An Examination of the Location of International New Ventures

by

Per Servais, Associate Professor, PhD
Dept. of Marketing & Management, University of Southern Denmark,
Campusvej 55, 5230 Odense M., Denmark
Tel +4565503266 Fax +4566155129 – E-mail per@sam.sdu.dk

and

Erik S. Rasmussen, Associate Professor, PhD*
Dept. of Marketing & Management, University of Southern Denmark,
Campusvej 55, 5230 Odense M., Denmark
Tel +4565503370 – Fax +4566155129 – E-mail era@sam.sdu.dk

Submitted for the 34rd EIBA conference
Tallinn School of Economics and Business Administration, Estonia

* Corresponding author

ABSTRACT

Internationalisation is a topic widely discussed, but one aspect of internationalisation has only in a few cases been researched into, the effects of the internationalisation of one firm on other firms in a local network. The term 'glocal' has been used to describe the phenomenon of highly international firms with strong local ties. The aim of this paper is to discuss the dual relationship between a 'glocal' firm's dependence on the local resources and competence and the impact of this firm on local networks. The interrelations and interdependencies can be a part of the explanation why some firms are international from the founding of the firm – the International New Ventures'

KEYWORDS: Location, International New Ventures, SMEs, Regional Development

AN EXAMINATION OF THE LOCATION OF INTERNATIONAL NEW VENTURES

INTRODUCTION

During the last decade researchers have in increasing numbers paid attention to a phenomenon of international new ventures (se. e.g. the special issue on international entrepreneurship in International Business Review 2005). These are companies that soon after their inception look for sales and purchases from international markets (Oviatt & McDougall, 1994). Networks and relationships have been noted to have an important influence on their business development (Coviello & Munro, 1995; Sharma & Blomstermo, 2003). However, there is little research on the consequences of the existence of a highly international firm are for a local network. Thus, it is rare to find any literature that deals with the global firm and the local network being part of the same process towards the establishment of international competence. A few exceptions are (Johannisson, 1994; Johannisson, 1995a; Johannisson, 1995b) and (Kanter, 1997; Kanter, 1999; Zahra, Ireland, & Hitt, 2000).

The main research task in this article is to analyse how highly international firms – e.g. a 'Born Global' firm – initiate and encourage the development of a global outlook in a local network – and how the global firm has to rely on the local resources. Thus, we have two interrelated research questions in this article:

1. How can global competence in a firm be dependent on the resources in a local network?
2. How does the international network of a firm initiate the development of new skills in a local network?

The development of a global outlook in a group of local firms can be seen as a process by which the global oriented firms integrate the local firms into their chain of production and services. A parallel aspect is the development of 'communication chains', which inform the local oriented firms about the global markets and the end-users. Summing up the purpose of the research, we want to expand the concept ‘glocal’ meaning global and local (Anderson & de Palma, 2000; Choi, 1999; Johannisson 1994; Keeble et al., 1998; Oviatt & McDougall 1994; Porter, 2000). 'Glocal' is the unique combination of highly international firms with firms with deep roots in a local network. Consequently, the purpose of this article is to discuss the local consequences of the existence of one International New Venture or more for a local network of firms – and how the production of the International New Ventures can be highly dependent on the existence of local suppliers.

The paper begins with a short discussion of the term International New Venture and an introduction to the research on this type of firms. Next, we focus on a research model, which can explain how international relations can be transferred from one – highly international – firm to a network of firms. Then, we will take a closer look at two case studies from Denmark – two International New Ventures which have had a great impact on the daily life of several small firms in a part of Denmark. Finally, the theoretical considerations and the case studies will be summed up in a conclusion and suggestions for further research.

