BORN GLOBALS – A STUDY OF LEARNING IN NETWORKS

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ABSTRACT

This paper discuss experiential knowledge development in business networks. It is suggested that the business network plays an integral part in the internationalization process of Born Globals. We argue that Born Globals enter international markets based on the knowledge supplied by their weak network ties.

BACKGROUND

Recently, several evidence of Born Globals has appeared in the literature (Oviat and McDougall, 1994; Bloodgood, Sapienza and Almeida, 1996; Knight and Cavusgil, 1996, Knight, 1997, 2000; Burgel and Murray, 2000). Born Globals do not wait to expand their business horizons they are global from their inception. According to Hill (1995) about 1% of SMEs can be said to be truly global, in the sense that they operate in multiple countries across several continents and with the ability to operate wherever they see fit. These firms contribute between 25% to 30% of world manufactured exports (Hill, 1995).

Brush (1992), state in a US study, discovered that 13% of the firms under study started foreign operations during their first year of operation. She also found that Born Globals entertain more positive attitude toward international markets than already established firms. A similar result was found in another study of the US (Holstein, 1992). An Australian study of 310 firms (McKinsey and Co., 1993) found that 80% of the firms had served the world market from their inception. Jolly et al (1992) found Born Globals commercializing their product in lead markets, irrespective of the cultural distance. McDougall et al (1994) found that none of the 241 firms they studied pursued a gradual incremental process to try to go international. Bell (1995) reported that Born Globals did not establish domestic sales before starting international sales. Research suggests that these firms can not survive missed opportunities. The founder of these firms frequently had experience of foreign markets. More important were such factors as relationships – both foreign and domestic, industry specific factors and the nisch nature of the target market. They often relied on personal relationships, cooperative ventures and strategic alliances. The founders of Born Globals combined resources from different international markets. Born Globals were also more positive towards learning on international markets and clients. Also, managers in Born Globals are less specialized and participate in a variety of decisions and activities. They possess a ‘‘constellation’‘ of competencies (McDougall, et. al, 1994).

Born Globals apply control on foreign operations based on social relationships and social knowledge. With social knowledge, firms may be able to reduce their reliance on ownership as a means of control over their foreign operations (Geringer and Hebert, 1991; Sohn, 1994; Sharma and Johanson 1987). Ownership based control is also less important for such firms as Born Globals are less interested in exploiting global synergy. Firms interested in exploiting global synergy frequently opt for high control foreign market entry modes (Bartlett 1984, Bartlett and Ghosal 1989; Porter and Fuller 1986). The benefits of synergy accrue when the input is utilized jointly. A tight integration may not be possible under low control foreign market entry. In such markets the degree of foreignness of the internationalizing firms is small. This is also less costly as the firms can apply its existing knowledge and capabilities abroad. Knowledge acquisition as well as its implementation cost is reduced.

The purpose of this paper is to contribute to the knowledge development of the internationalization process of Born Globals. We propose that models that emphasize knowledge and network are suitable for this purpose. Such an argument is appropriate as the network in which firms are engaged may help them to go international by supplying information on overseas markets, by helping its members to find buyers abroad, or by offering business opportunities abroad. Firms that operate in an international network may enjoy a “learning advantage” abroad and find it “easier” to go abroad than firms whose exchange partners are domestic firms (Johanson and Mattsson, 1988; Majkgård and Sharma, 1998). Bell (1995), for example, found that among software firms with an extensive international network of connections, internationalization took place sooner and faster than amongst software firms without such an advantage.

The paper begins with a discussion on the internationalization process of Born Globals, network ties and knowledge development. Thereafter, we present three propositions. In this paper, we don’t test the propositions, they are presented on a general level.

