networks enable co-creation of products or services.

- Participation in networks enables the SMEs to develop their competence in a particular field. It provides opportunities for the company in the entire value chain of activities to choose to carry only one activity - it may be the product design development, logistics, negotiations with manufacturers or other activities (Westhead, Uchbasaran and Binks, 2004; Belso-Martinez, 2006).

- Networks are enablers of innovation processes (Gronum, Verreyne and Kastelli, 2012), through which process and product or service innovations are developed.

- The synergy effect is increased also by easier access to specialized labor sources. Network (e.g., a cluster) becomes the center of attraction of professional excellence. The latter becomes not only experts in a narrow specialization, but due to constant communication with theirs partners acquires a systematic problem-solving competence.

- Existing network provides a shared identity of a new market. According Falize and Coeурderoy (2012), belonging to the network company extends not only knowledge about the market, but also provides information to the market about the new venture.

- These conditions of synergies elements result a positive economic and social impact to born global companies. Born global enterprises through networking become more resources provided international firms, containing valuable insights for further development of the company and are able to spread properly their business idea on the relevant markets, directly fulfilling consumer expectations. The company successfully internationalized its activity in one market opens an opportunity to enter into another. By using networks, born global company reaches effective scope of business and gaining more capacity (Chetty and Wilson, 2003). In addition, networks help to improve efficiency of the supply chain. All this is implemented much more quickly and with lower costs than in the case of internalization only by the efforts of a small company (Sasi and Arenius, 2008; Falize and Coeурderoy, 2012).

- Another positive result achieved by the company through networks is innovation. Ahuja (2000) and Burt (2004) in their studies have demonstrated that the number of connections and the structure of network can improve the innovative performance of the company. The aim to improve innovation and results obtained through actively managed networks can directly improve achievement results of the company (Kastelle and Steen, 2010).

- Born global companies through established entrepreneurial networks become known in the market and gain a reliable market participant reputation (Hite and Hesterly, 2001; Partanen et al., 2008).

- Company’s contacts provide a competitive advantage, resulting reduced costs and increase operating efficiency and differentiation. Cost reduction is achieved through economies of scale. It can be said that born global enterprises through networks manage with their naturally emerging development, newness and foreignness liabilities and other risks.

- However, it is necessary to emphasize the negative consequences of internationalization through networks. It is possible to distinguish two clear networking negative impacts on business consequences: 1) the need for increased costs because of the establishment of a strong relationship with network partners requires time, effort and other costs; 2) established strong relationships can cause excessive dependency, companies risk to loss their autonomy (Johansson, 2005; Falize and Coeурderoy, 2012). Then the company loses a large part of the decision making right and does not act in accordance with their capabilities, but according to its’ important partner ‘dictated’ business model.

**Conclusions**

In the circumstances of intense competition, networking is becoming an important factor for successful internationalization. Network performance is supported by the relationship. A network can consist of horizontal and vertical relationships, these relationships can be divided into formal and informal, and accordingly to the effort and time to network formation – into the strong and weak ties; the basic networking forms that enable to co-operate are partnership, alliances, associations, clusters, technology parks, integrated science, studies and business centers. Born global companies are promoted to networking by the main group of reasons, correlating with each other: the aim of reducing costs and efforts to increase revenues. Rapid internationalization of born global enterprises includes these stages: 1) opportunity identification; 2) searching ways to take advantage of opportunities (acting upon the opportunity); 3) opportunity realization. In networking companies seek synergies which results the potential positive and negative consequences for the company. Based on the theoretical insights the authors of the paper
produce a conceptual framework. Because of internal (company’s characteristics) and external (environmental influence) factors born global enterprises immediately after their establishment choose to internationalize their activity. Internationalization is a resource-intensive process. These resources one way or another can be achieved only in the context of the company network. Thus born global companies, without necessary costs and seeking to increase their incomes, prefer networking as a key enabler of going into foreign markets. Networks through synergy effect (information, resource sharing, risk sharing, co-creation and cooperation of the implementation of activities, etc.) enable successful enterprise internationalization through the identification of potential opportunity, acting upon opportunity and opportunity realization. Therefore born global company much more quickly and efficiently internationalizes as by gaining a significant competitive advantage over other market participants. On the other hand, there are potentially negative consequences in the networking: increased costs of maintaining relationships with partners and the risk of losing autonomy of company and SMEs should prevent these outcomes. Further areas of research should include validation of the proposed model in specific economic sectors operating in born global companies. Empirical studies would identify the pattern of strengths and limitations. Another direction would be theoretical and practical solutions studies, seeking to uncover an influence of networking to born global enterprise performance and productivity.

References
Gimusių globaliomis įmonių internacionalizacijos priežaidos: tinkleiavimo požiūris

Santrauka

Greitai besikeičiant aplinka kuria naujus iššūkius įmonėms, siekančioms plėsti veiklą už šalies konkrečios ribų. Kita vertus, pokyčiai gali paskatinti naujas veiklas, naujas idėjų proveržius. Gimusių globaliomis įmonių internacionalizacijos sprendimai dažnai yra atsakas į aplinkos pokyčius ir pasižymi greitais sprendimais įsitauojant į užsienio rinkas, ambicija ir antrepreneriška veikla. Smulkiose v. vidutinėse (SMĮ) įmonėse greitai įsitraukiant į užsienio rinkas, ambicija ir antrepreneriška veikla. Smulkiose v. vidutinėse (SMĮ) įmonės greita internacionalizacija dažnai siejasi ir su stiprių partnerių poreikiu, ir veikimui tinkle. Todėl tinkleiakė tamp a viena svarbiausių gimusų globaliomis įmonių sėkmingos internacionalizacijos priežaidų.

Globalizacija sąlygojo vis didesnį rinkų ir ekonomikų integraciją. Todėl įmonės, veikiančios sąlyginai nedidelėse rinkose, siekia plėstis už šalies ribų, o internacionalizacija tampa pagrindinė įmonių augimo strategija. Intensyvūs veiksmai, siekiant greitų įsitraukimą į užsienio rinkas, dažnai priskiria į pavyzdžius, kurie vaidina smulkiose v. vidutinėse (SMĮ) įmonėse. Smulkiose v. vidutinėse (SMĮ) įmonės ir plėtinės rinkos tampa viena svarbių nuolat ieškotų įmonių strategijų.

Gimusias globaliomis įmones jungtis į tinklus skatina pagrindinės motyvų grupės, kurių susidarymo pradžia yra siekti efektyvių įtakų įmonės veikloje ir efektyvių santykių kūrimo ir veikimo principų. Nors tinkleiakė, atsižvelgiant į jos svarbą ir įvairiausiuosius aspektus, yra įvairūs, jų svarba siekia ne tik gimusio įmonių augimą, bet ir svarbiu elementu nacionalinių ir tarptautinių veiksmų veikloje.