DEFINING INTERNATIONAL NEW VENTURES

Before the Born Global concept was introduced similar discussions of firms with immediate internationalization took place. During the 1980’s several small studies (including case studies) document the existence of firms which are internationally oriented right from the birth. Ganitsky (1989) calls these firms ‘innate exporters’ as a contradiction to the ‘adoptive exporters’. The innate exporters are clearly more flexible and have a larger degree of international outlook in the management. On the other hand they are often limited due to their lack of experience and resources. An early article on this topic is Jolly, Alahuta, & Jeannet (1992), which build on a number of case studies of high-tech firms. High Technology Start Ups, as these firms are called, are maybe so extreme cases (as Jolly, Alahuta, & Jeannet (1992) point to themselves) that it can be discussed whether it is possible to make any generalizations from the case studies. Characteristic for the case firms is that persons from several countries were the founders, and that they follow a strategy directed towards international niche markets. These firms represent a type of firms that, due to their high tech product, may have to be international right from the beginning. Up to the middle of the 1990's the research on firms with an immediate internationalization was characterized by a few case studies of primarily high-tech firms and one large survey in Australia. More precise empirical and theoretical work was missing, especially regarding the nature and types of these firms. This was changed by the work of McDougall and Oviatt, who labeled this type of firms 'International New Ventures' (INV), see (McDougall, Shane, & Oviatt, 1994; Oviatt & McDougall 1994; Oviatt & McDougall, 1995; Oviatt & McDougall, 1997). They defined an INV as a firm that right from its birth seeks a competitive advantage by using resources from several countries and by selling its products in several countries.

The purpose of their work was to formulate a theory of international new ventures through the combination of existing theory on primarily entrepreneurship and a large number of case studies.

The definition of an INV is rather broad but anyway more precise that seen before: *We define an international new venture as a business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries. The distinguishing feature of these start-ups is that their origins are international, as demonstrated by observable and significant commitments of resources (e.g., material, people, financing, time) in more than one nation.* (Oviatt & McDougall, 1994 p.49).

Oviatt & McDougall (1994) tried to be more specific on the concepts used in the definition – not by using supplementary definitions – but through a typology of firms created from the number of value chain activities combined with the number of countries by identifying four types of international new ventures. The different types vary according to the number of countries involved in the companies' operation and according to the number of value chain activities these companies coordinate across countries.

Knight & Cavusgil (1996) described different trends that facilitate the development of 'Born Globals'. One of these trends is the increasing importance of niche markets, forcing small firms into small niches in several countries in order to be competitive. Another important trend is the development in process technology and the resulting possibilities created by the rapid development of advanced communication technology. Further technology diffusion in increased speed and the increased importance of global networks and alliances are described as factors triggering off the development of Born Global firms.

There are several reasons why it has been important to study this phenomenon. It seems that a large and increasing number of firms can be classified as 'Born Globals'. Lindmark et al. (1994) reported that nearly 50% of high tech start-ups in the Nordic countries began exporting within two years of their establishment. Madsen & Servais (1997) concluded the discussion of factors creating firms that are global from their birth by stating, '*it must be expected that the phenomenon of Born Globals will become more widespread in the future*'. Empirically Preece, Miles, & Baetz (1999), based upon a Canadian sample of firms, concluded that, *'Clearly, the trend towards instant internationals was reflected in the data'*. A longitudinal study presented by Christensen & Jacobsen (1996) reported that an increasing number of Danish firms started exporting shortly after being established as seen in previous research in Denmark, see (Christensen, 1991) too. Overall, it could be stated that the main bulk of academic research on these 'non-traditional' exporters has been preoccupied with describing and understanding the inter-organisational relations that have lead to the emergence of the phenomena. One critical element that has been disregarded in this research has hence been the question of the local anchoring of the firms.

McDougall, Shane, & Oviatt (1994) argue that the founders of International New Ventures (INVs) are more concerned with the possibilities of combining resources of different national markets, because of the competence they have developed through their earlier activities. International entrepreneurs are thus able to avoid domestic path dependence by establishing ventures, which, already from the beginning, are experienced in managing a multicultural workforce, in co-ordinating resources located in different nations, and in targeting customers in several geographical places simultaneously. In a similar vein, Bell (1995) notes that the network approach to internationalisation seems to have some merit. Furthermore, the case of 'Born Globals' may be similar to the situation of the ‘Late Starter’ or the ‘International Among Others’, (Johanson & Mattsson, 1988), operating in a highly internationalised environment. As such, 'Born Global' firms can be viewed as boundary spanning units connecting international markets or networks with the local network in which they are located, as depicted in figure 1 later in this article.