NETWORK TIES AND KNOWLEDGE ACCUMULATION IN FIRMS

Network research is emphasizing the importance of direct and indirect interfirm ties in accumulating, creating and diffusing knowledge. By knowledge is implied “...information whose validity has been established through testes of proof…………what we can use without further experimentation” (Leibeskind, 1996: 94). Levittt and March (1988: 320) define learning as ‘‘..encoding inferences from history into routines that guide behaviour’‘. Researchers have emphasized the impact of network ties on learning in organizations in general (Burt, 1992, 1997; Gulati, 1995; Davis and Powell, 1992; Kraatz, 1998) and for the internationalization behaviour of firms in particular (Sharma and Johanson, 1987; Erramilli and Rao, 1990; Sharma and Majkgård, 1998). Networks are important, as ‘‘economic actions and outcomes, like all social actions and outcomes, are affected by actor’s dyadic (pair-wise) relations and by the structure of the overall network of relations’‘ Granovetter (1992: 33). Network ties of firms provide channels for sharing resources and knowledge as well a motivation to do so.

Firms occupy a position in the network as they exchange resources with their customers, customer’s customer, buyers, and buyer’s buyer. Network ties are difficult to imitate and a intangible resource of firms (Barney, 1991; Tallman and Shenkar, 1994). Through these exchanges network participants develop shared views and opinions. A similarity in attitude and structure evolve. A firms position in the network have consequences along three dimensions, namely 1) what information is available to the firm, 2) its timing, and 3) referrals. First, network is a source of information to firms about what goes on in the environment and market. The same information is not available to all the firms in the market. Secondly, position in the network is influencing when a particular piece of information will reach a particular firm. Finally, referrals imply that firms interests are represented in a positive light, at the right time, and in the right place (Burt, 1997). Firms placed centrally in a network receive more, better, and early knowledge than their competitors. This is a source of advantage and may exert influence on the internationalization of firms. Network may also produce unexpected random information to firms. Firms may observe the benefits of this knowledge and may integrate it in its own structure and behaviour.

The breath and heterogeneity of inter-firm ties determines a firm's capacity to learn and accumulate knowledge. From this perspective firms with large number of heterogeneous weak network ties enjoy an advantage over firms that are engaged in a narrow and homogenous strong ties (Burt, 1982; Rogers, 1995). Weak ties connect distant and otherwise disconnected firms. Weak ties enjoy three advantages. First, for cost reasons firms are in a better position to maintain a large number of weak ties than a large number of strong ties (Hansen, 1999; Boorman, 1975; Scott, 1975). Strong ties imply a more frequent and tight interaction between firms and they are costly to maintain. Secondly, weak ties supply more novel knowledge than strong ties (Rogers, 1995). The stock of knowledge in firms that are involved in weak ties are dissimilar. Firms engaged in strong ties adapt to each other and develop similarity in knowledge base. Thirdly, weak ties imply a de-coupling between firms, and this is less a restrain on the adaptive behaviour of firms (Weick, 1976). Firms engaged in weak ties are in a better position to search for new knowledge, enjoy greater autonomy, and adapt. Thus, firms may go outside their existing channels in search for knowledge. Strong network ties, on the other hand, restrain the knowledge search and the adaptive response of firms.

The knowledge supplied by network ties shape a firm's theory in use (Argyris and Schön, 1978). Firms operate based on their theory in use. Externally, the theory in use of firms determine their product offerings, promotion, distribution, and pricing. Firms with a limited number of strong ties develop products and services appropriate for this ‘‘limited‘‘ number of counterparts. Such products are customized. Tailor made products and services demand experience-based knowledge of the individual buyers as well as the investment of client-specific resources. Research on industrial markets shows that the more tailored the products are, the higher the need for adaptation (Anderson, Håkansson and Johanson, 1995; Hallén, Johanson and Nazeem-Seyed, 1991). This makes it necessary for firms to be located close to the clients. In the context of internationalization, these firms are influenced more by the cultural distance between the home market and the foreign market. High control foreign market entry modes are used for tailor made products (Anderson and Gatignon, 1986).

Firms with a large number of weak ties, on the other hand, may develop products and services that are less customized and less tailored to the needs of a few customers. A less client specific knowledge is required as products and services become standardized. The firm develops and supplies general purpose products, thereby minimizing the need for after sales service.

