



OULUN YLIOPISTO
UNIVERSITY of OULU

OULU BUSINESS SCHOOL

Timo Pönkänen

**EARLY PHASES OF BORN GLOBAL INTERNATIONALIZATION FROM NETWORK
PERSPECTIVE**

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1 INTRODUCTION

1.1 Background

As a result of vastly developed communication and transportation technologies, today's global markets are just a hands reach away from almost anyone pursuing international affairs (Oviatt & McDougall, 1994; Knight & Liesch, 2016). With modern technology, knowledge – once generated – can be transferred internationally with almost no cost. This has allowed companies surge in to global markets instead of internationalizing evolutionarily – according to the traditional process theory of internationalization (Oviatt & McDougall, 1994; Johanson & Vahlne, 1977). A generation of “Born Globals” has emerged: entrepreneurs skipping or speeding through domestic growth phases and craving for international success. However, the phenomenon still lacks an unambiguous core-theory.

The phenomenon of Born Globals is topical in Finland, as the high-tech, knowledge-intensive industry with relatively small domestic markets seems to motivate entrepreneurs towards global markets. The phenomenon is also emerging around the world (Knight & Liesch, 2016). As the upcoming generations undoubtedly have technology-oriented and global mindsets the world has never seen before, one can assume that we will see an increasing number of early and rapidly internationalizing companies in near future.

As internet and other communications technologies advanced into a stage where it is possible to stay connected to the world almost everywhere at all times, the researchers own impression is that the role of networks is now stronger than ever. As almost everyone is able to participate in global markets, it is important to find suitable and favorable network partners to distinguish from the mass and gain advantage over other companies present at the markets. This study aims to recognize problems that Born Global –companies face in the early stages of internationalization and present aspects in which networks help overcoming them.

1.2 Motivation of the study

The motivation for this study originates from the researcher's interest in the Born Global –phenomenon. Also, the studied literature provided arguments that encouraged to pursue research on the topic. Early stages was chosen as the timeframe, as both the organizations and networks “co-develop” at the time (Coviello & Slotte-Kock, 2010), and as the time period has proven to be in particular interest of the researcher. Research of Hoang & Antoncic (2003) shows that networks have been widely researched in international entrepreneurship, but lack an underlying core-theory. Many of the researches on the topic have focused on how networks evolve through a domestic venture creation process, which limits applying them to a Born Global –setting (Sepulveda & Gabrielsson, 2013, 792). Zain & Ng (2006) suggest that companies should to invest more effort into relationship building, as the network relationships were found to be useful in facilitating internationalization process. Coviello & Slotte-Kock (2010) have called for research on the influence of ties on firm growth.

1.3 Research problem

The purpose of this study is to find out how Born Global –companies benefit from networks in the early stages of internationalization. As competition in global markets is tough, resources are scarce and the first-mover status is often vital for survival, networks seem to provide Born Globals a medium to move rapidly in to global markets.

The study is guided by the following research question:

- *How do Born Globals benefit from networks in early stages of internationalization?*

The research question is complemented with the following sub-questions, which divide the main research question in half, thus outlining the structure of the study:

- *What kind of constraints to internationalization do Born Globals face in their early stages?*
- *How can networks help Born Globals to overcome the constraints?*

1.4 Research methods

The research is conducted as a literature review of academic journals in the field of International Business, with particular interest in Born Globals, Networks and Internationalization. Initial literature for the study was found by searching EBSCOhost's Business Source Complete and ProQuest ABI/INFORM Complete - databases with search terms "born global*", "born global AND internationalization" and "born global AND network*". These search results were then refined to academic publications that are published in 2000 or later. To ensure that this initial material is valid, only peer reviewed literature was examined. Rest of the literature was found by examining cited references in the found literature, using the so-called "snowball method" to fill the missing pieces in the theoretical framework. Majority of the references cited in this study are academic journals that can be found from online databases (such as EBSCOhost & ProQuest ABI/INFORM). The reviewed literature and their author supplied key words are arranged to Table 1.

As the aim of the research is to study qualities of networks and Born Globals, the used method is a qualitative and inductive one, interpreting the existing scientific literature to observe patterns and form conclusions that unify existing theories. This study is also exploratory in nature, and does not aim to offer concrete results, e.g. actions that companies should do to advance their internationalization. Rather, the researcher aims to explore the research question and combine findings to understand the phenomena better. The expectation is that results of this study will be broad, as research on both Born Globals and networks do not have a prevailing, well-defined core theory (Hoang & Antoncic, 2003). The researcher's intension is set ground for more in-depth and conclusive future research.

1.5 Structure of the study

The study will begin by defining the researched concepts according to the studied literature. After assessing Born Globals and their internationalization behavior according to the reviewed literature, the research will move on towards assessing networks as a phenomenon, focusing on their role in Born Global environment. Finally, the study will discuss the findings drawn from the researched literature, answering both of the sub-questions and thus the main research question. Findings are then summarized to form conclusions in the final paragraphs of the study.

Table 1: Reviewed literature & author supplied key words

Author	Title	Year	Author supplied key words
Arenius	The psychic distance postulate revised: From market selection to speed of market penetration	2005	Psychic Distance, Speed Of Market Penetration, Uppsala Model
Autio	Creative tension: The significance of ben oviatt's and patricia McDougall's article `toward a theory of international new ventures	2005	Born Globals, Internationalization Process, New Venture Internationalization
Bell et al.	Towards an integrative model of small firm internationalisation	2003	Integrative Model Small Firm Internationalization
Cavusgil & Knight	The born global firm: An entrepreneurial and capabilities perspective on early and rapid internationalization	2015	Born Globals, Early Internationalization, Rapid Internationalization, Entrepreneurial Firm, Innovation/Creativity
Chandra et al.	An opportunity-based view of rapid internationalization	2012	Born Global, International Entrepreneurship, Opportunity-Based View, Rapid Internationalization
Coviello	The network dynamics of international new ventures	2006	International Entrepreneurship, International New Venture, Born Gloval, Network, Internationalization, UCINET
Coviello & Munro	Network relationships and the internationalisation process of small software firms	1997	Internationalization Process, Networks, Small Firms, Software
Delmar & Shane	Legitimizing first: Organizing activities and the survival of new ventures	2004	Legitimizing Activities, Survival Of New Ventures, Swedish New Ventures, Venture Disbanding
Freeman et al.	How smaller born-global firms use networks and alliances to overcome constraints to rapid internationalization	2006	Born-Global Firms, Client Followership, Collaborative Partnerships, Internationalization, Networks, Small & Medium-Sized Enterprises
Gabrielsson & Kirpalani	Born globals: How to reach new business space rapidly	2004	Born Globals, MNCs, Channels
Gabrielsson et al.	Born globals: Propositions to help advance the theory	2008	Born Globals, Channels/Networks, Organizational Learning, Phases Of Development, Resource Development, Risks
Gilmore & Carson	Entrepreneurial marketing by networking	1999	–
Hoang & Antoncic	Network-based research in entrepreneurship: A critical review	2003	Social Networks, Entrepreneurship, Literature Review