The prime objective of current research on 'Born Globals' has been to justify the phenomenon and discover some of the driving forces behind this type of firms. However, only little effort has been made to understand the impact of 'Born Global' firms on the local network – and how local networks foster global firms.

Regional development and internationalisation (or globalisation) are thus often seen as two opposite poles, but as Michael Porter writes in a recent article about globalisation and regional networks – see (Porter 2000) – *'the local networks play an important role in the development of the internationalisation of especially newly established firms'.* As Porter writes in the same article, the prevalent view nowadays is that changes in technology and competition have diminished the traditional roles of location. This means that it is no longer necessary to locate near markets to serve them, and it is easy to conclude that location no longer has any importance, but this perspective is hard to reconcile with competitive reality. Instead, the local networks (which in Porter’s view can be seen as critical masses of unusual competitive success in particular business areas) are found in every national, regional, state, and even metropolitan economy, especially in more advanced nations. From the viewpoint of firms, the idea of local networks represents a new way of seeing the firms' competitive advantage. An advantage that not only comes from the internal organisation of the firm, but also for a major part is a competitive advantage that lies outside the firm in the location where the firm is based. The network and the firm – and the viability of both – can be seen as interconnected and interdependent.

Hence, we can conclude this section by stating that the phenomenon of rapid internationalisation is important in the research on the internationalisation of firms and that the research on the influence of the local networks – and on the local networks – of the 'Born Global' firms is almost non-existing.

THE LOCAL NETWORK

After this short introduction to the concept of International New Ventures, we will expand the research model and focus on how the focal firm (the 'Born Global' firm) on the one hand uses the local network and on the other the international network. The internationalisation of a highly international firm from birth has in this model first to be seen in connection with the market conditions, and secondly with its networks – or the networks of the founder(s) as a type of path dependence. Johanson & Mattsson (1988) point out that the internationalisation processes of firms will be much faster in internationalised market conditions, among other things because the need for co-ordination and integration across borders is high. Their 'establishment chain' does not necessarily follow the traditional picture because strategic alliances, joint ventures, etc. are much more prevalent; instead firms seek partners with supplementary skills and resources. In other words, the internationalisation processes of firms will be much more individual and situation specific in internationalised markets. In a review of subcontractors' internationalisation processes, Andersen, Blenker, & Christensen

(1995) report that subcontractors often internationalise in a non-conventional manner, because they follow domestic customers, or because they co-operate with foreign system suppliers. Another route, which may easily be similar to the pattern revealed for 'Born Globals', is seen in connection with subcontractors who internationalise through integration in the supply chain of a multinational company. In any case, the internationalisation process of the individual firm cannot be seen in isolation; it can only be analysed by understanding the environmental conditions as well as the actual relationships of the firm in question. It is thus necessary to understand the entire network in which the firm is active.

A deeper theoretical explanation of the 'path dependency' of ‘Born Globals' may be found in the evolutionary approach to the study of dynamic changes. The Born Global firm acts not only in an environment, but also in an internal context that is much different from that of an ‘Early Starter’. The uncertainty and learning aspect are not related to knowledge about geographical markets but to knowledge about new production processes, specialisation patterns, exchange patterns, etc. Their organisational routines do not depend much on any local or national borders - and therefore they do not fit into the manifestation of the traditional stage models for internationalisation of firms (Andersen, 1993; Bell 1995; Bilkey & Tesar, 1977; Johanson & Vahlne, 1977; Johanson & Wiedersheim Paul, 1975). They probably do have a set of regular and predictable ways of doing things, though. Moreover, they do have routines, decision rules and capabilities, which may be considered the 'genes’ of the organisation. Instead of being tied to geographical markets, these genes may be tied to certain specialised, value adding processes, which the firm solves in that particular, internationalised industry.