NETWORK TIES AND BORN GLOBALS

Born Globals are lacking domestic operations, strong ties and legitimacy in the domestic market, and fixed internal routines (Reuber and Fischer, 1997; Ghosal, 1987). Born Globals may possess limited knowledge on foreign business and institutional environment. They are exposed to high level of uncertainty that concern potential clients and their precise needs and demands. For the same reasons, Born Globals lack knowledge of foreign business culture that may impact their business transactions. Finally, Born Globals sell product or services that are new. Such firms are primarily engaged in weak and heterogeneous ties with the actors in the environment, such as R&D institutions, potential buyers and users. These ties supply firms with knowledge that are diverse and heterogeneous and produce a learning advantage. In such firms weak ties allow a search and evaluation process that is open minded, and opportunities are evaluated on their own merits, with the firms' current knowledge base being far less of a constraint for future operations. Open-mindedness implies questioning present practices, and cause-effect relationship. Weak and heterogeneous ties are supportive in this process. These firms escape ''competence traps''. Weak ties supply knowledge, making Born Globals proactive, adaptive (Daft and Weick, 1984) and generative (Weick, 1976; Slater and Narver, 1995). Concerning the needs of its clients and markets and willing to adapt their country market entry strategy, product strategy, promotion strategy, marketing strategy, and foreign market entry mode strategy to the need of the market. This is positive for their international competitiveness (Chang, 1995; Tallman and Li, 1996).

Adaptiveness is made possible as Born Globals are not bound by specific successful experience of the past. These firms may jump to far distant countries and need not pursue a gradual stepwise process of foreign establishment. In other words, the internationalization process of Born Globals is characterized by the strategy of exploration (March, 1991). The strategy of exploration capture things like search, variation, risk taking, and experimentation. Lacking previous successes and the corresponding fixed routines to enter foreign markets, Born Globals are innovative in combining their own resources with the resources from others through JVs and partnership. Partnership with others may partially compensate for the resource disadvantage faced by Born Globals firms**.** This variety in market entry mode selection is positive for learning and knowledge accumulation in Born Globals. Entry into a large number of foreign markets and through a variety of different entry modes may open up a larger array of ''option windows'' for future internationalization in these firms. Born Globals may possess another advantage. They define their corporate identity as being an international firm and the global market as their market. They are also more inclined to learn (Brusch, 1992). Bierly and Chakraborti (1996) state that the early a firm takes on an international identity the more rapid it learns on foreign markets.

DISCUSSION

In this paper we argue that knowledge based internationalization process models are suitable for describing the internationalization process of Born Globals. The network of relationships may help firms to go international in several ways: (1) by supplying information on prospective customers abroad, (2) by finding cooperation partners abroad and, (3) by offering new business opportunities abroad. For Born Globals, weak ties are a source of knowledge about markets and their actors. Following Granovetter (1973), and Rindfleich and Moorman (2001), we argue that the weak ties of Born Globals positively affect the knowledge acquisition and knowledge utilization on foreign markets and help them become international.

> P1: Born Globals enter international markets based on the knowledge supplied by their weak network ties.

Weak ties allows a double loop learning and a search and evaluation process that is open minded. Their current knowledge base being far less of a constraint for future operations. The internationalization process of Born Globals could be viewed as s series of option windows. Lacking previous successes and the corresponding fixed routines to enter foreign markets, both firms opted for alliance and cooperative ventures to serve foreign markets. This variety in market entry mode selection is positive for learning and knowledge accumulation in Born Globals. Entry into a large number of foreign markets and through a variety of different entry modes may open up a larger array of ‘‘option windows‘‘ for future internationalization in these firms. Thus, we propose,

> P2: The internationalization process of Born Globals is characterized by the strategy of exploration.

The internationalization process of Born Globals is a matter of learning from experience in networks. Our discussion points out the importance of weak ties instead of strong ties. Our findings also show that, because Born Globals have already developed an international absorptive capacity, it is easier for these firms to go abroad. They are also more willing to adapt their internationalization strategy to the need of the market. Consequently, it is important that relationships with international firms in the domestic market and/or abroad are built early. It is much harder for domestic firms with no international relationships and long domestic experience to change their mental models and processes than for Born Globals. Firms with long domestic experience have a more cemented knowledge platform. Lastly,

> P3: The selection of foreign country market by Born International is based on perceived market potentials.

More research is suggested. Quantitative studies can provide us with more detailed knowledge concerning the effects of domestic operations on the internationalisation process of Born Globals.

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