Johanson & Vahlne	The internationalization process of the Firm—A model of knowledge development and increasing foreign market commitments	1977	–
Knight & Cavusgil	Innovation organizational capabilities and the born-global firm	2004	Early Adopters Of Internationalization, Innovations And Capabilities, Born Global Firms
Knight & Liesch	Internationalization: From incremental to born global	2016	Internationalization, Incremental Internationalization, Early Internationalization, Born Global Firms
Oviatt & McDougall	Defining international entrepreneurship and modeling the speed of internationalization	2005	–
Oviatt & McDougall	Toward a theory of international new ventures	1994	–
Rennie	Born global	1993	–
Rialp et al.	The born-global phenomenon: A comparative case study research	2005	International Entrepreneurship, Born-Global Firms, Multiple Case Study, Spanish SME's
Sepulveda & Gabrielsson	Network development and firm growth: A resource-based study of B2B born globals	2013	Born Global, International New Venture, Business-To-Business, Networks, Strategic Resources
Slotte-Kock & Coviello	Entrepreneurship research on network processes: A review and ways forward	2010	–
Vasilchenko & Morrish	The role of entrepreneurial networks in the exploration and exploitation of internationalization opportunities by information and communication technology firms	2011	Born Global, Entrepreneurship Networks, Information And Communications Technology, Internationalization
Zain & Ng	The impacts of network relationships on SMEs' internationalization process	2006	–
Zander et al.	Born globals and international business: Evolution of a field of research	2015	Born Globals, Entrepreneurship, International New Venture, Decade Award
Zhou et al.	Internationalization and the performance of born-global SMEs: The mediating role of social networks	2007	Social Networks, Quanxi, Internationalization, Born Global, SMEs, China
Zur	Opportunity identification and creation as factors of firm internationalisation	2015	Opportunity Identification, Opportunity Recognition, Opportunity Creation, International Entrepreneurship, Internationalization

2 BORN GLOBAL –COMPANIES

2.1 Background

Oviatt & McDougall (1994) describe International New Ventures in their groundbreaking study “Toward a Theory of International New Ventures” as business organizations that, from their inception, seek to gain competitive advantage through use of resources and the sale of outputs in multiple countries. The INV model (Oviatt & McDougall, 1994) posed an alternative, contrasting, view of internationalization to the more traditional internationalization process theories, such as the “Uppsala - model” (Cavusgil & Knight, 2015; Johanson & Vahlne, 1977).

In recent research, the INV phenomenon has obtained different names – nowadays the most commonly used being “Born Global”, introduced by Rennie in 1993. Cavusgil & Knight (2015) suggest that while the term “Born Global” is evocative, “International New Venture” is more accurate in some respects, since most of the early internationalizing firms limit their export activities to certain geographies. However, in this research paper the researcher has decided to use the term Born Global, as it has established its position in recent International Business research.

2.2 Definition of a Born Global

Scholars have provided the field of research with non-numerical characteristics of Born Global (BG) companies. In their 2004 article “Innovation, Organizational Capabilities, and the Born Global Firm” Cavusgil & Knight (2004), described Born Globals as young, resource-poor and entrepreneurial start-ups that aim at making international business, typically by exporting, soon after their inception. It has been stated that Born Globals are knowledge-intensive companies that seek global ‘niches’ to penetrate rapidly and advantage from being the “first-mover” in a market (Freeman, Edwards & Schroder 2006, 35; Bell, McNaughton, Young & Crick, 2009, 348). Gabriëlsson et al. (2008, 388) defined a Born Global firm as one that has products with global market potential and can combine this potential with an entrepreneurial capability to seek achieve methods of accelerated internationalization. In one of the most recent studies, Knight & Cavusgil (2015, 6)

characterize these companies as follows: "operating under conditions of asset parsimony, these young companies appear to overcome such deficiencies by leveraging unique capabilities and strengths – a high degree of entrepreneurial orientation, persistence, innovation, and differentiated offerings."

As the phenomenon lacks a well-defined core theory, the key figure -based definition of Born Globals varies from author to author. Table 2 (Gabrielsson, Kirpalani, Dimitratos, Solberg & Zucchella, 2008) and Table 3 (Gabrielsson & Kirpalani, 2004) illustrate how inconsistent the definitions are: the definitions have varied significantly depending on the author, and moreover on the environment in which the studied companies exist. The Born Global –phenomenon is more common in nations with small domestic markets, than in ones with large domestic markets (Tamer & Cavusgil, 2015). The varying absolute figures and percentages in definitions of Born Global companies can be explained with differences in home market potential, product and export market receptivity (Gabrielsson et al. 2008). Hence, one should be careful when defining numerical descriptions: the definition seems to be more of a matter of degree than an absolute figure (Freeman et al., 2006).

In this study, the researcher has decided to not set strict numerical standards for a company to be assessed as a Born Global. As mentioned above, the numerical differences found in recent literature on the topic can be explained with contextual differences. E.g. as United States have large local markets, it can be assumed that an American Born Global company's percentage of foreign sales is significantly lower than its e.g. Finnish counterpart. For the purpose of this study a Born Global is defined as a company, that from its inception, seeks to derive significant competitive advantage from the use of resources and the sales of outputs in multiple countries, in line with Oviatt & McDougall (1994 & 2015). Also, in this study, the early stages of a Born Global company are defined as the time from pre-inception of the firm to the initial move to the global markets.