Interpreted in the light of these theoretical concepts, the Born Global phenomenon does not represent any revolutionary pattern of internationalisation; also, 'Born Globals' may behave according to an evolutionary framework. However, when studying a Born Global firm, the time perspective should be extended beyond its birth. Probably, many of the 'genes’ have roots back to firms in the region and networks, in which its founder(s) gained industry experience. In many instances it may be doubtful whether a 'Born Global' can be considered a new company. In a legal sense, the company may be new, but its skills and capabilities were often born and matured prior to its legal birth. As Andersson (2000) clearly demonstrates, various international strategies can be found in firms that are similar to each other and act in similar environments, because of the entrepreneurs’ different backgrounds and aspirations. The entrepreneur is thus the one single most important factor in explaining firms’ different routes to the international markets as in Madsen & Servais (1997) and Rasmussen, Madsen, & Evangelista (2001). In relation to our research interest, it means that the entrepreneur’s personal network and contacts both internationally and in the local network become very important as an explanation of the different international strategies followed by the Born Global firms.

The successful establishment and growth of SMEs is often argued to benefit from locations within a geographical network of firms. Hayter (1997) refers to two paths of development. The first is the <u>seedbed</u> start-up where the motivation is the desire to live in one’s own locality. The rationale is the fact that new entrepreneurs are thoroughly familiar with their home locales where they are known. As such they have contacts to local financial institutions, knowledge of local markets, and they understand the characteristics of local labour, available equipment and suppliers and logistics. The home of the entrepreneur provides ready-made company headquarters and may for a while host manufacturing. Local entrepreneurs therefore ‘*inherit considerable knowledge about their local environment as part of their birthright. To locate elsewhere would involve all the costs and uncertainties in collecting and understanding information on unfamiliar places’* (Hayter, 1997 p.224). On the other hand, newcomers might also become entrepreneurs in the sense that the incubator start-up situation might be more concessive, e.g. ethnic groups that facilitate the nurture of immigrant entrepreneurs, as seen in the McKinsey report (McKinsey & Co., 1993).

Johanson & Mattsson (1988) stated that firms internationalize when they establish and develop positions in relation to counterparts in foreign networks. Because of network interdependencies a firm may even be forced to become international if it wants to defend or maintain its position in a particular business network, or if other firms in the business network establish relationships with counterparts abroad. Further, they suggested that success in internationalization is more dependent on domestic and international networks than on market features, e.g. on the culture of the target-market. Johanson & Vahlne (2003) have brought this to pertain to new ventures as well. According to them, the early phases of Internationalization of new ventures are not yet understood but there are clear indications of the importance of networks in this. Already Johanson & Mattsson (1988) and Coviello & Munro (1995) note that internationalizing firms rely on their existing relationships because these offer contacts to customers, help to develop partners and positions, provide local market knowledge and Initial credibility, and provide access to distribution channels. To go to international markets firms needs to have information of the international opportunities and identify and get to know the possible exchange partners (Ellis, 2000). Beyond information sharing and access, existing relationships may initiate unintentional internationalization if a current business partner becomes an active mediator introducing the firm to foreign actors. Coviello & Munro (1995) note networks to both enhance Internationalization efforts and compensate the limited marketing expertise and infrastructure but also to restrict the business.

Johanson & Vahlne (2003) present that in networks new firms learn, and by using what they have learned they are capable of proceeding in internationalization. Thus, learning within networks creates a possibility to construct new international networks. Relationships grow incrementally in interaction and commitment to these relationships develops through common investments. In this interaction partners naturally learn from each other and about each other’s needs, resources and strategies. These might pull the partners into internationalization.

On the basis at the above some roles for networks in internationalization of firms can be identified (Harris & Wheeler, 2005). Firstly, networks provide information on business opportunities and business partners in international markets and transfer general market knowledge. Secondly, networks provide introduction to far located and to a firm unknown possible business partners. Thirdly, networks create initial access to international marketing networks, such as distribution networks, and legitimate the firm in the market. Fourthly, networks provide a basis for interacting with others thus making it possible for a firm to learn and develop skills needed in internationalization. Fifthly, networks may also inhibit the international growth possibilities for the firm.

Hence, it could be argued international new ventures to be a result of development of existing relationships, development of relationships to possible new partners abroad and development of relationships with relationships of existing and new partners (Johanson & Vahlne, 2003). Here the firm's positions before the internationalization begins are important since they indicate market assets influencing the process (Johanson & Mattsson, 1988).

In the early steps of the venturing process personal network may provide the encouragement needed to push a committed entrepreneur forward in his venturing.

Characteristic of entrepreneurial behavior is personal commitment, intentional interaction and creativity. Therefore, typical of entrepreneurial behavior is 'to find a way' to access the needed resources (Stevenson & Jarillo, 1990). This can be seen connected to 'acting as if" behavior (Gartner, Bird, & Starr, 1992) and social contracting (Starr & Macmillan, 1990). Also Aldrich & Zimmer (1986) emphasized close personal relationships as the often best available sources for resources in new venture establishment.

The rationale of the incubator hypothesis is that an industrialized section of an area offers new firms a supply of building facilities and access to cheap accommodation, suppliers, markets, and a variety of business services. Concentrating together, new and small firms create external economies of scale by buying and selling among each other and sharing close access to storage facilities as well as transportation and wholesales, which facilitates export and imports.

Such locations *'also provide access to labor pools, while providing various employee related services such as public transportation and shops'* (Hayter, 1997 p.226). Especially with regard to technology-oriented complexes, the incubator hypothesis has found usage e.g. in the study of science parks, and it is being closely connected to the term of industrial districts.

Even though the companies in our study are born global when we look at the market for their products and services, they can be local in their founding process. In this way, the companies can be 'glocal' as Johannisson (1994) labels it; founded in a local environment but with a global market. Through a complex interaction between social and business networks, the local co-operation establishes the potential for the globalization of some of the firms – often with the founder as the node in the networks. This is the same vein that (Keeble et al., 1998) demonstrate; far from substituting international networks for local ones, technology intensive firms, having achieved high levels of internationalisation, in fact also exhibit high levels of local networking with respect to research collaboration and intra-industry networking.

The next step in this article is to present two studies from the Danish fish industry – from the production of fish at fish farms to the processing at factories in Denmark to the final export to markets all over Europe.

METHOD

Several concepts are used to describe the relations between firms, e.g. supply chain, value system, network, cluster, etc. It is thus necessary to give some short definitions of how we intend to use the concepts in the coming case studies. By value system, we mean the production chain or supply chain from the fish farmers to the consumers – the physical movement or transportation of goods and the economic transactions connected to this transportation of goods. By network, we mean all types of contact between firms and other actors – a loosely coupled system. Often the term 'cluster' is used to describe a regional network of firms bound together through both formal and informal relations, see (Porter 2000), but in this paper, we prefer to use the term 'network' instead.

So far, the main interest has been on the local relationships' effect on the internationalisation of the firm, but as it appears from the above, this internationalisation also affects the relationships in the local business network. In the paper, we analyse a part of the Danish fish industry – production of fish and all kinds of fish products, frozen or fresh. Production of fish and export to especially Southern Europe have a long tradition in Denmark, and the large number of firms in the fish industry gives new firms easy access to the European markets. In this way, one of a new firm's main advantages is the use of the existing Danish network of fish exporters, meaning that the company largely does not have to think of logistics or marketing. It was expressed in the words of the founder of one of the firms: *'One of our advantages has been that we are based so close to the original - European and Southern European market. We are close in both distance and thus delivery-wise. We can then deliver fish to both France and Hamburg very fast since we benefit from the infrastructure the traditional fish industry has created. You can thus buy fish at any auction house in Denmark and have them shipped and ready in Hamburg the following morning by 04 a.m. Location is our advantage'*.