Table 2: Definition of Born Global Firms (Gabrielsson et al., 2008)

Dimension/author	Vision	Time before starting export	Export versus global growth/age
Oviatt and McDougall (1994)	A business organisation that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries.	–	–
(McKinsey and Company (1993) and Rennie (1993))	Management views the world as their market place from the outset.	Began exporting, on average, only 2 years after foundation.	Achieved 76% of their total sales through exports at an average age of 14 years.
Knight and Cavusgil (1996)	Management views the world as its marketplace from the outset.	Begin exporting one or several products within 2 years of establishment.	Tend to export at least a quarter of total production.
Chetty and Campbell-Hunt (2004)	–	Within 2 years of inception.	80% of sales outside New Zealand; markets are worldwide.
Luostarinen and Gabrielsson (2006)	Global vision and/or at a global growth path.	Entered global markets at the outset.	Make over 50% of their sales outside home continent. Established after 1985.
Servais et al. (2007)	–	Within 3 years of establishment.	More than 25% of foreign sales or sourcing outside home continent.

Table 3: Criteria used to define Born Globals (According to Gabrielsson & Kirpalani, 2004)

Criteria	Author
Vision and strategy to become global/international	e.g. Knight & Cavusgil, 1996; Oviatt & McDougall, 1994
Small technology-oriented companies	e.g. Bell, 1995; Knight & Cavusgil, 1996
Time to become global/international, varying from immediate to three years	e.g. Knight et al., 2001; Knight & Cavusgil, 1996
Geographical expansion in terms of a minimum of 25% of foreign sales or a minimum number of countries served outside the home country	e.g. Knight & Cavusgil, 1996; Oviatt & McDougall, 1994
Geographical expansion outside the home continent with a minimum of 50% external sales	Luostarinen & Gabrielsson, 2004

2.3 Internationalization of Born Globals

As mentioned, Born Globals internationalize rapidly, but how does their internationalization differ from the traditional process theory of internationalization (Johanson & Vahlne, 1977)? Interestingly, whereas Born Globals lack an underlying core-theory, scholars have found that these companies' internationalization activities share similar characteristics. Contrary to the stage theory, Born Globals do not start their international operations incrementally from an established domestic market base: it is not uncommon for a Born Global to start internationalizing by entering multiple foreign markets at once (Rialp, Rialp, Urbano & Vaillant, 2005) and/or by beginning internationalizing activities at "psychically distant" markets (Coviello & Munro, 1997). Hence, it can be drawn that Born Globals enter global markets at a greater risk than traditionally internationalizing companies. Rialp et al. (2005) also found that Born Globals' internationalization is mostly driven by the founders' and partners' previous international experience, networks, or by other customer-related factors.

Commitment is one of the key variables in traditional internationalization model and is strongly interlinked with risk. The concept of commitment can be defined as a decision to designate specific resources to a market (Johanson & Vahlne, 1977; Gabrielsson et al., 2008). Compared to the traditional model, Born Globals' commitment has different characteristics: in particular, it is generated by a different mechanism (Figure 1). According to the traditional model, as a firm start their foreign market operations and their market knowledge increases, the firm is ready to develop their activities and increase their commitment by making specific investments (Gabrielsson et al., 2008). Gabrielsson et al. (2008: 398) describe the rigidity characteristic to the traditional model by stating that "the specificity of these investments makes it difficult to find alternative uses for the resources committed and company management sees the need to continue to pursue the business opportunities created by this resource deployment".

Whereas the traditional model sees that commitment is generated as a result of specific investments a company has made, the initial, affective commitment of Born Global companies is created not by market activities, experiential knowledge or

specific investments, but by entrepreneur’s vision, beliefs and opportunities that they present to the entrepreneur (Gabrielsson et al., 2008). This seems to support findings made by other scholars: Born Global companies are more proactive -oriented internationalizers than companies that suit the traditional theory (e.g. Oviatt & McDougall, 1994; Rialp et al., 2005; Freeman, Edwards & Schroder, 2006; Sepulveda & Gabriellson, 2013; Cavusgil & Knight, 2015).

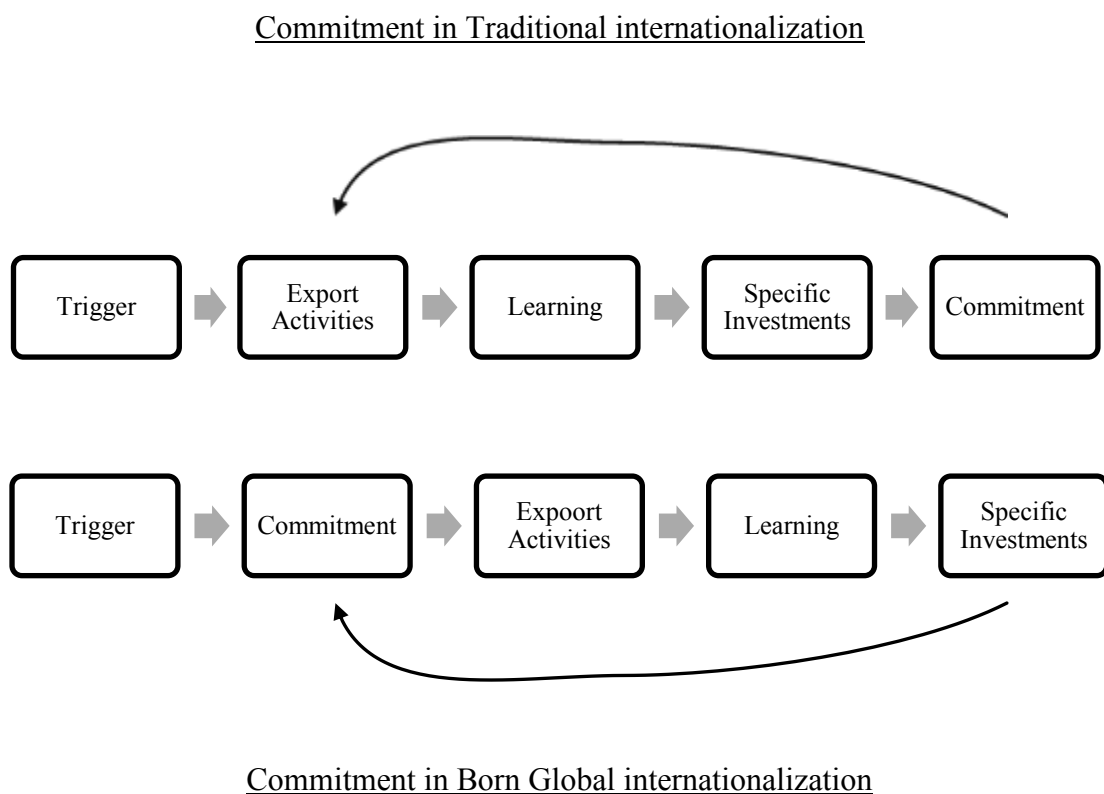


Figure 1: Commitment in traditional internationalization and Born Global Internationalization (Gabrielsson et al., 2008)

However, a Born Global –company can evolve in to a direction where it will gradually start reminding a company that internationalizes according to the traditional stage –theory. Gabrielsson et al. (2008) explain that later in the BG internationalization cycle (Figure 1), as the export venture has already taken off, experience and specific investments create commitment of a different nature: continuous. After few “loops” there is a little that distinguishes Born Global

commitment creation from “traditional” path of commitment creation (Gabrielsson et al., 2008).

To summarize, it can be said that – compared to companies adhering the traditional stage model of internationalization – Born Global companies internationalize proactively, rapidly and less risk-averse. The companies often enter multiple markets, use multiple entry modes and at least to some extent disregard psychic distance between home and target markets.

3 NETWORKS

3.1 Background

General definition of a network is, that a networks consist of a set of actors linked by some set of relationships. However, similarly to Born Globals, research on networks lack an underlying core theory that would provide a comprehensive definition of the phenomenon. Instead, research has been influenced by anthropology, psychology and even mathematics. (Hoang & Antoncic, 2003.)

3.2 Networks in Entrepreneurship Literature

Network is a dynamic system in which constant changes are occurring at different levels (Coviello & Slotte-Kock, 2010). Research has shown that networks provide to information and advice for entrepreneurial processes, e.g. contacts to venture capitalists and professional service organizations. Characteristic for networks is, that they are often built on trust, without forming extensive contractual agreements. (Hoang & Antoncic, 2003.) Thus, it can be drawn that trust is a key element in formation of networks. Networks can be broadly classified into *social networks* and *business networks*: social networks involve those networks that are developed from personal relationships, whereas business networks are those that involve some form of repeated economic exchange (Vasilchenko & Morrish, 2011). It is important to note that whereas networks are often seen as mediums to progression, (e.g. growth), regression (e.g. deterioration) is present in the phenomena as well (Coviello & Slotte-Kock, 2010).

In entrepreneurship literature context, social networks are defined networks as “a collection of individuals who may or may not to be known to each other and who, in some way contribute something to the entrepreneur, either passively, reactively or proactively whether specifically elicited or not” (Gilmore & Carson, 1999). This would suggest that social networks can be seen more as intangible resources that can be reached trough individuals, rather than being resources accessible to a company as an entity. Especially in early stages, social networks are vital, as they provide critical resources to begin the venture (Hoang & Antoncic, 2003). These resources can be

either knowledge and (access to) financial or other tangible resources. According to Vasilchenko and Morrish (2011), informal relationships act as a source of knowledge and resources that companies can utilize to identify new opportunities for growth. This would suggest that informal relationships have an opportunity to evolve in to formal, business relationships over time, at which stage the company can access them as an entity.

Business networks consist of often contractual and formal partnerships and cooperation between companies (Vasilchenko & Morrish, 2011). These networks are often result of business activities, such as inward-oriented actions (e.g. purchases) which provide a firm with an opportunity to build relationships to international actors (Freeman et al., 2006). As mentioned earlier, social networks can evolve in to business networks. Business networks can also be formed e.g. through active search of partners or by entering a pre-existing network.

Figure 2 illustrates the key differences between the formation of social and business networks. On an important note, randomness is an important factor in the development of networks, as exogenous events can effect the relationships between network members or the entire network itself (Coviello & Slotte-Kock, 2010).

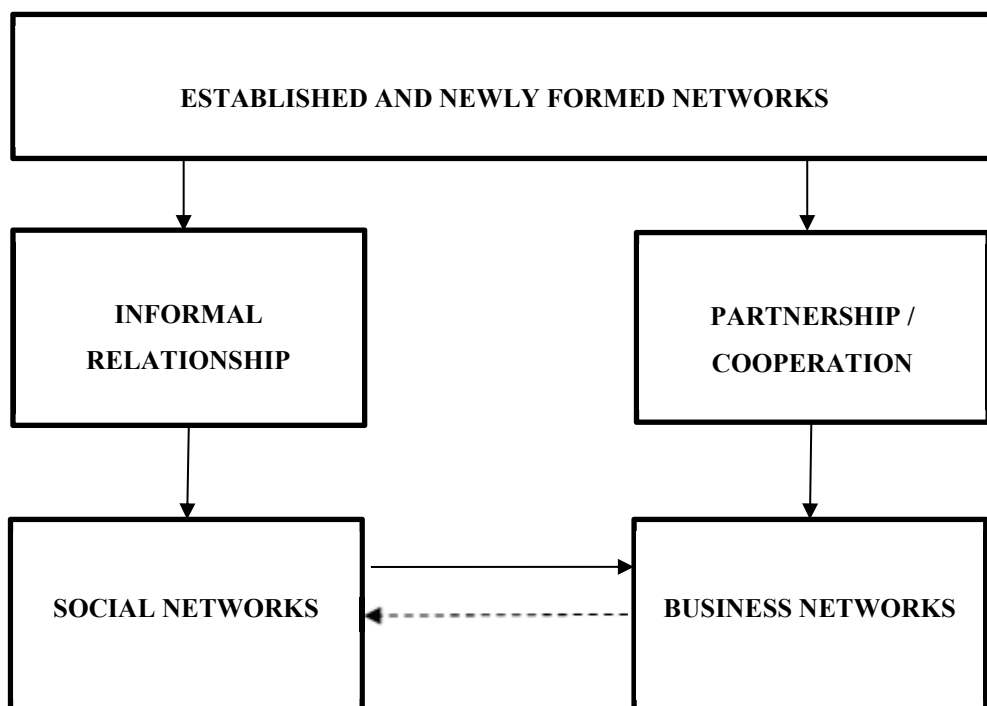


Figure 2: Social and Business network formation (adapted from Vasilchenko & Morrish, 2011)

3.3 Networks in Born Global –context

Recent literature has noted that network relationships affect the pace and pattern of internationalization (Coviello & Munro, 1997; Zain & Ng, 2006) and that networks are crucial for Born Globals to penetrate global markets early, rapidly and successfully (Coviello & Munro, 1997; Rialp et al., 2005; Freeman et al. 2006). Thus, if the early mobilization of Born Global companies is facilitated by network relationships, it is reasonable to assume that network ties emerge prior to internationalization. (Coviello, 2006). However, the research of Zain & Ng (2006) found that necessity of networks varies between industry characteristics: initial decisions to internationalize, develop international market and to support market related activities were more influenced by networks relationships in resource-scarce software companies than in manufacturing companies.

Coviello (2006) suggests that initial network of a Born Global can be characterized as being based more on business than social relationships: the companies are often

established by business associates rather than e.g. family members. Thus, it can be drawn that Born Globals (or their founders) commonly have existing economic ties, from which they can benefit from via competitive capability and informational advantages (Coviello, 2006; Rialp et al., 2005). In line with Coviello, Žur (2015) suggests that forming and utilizing external networks provides a company an expanded resource base and wider opportunities for learning – thus giving them competitive advantage. According to Coviello & Munro (1997), major network partners often guide foreign market selection and entry mode. The effective size of a Born Global's network expands over time, which in turn results in increase of inter-organizational direct connections. Structure-wise, research suggests that small and dense network is most likely beneficial for a Born Global in the early stages. This is most likely to secure the preservation of delicate information that is vital to gain competitive advantage over others. (Coviello, 2006.)

The pressures of early and rapid internationalization steer Born Globals towards using a combination of different mediums and networks to avoid serious business mistakes (Gabrielsson & Kirpalani, 2004). *Social capital* is defined as the amount and quality of the external relationships possessed by the firm and the individuals involved in the firm. It is based on the assumption that companies with higher amount of network ties have potential to reach higher amount or network resources, e.g. knowledge. The quality of these ties determines the amount of knowledge actually available for the firm. On a network-level, social capital can be seen as consisting of reputation, credibility and trustworthiness. (Arenius, 2004.) Overall changes in network structure can lead to an increase in social capital for a company (Coviello, 2006). On a similar note, it can be assumed that if the quality of network relationships decreases, it has a negative effect on social capital.

4 FINDINGS

In this chapter, the findings are presented according to the presented sub-questions: first the constraints to Born Global internationalization in early stages are identified, and finally ways in which networks can help overcoming them are presented.

4.1 Constraints to Born Global Internationalization

Especially in their early stages, the environments in which Born Global –companies operate, pose them with three key constraints (e.g. Arenius, 2004; Oviatt & McDougall, 1994; Freeman, Edwards & Schroder, 2006, 33; Cavusgil & Knight, 2004; Zander et al., 2015, 29):

- Lack of financial and knowledge resources
- Lack of economies of scale,
- Aversion to risk-taking

4.1.1 Lack of Financial and Knowledge Resources

Born Globals – especially ones with businesses in high-technology – often face problems due to their limited cash flow. Often times in early stages, much of their available funds are tied to research and development, marketing and the creation of sufficient distribution channels. Financial constraints are especially hard for Born Globals, as they operate with much less strategic freedom than larger MNCs, due to the lack of accumulated internal resources. (Zander, McDougall-Covin & Rose, 2015.) This has driven the managers of Born Globals to explore innovative sources for financial resources, from utilizing network relationships all the way to crowdsourcing.

Managers of young, early and rapidly internationalizing companies often lack knowledge, especially about their foreign potential customers. Companies lack knowledge about how their foreign customers use the company's products, knowledge about reliable and trustworthy foreign partners as suppliers and customers, and knowledge about the levels and types of after-sales service foreign

customers require. (Freeman et al. 2006.) In recent researches, studied companies have faced deficiencies which included "...knowledge about the quality, quantity, and consistency of the local supply required to meet exacting overseas orders; knowledge about the processing, handling, and monitoring of the product along the supply chain to foreign markets; and knowledge about the changing requirements of key foreign customers" (Freeman et al. 2006: 43). This type of lack of access and knowledge can be referred to as *liability of foreignness*.

Liability of foreignness has been broadly defined as cost of all the additional costs a firm face when operating in an overseas market, that a local firm would not face (Arenius, 2005). The costs can be caused by structural factors e.g. governmentally instituted trade barriers, as well as cultural factors, such as incomplete understanding of local laws, language and business practices (Oviatt & McDougall, 1994). Liability of foreignness may cause Born Global companies to seem less attractive or legitimate in the eyes of potential local customers and partners (Arenius, 2005; Coviello, 2006). Especially technology-based Born Globals suffer from stronger liability of foreignness at psychically distant markets, struggling to learn new roles and fitting in to their new foreign network (Arenius 2005). Gabrielsson and Kirpalani (2004: 569) also note that "in electronic commerce customer trust can seldom be achieved without the well-recognized brand offered by successful MNCs". These arguments made by scholars seem to argue that Born Global companies face problems with legitimacy in the eyes of their customers and suppliers.

4.1.2 Lack of Economies of Scale

Local, often small markets provide limited opportunities for Born Globals to utilize economies of scale. The product or service the firm offers might either target a niche that is unavailable or insignificantly small in a local market. Thus, the company needs to seek customers internationally to increase their production to a level in which they can enjoy scale advantages. To increase their profit margins, companies often look for economies of scale in inward activities (e.g. purchases) as well as in outward activities (e.g. sales). (Freeman et al., 2006.)

4.1.3 Aversion to Risk-taking

Increase of level of internationalization includes risks e.g. majority of the company's available capital can be tied to unfinished products or research and development of new ones. Thus, a key supplier or customer changing to a competitor could have devastating financial consequences to a Born Global –company. Other risks involved are e.g. loss of contracts or business deals, which in turn could result from e.g. inability to understand foreign business culture or a global economic downturn. (Freeman et al., 2006.) Arenius (2006) adds that search for international partners is often much riskier than the search of domestic partners. Thus, perceived risk could be seen as a result of resource scarcity: e.g. if a company would not suffer from financial instability, the perceived risk in foreign actions would be significantly lower.

4.2 Overcoming constraints

4.2.1 Lack of Knowledge and Financial Resources

Born Globals tend to internalize, or own, a smaller percentage of the resources it needs (Oviatt & McDougall, 1994). The entrepreneurs have often pledged their personal assets to finance their venture (Gabrielsson & Kirpalani, 2004). Thus, a serious business mistake would harm their personal asset base. Rialp et al. (2005) found that Born Globals rely more often on supplementary resources provided by other, often international firms.

Early internationalizing companies can seek for increased cash flows by establishing inward actions (e.g. importing or exclusive resale) beside their outwards actions with foreign partners (Freeman et al., 2006). Most of the Born Globals studied by Gabrielsson et al. (2008), accumulated their finance first through sales, and later by partnering with larger companies. Finance and other external resources are also available via e.g. governmentally supported network partners such as the Finnish “Tekes” (Gabrielsson et al., 2008; Knight & Liesch, 2016).

In early stages, companies benefit from diverse information exchange (Hoang & Antoncic, 2003). Companies create and utilize knowledge from networks through inward (e.g. purchases of machinery, importing) and outward connections (direct sales, sales through agents or distributors) (Freeman et al. 2006). Studies have shown, that in vertical relationships, networked companies exchange information which's nature extends beyond a discussion of simply price and quantity (Hoang & Antoncic, 2003).

Coviello & Munro (1997) found that inward actions facilitate outward actions. However, as international markets have declined, many of the outward actions with partners have turned into inward actions. E.g. Freeman et al. (2006) found that as the economical situation made it hard to sustain high volumes outwards, inward arrangements began to emerge between partners that had previously relied on outward arrangements: this allowed the companies to stay connected, and later re-establish their outward actions.

Arenius (2005) states that the pace at which a Born Global penetrates a new market area is closely related to the speed at which the company is able to find customers and suitable partners and close deals. Networks can provide early internationalizing companies with increased level of visibility, through which they can attract interest of major and important actors (Freeman et al., 2006). Positive perceptions and legitimacy derived from a company's network linkages can result in new partnerships and hence, in beneficial exchange of resources and forming new social ties (Hoang & Antoncic, 2003; Delmar & Shane, 2004). On a similar note, Zain & Ng (2006) found that companies from developing countries could establish credibility and overcome negative country-of-origin image by finding a suitable network partner. This is supported by Arenius's (2005) argument that by obtaining a significant amount of social capital internationalizing companies can:

- Access information and interpret incoming information
- Locate foreign partners
- Seem more attractive than companies without social capital

Entrepreneurs' experiences combined with rich networks and a global mindset can enhance international market awareness and opportunity alertness, which can improve the company's ability to identify and create new opportunities to internationalize. (Žur, 2015: 34): "New knowledge acquired within various networks can be recombined by individual firms to revise prior knowledge and create novel solutions".

4.2.2 Lack of Economies of Scale

The use of multiple entry modes and (exclusive) partnerships allow the companies to benefit from economies of scale. In the modern-day digital era, poor economies of scale are easy to overcome due to the nature of the industry. This is especially true in software business, where the need for physical resources (e.g. raw-materials) is substantially lower than in e.g. hardware business. (Freeman et al., 2006.)

Freeman et al.'s (2006) case companies used personal networks to form alliances or partnerships to achieve rapid increase in sales volumes. The case companies also developed relationships with suppliers to outsource specific activities, and distributors to increase sales, both which helped them to overcome lack of economies of scale and meet large over-seas orders. (Freeman et al., 2006.) Forming stronger relationships was done by pursuing involvement beyond the company's initial entry mode, e.g. turning exports into strategic alliances with key customers.

4.2.3 Aversion to Risk-taking

Establishing strong relationships with key partners in value chain minimizes risk involved in early-phase international sales. E.g. fulfilling a large order can often tie a majority of a Born Global –company's both financial and production capabilities. Thus, losing a sale, especially post-production, could be a financial catastrophe to the firm. Having trustworthy partners minimizes risk of an incomplete sale, hence allowing the company to overcome constrain of limited financial resources. However, when participating in a network, a Born Global must realize that its growth will tend to settle to the pace of the main network (Gabrielsson et al., 2008).

Managing risk is fundamental to the Born Globals' rapid market expansion (Freeman et al., 2006). The networks structure itself seems to control risk, because the members of the network "share rents" (Oviatt & McDougall, 1994). Due to the characteristic resource-shortage, Born Globals tend to rely on multiple entry modes (Coviello & Munro, 1997), hybrid structures, such as licensing or franchising through networks, or linked activities (strategic alliances and cooperative management) to share the risk (Oviatt & McDougall, 1994; Freeman et al. 2006). Hoang & Antoncic (2003: 169) add that "entrepreneurs seek legitimacy to reduce this perceived risk by associating with or by gaining explicit certification from well-regarded individuals and organizations".

Freeman et al. (2006) summarize that the risk-reducing actions are conducted by establishing alliances with partners from personal networks or through flexible and adaptable partnerships. A firm can e.g. approach both ends of their value chain to facilitate security, stability and loyalty. Their case companies managed risks related to local suppliers switching to competitors by "developing strong, cooperative, and innovatively structured relationships with their preferred suppliers" (Freeman et al., 2006: 46).

A technology-intensive Born Global must often limit the use of its knowledge by outsiders for it to have commercial value (Oviatt & McDougall, 1994). In this kind of a situation, a Born Global should be encouraged to have strong relationships with trustworthy partners to maintain its valuable resources.

4.3 Strategies to overcome constraints

Freeman et al. (2006) present a framework with five key strategies which Born Globals can utilize – simultaneously or individually – to overcome constraints and successfully enter markets rapidly. The conceptual framework sees constraints as results of internal and external factors in the Born Global –company's operating environment. It then suggests strategies that companies can utilize to overcome the constraints. The framework is illustrated below in Figure 3.

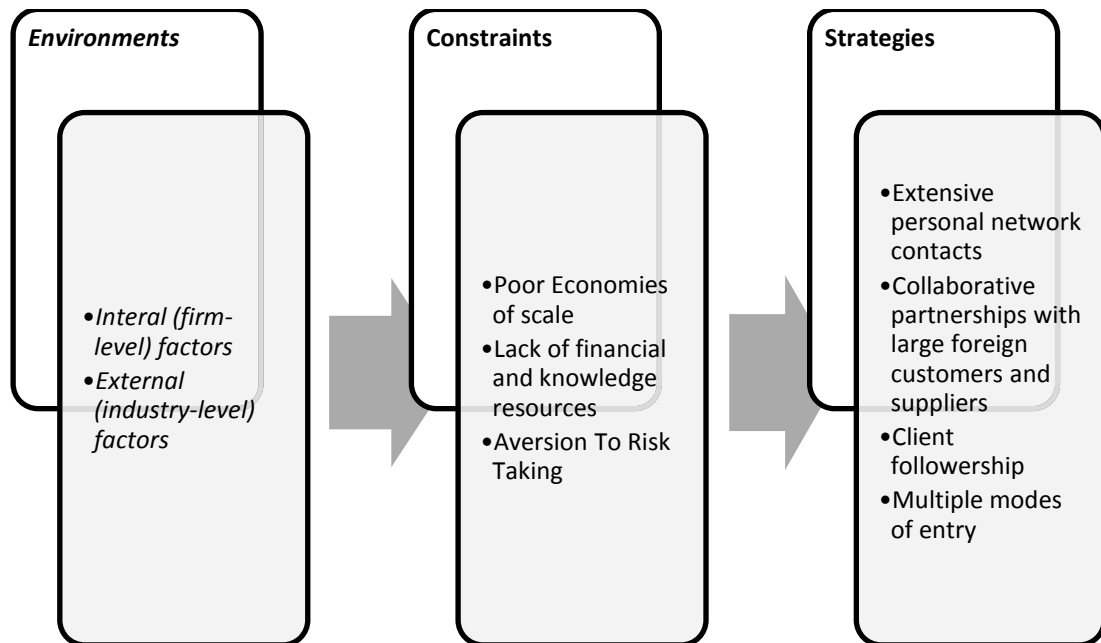


Figure 3: A Conceptual Framework of Key Internationalization Strategies Employed by Smaller Born-Global Firms (adapted from Freeman et al., 2006)

4.3.1 Extensive personal network contacts

Freeman et al. (2006) found that managers' personal networks Born Globals build responses to constraints posed by the environment the company is operating in. They found that managers of their case companies presented high willingness to internationalize early and rapidly and take risks. The managers' personal networks proved to be vital in the companies' early stage development, providing them with important contacts to markets and key customers and suppliers, thus allowing them to act early and rapidly at desired markets (Freeman et al., 2006; Vasilchenko & Morrish, 2011).

4.3.2 Collaborative partnerships with large foreign customers and suppliers

By establishing strong relationships with key foreign customers and suppliers, combined with high standard of quality, Born Globals can minimize risks related to cancellation of orders or switching to competitors (Freeman et al., 2006). Research of

Vasilchenko and Morrish (2011) supports the argument that a well maintained relationship with a large foreign partner can result in referrals, thus creating an environment for expansion and “protecting the small firm from ‘unknown’ partners” (Freeman et al., 2006: 52). However, if the Born Global decides to form a strong partnership with a large foreign player, it should take into account that the pace of internationalization tends to slow to the level at which the foreign player internationalizes. As large global market players internationalize gradually, internationalization of Born Globals that partner with these market players will often start to resemble slower entrepreneurial SME internationalization. (Gabrielsson et al. 2008)

4.3.3 Client followership

Strong, adaptable relationships to large foreign actors create opportunities for new relationships: having trustworthy customers – and thus, reliable cash flow – facilitates rapid further expansion. Developing *weak relationships* in to strategic alliances, Joint Ventures and licensing share the risks and gains between the participants. These relationships also allow network members to utilize others client base for e.g. sourcing and sales. Client followership also provides companies with higher visibility in foreign network, resulting in referrals and new relationships. (Freeman et al., 2006).

4.3.4 Multiple modes of entry

Managers of Born Globals tend to rely on using multiple entry modes via collaborative partnerships to achieve rapid market entry. According to Freeman et al. (2006), the role of network development in use of these modes simultaneously is significant. Using both modes with low and high involvement, companies can decentralize risk.

4.4 Network-based internationalization model

Figure 4 illustrates a framework of network-based internationalization according to Vasilchenko and Morrish (2011), adapted by the researcher based on the findings of

this study. The figure illustrates how informal relationships lead to formation of social networks, formal relationships into business networks, and the between them. Social networks provide opportunities to internationalize, either deliberate opportunities or serendipitous triggers. Business networks, in the other hand, provide Born Globals with credibility and knowledge of foreign (local) markets. Business networks also help companies overcome resource scarcities by e.g. providing chance to advantage from economies of scale. Utilization of both of these networks helps Born Globals to enter and exploit international markets successfully.

It is important to note that network relationships are often fundamentally beneficial for both parties: where Born Globals need large companies to achieve their internationalizing goals, the larger MNCs need Born Globals as well. In return Born Globals can provide larger MNCs with competitive advantage via e.g. technology, flexibility and adaptability (Freeman et al., 2006). On an equally important note, each firm utilizes different types of networks and thus, different strategies to overcome constraints (Vasilchenko & Morrish, 2011). E.g. the density of networks depends on the company's business model and industry: sparse networks are good for gathering new information, whereas dense networks prove to be useful when trust and reciprocity are vital (Oviatt & McDougall, 2005).

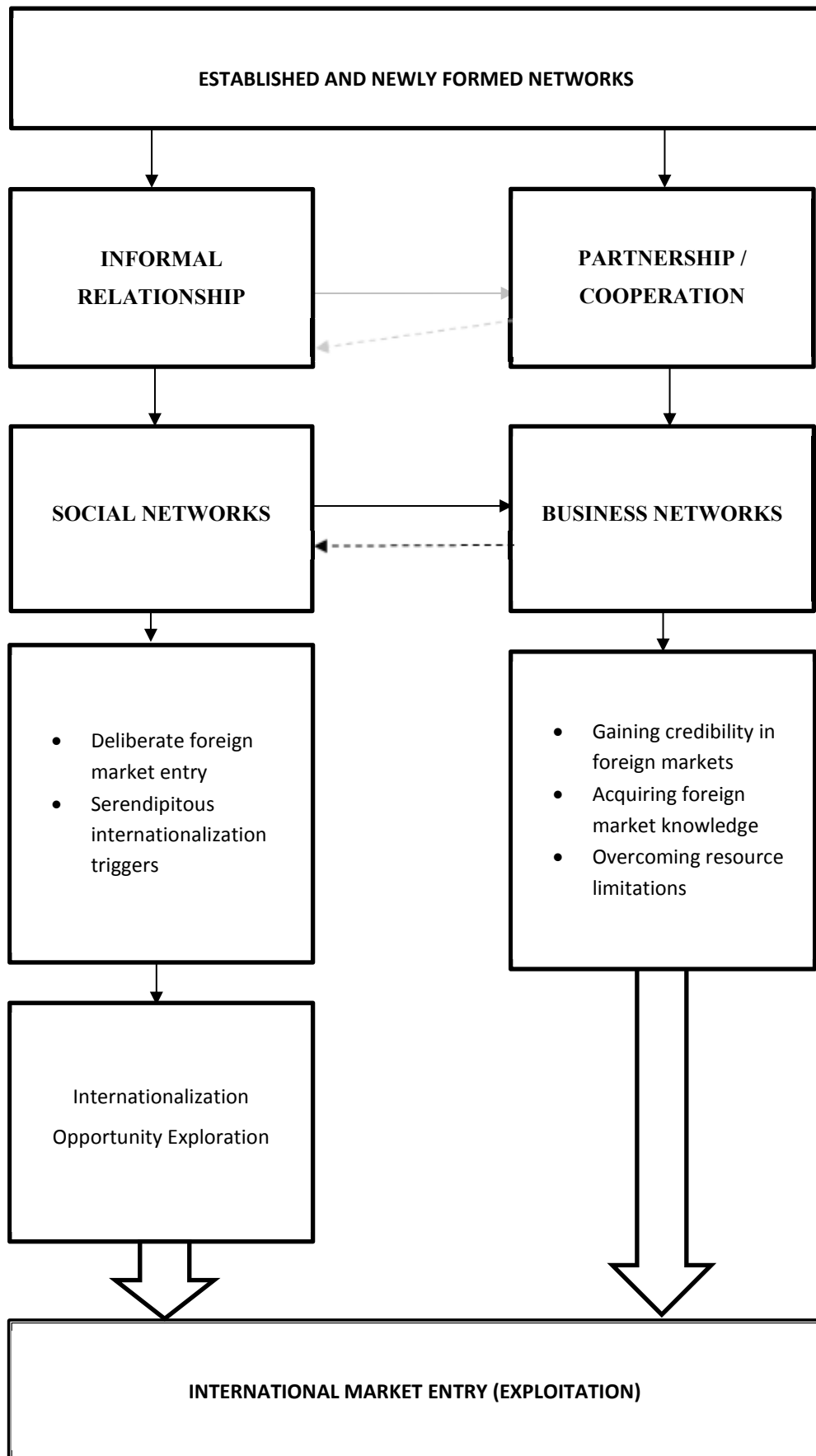


Figure 4: Network-Based Internationalization Model (adapted from Vasilchenko & Morrish, 2011)

5 CONCLUSIONS

5.1 Conclusions

In the following section, the premises, findings and the limitations of the study will be summarized.

With this study, the researcher has attempted to contribute in to the fields of Born Global and network research. By examining literature on the topic, the researcher is able to suggest that having diverse networks, set in different national settings help Born Globals to internationalize. In order to summarize the findings of the study, the research questions are revisited. The main research question was:

- *How do Born Globals benefit from networks in early stages of internationalization?*

The main research question was complemented with the following sub-questions:

- *What kind of constraints to internationalization do Born Globals face in their early stages?*
- *How can networks help Born Globals to overcome the constraints?*

To comply with the structure of the study, the main research question is answered by answering both of the sub-questions.

5.1.1 What kind of constraints to internationalization do Born Globals face in their early stages?

Born Global –companies are often poor in resources, which sets limitations to their internationalizing activities. Born Globals seek participation in global networks to overcome resource scarcities in R&D, marketing, sourcing and financing, which often take a majority of a Born Global’s available capital (Gabrielsson et al., 2008). Rather than seeing constraints as barriers to internationalization, they seem to steer

managers of Born Globals towards a search for innovative ways to overcome them (Freeman et al., 2006).

In line with previous literature on Born Globals, the following constraints are identified:

- Lack of financial and knowledge resources
- Lack of economies of scale,
- Aversion to risk-taking

5.1.2 How can networks help Born Globals to overcome the constraints?

Studied literature proves that utilizing the power embedded in networks can help Born Globals to overcome financial and knowledge resource scarcities. Networks help born globals by improving access to e.g. markets and market knowledge; business opportunities and contacts; and financing & distribution channels. Networks also enable Born Globals to spend less time on the establishment phase of new operations, improve the quality of these operations and reduce the risk embedded in internationalization activities, thus speeding up the internationalization process. (Freeman et al. 2006; Coviello 2006.)

Networks also help Born Globals to identify, recognize and create opportunities for internationalization. Network relationships can be considered as a form of social capital – intangible resources that enhance internationalization and growth (Coviello, 2006). Social capital can provide access to information and make foreign partners view Born Globals' as attractive partners. A firm that is rich in initial social capital is likely to overcome its liability of newness and foreignness, lack of resources, and exploit opportunities and competitive advantage more efficiently than companies not rich in social capital. (Arenius, 2004.)

5.2 Limitations of the study

As expected, the findings of this study were broad, but important in a sense that they provided the author with a deeper understanding of the topic. However, the study

does not come without limitations. First of all, the validity of the study is affected by the fact that both Born Globals and networks still lack an underlying core-theory. This makes it hard to produce results that would be theoretically applicable for all Born Globals, as the group does not yet have e.g. a strictly set definition. Validity was increased by acknowledging the lack of theories and carefully inspecting the journals with this in mind. Second of all, this study did not use any first-hand empirical data – the researcher had to rely on data provided by other scholars – which affects the reliability of the study.

5.3 Suggestions for further research

The topic itself has proven to be one of specific interest to the author, and thus facilitates opportunities for further research. In the researcher's particular interest would be conducting an empirical, long-term case study on Born Global –companies and the effects of networks in their early stages. Also, studies that unify the existing definitions and theories, thus furthering the theoretical core of Born Globals and networks are encouraged by the author.

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