Figure 1 app. here

Even more interesting is it to see that new firms in the Danish fish industry place themselves close to the existing firms and that they try to find a niche (product/market) where they do not compete with the local well-established firms. The competitive advantage of the Danish fish industry seen as a loosely coupled network is thus that contacts in the market, market experience, and even employees can be shared, see figure 1. In the remaining part of this article, we will investigate further, how the internationalisation of one firm in such a network has consequences for the other firms.

The data for the case studies come from a large study of Danish 'Born Globals'. From this survey, we have selected two examples of firms that are highly dependent on their local network even though the firms must be characterised as being highly international with an export of almost 100% of the total sale. We do not intend to generalise about the local networks of Danish 'Born Globals', but we think that through two case studies it is possible to come with an input to the discussion of the interdependence between highly internationalised firms and their local network. Furthermore, it is possible to show how a group of firms – in this case Danish fish farmers – are integrated into an international value chain, though the firms are strictly locally oriented.

As with case studies, in general – see e.g. (Yin, 1993) – the purpose of the research is not to test a model or a number of hypotheses. Instead, we seek a deeper understanding of the most important relations for a highly international firm as a 'Born Global'. The models in the next part of the paper are thus illustrations of these relations and not links between variables.

CASE STUDIES

The empirical part of this article has its background in several case studies of Danish Born Global firms, and we will focus on two case studies of firms that to a large extent have the same history. Both firms work with processing of fish (salmon, trout, etc.) for the European market, and both firms were founded in the beginning of the 1990’s. One of the firms had three founders: one responsible for marketing and sale, one for production and logistics and the last one for the supply. The number of employees at the time of the case study was between 50 and 100, and both firms were founded a few years before the case study in a ‘large’ scale with app. 30 employees each. The reason for two case studies is to show that even these two firms have almost the same market, the same geographical location, and almost the same history – or 'path dependence' – their relations to their suppliers develop in different directions.

One of the firms – named A – has almost all of its suppliers of raw fish (trout) in Denmark, and its connections with the suppliers are characterised by close relations. Firm A can be seen as the node in a local network with strong international ties through this one firm. In connection with our initial research model, (see figure 1) it is the relations between this firm and its local suppliers as a way of internationalising the local suppliers that retains our main interest. Or more precisely how the local firms and networks have changed owing to changes in the focal firms' international sales network.

The other firm – named B – has chosen to combine local and international suppliers of fresh fish and does not have the same close relations as firm A.

We will start the analysis of the relations between the fish farmers and firm A with the fish farmer's point of view. The Danish fish farmers sell direct to the fish markets in Europe – normally through agents – but in case A they prefer to have long-term contracts and close relations to a Danish producer of fish products, such as smoked trout. The reason for this choice is that they have the opportunity to develop closer relations to the purchaser. In several cases the relations between the fish farmers and the producers are very close, e.g. through cross-ownership and/or membership of each other's boards. Instead of a price regulated by the daily fish market in Europe, the fish farmers now have the possibility of obtaining long-term contracts with a stable price – but also the risk of getting a lower price than possible in the open market. Furthermore, the advantage to both parties in this relationship is that the production of fish can be closely related to the demands of the consumers in Europe and to the contracts with the large supermarket chains.

If we take a closer look at the relations and the implications from a network perspective, there are several consequences for the local networks and the producers of raw materials (fish) in this supply chain ending up with rather expensive, high-quality fish products, such as trout. The value chain for this type of product can be seen like this in a simplified model.

- Figure 2 app. here -

This simplified model shows the way that products move in the value chain. In general, communication will move in the opposite direction indicating that the fish-processing firm communicates with the market and 'translates' the demands of the market into specific orders for the fish farmers. Traditionally, these fish farmers sell indirectly to the producers through fish markets or to the supermarkets through agents. The communication with the fish farmers from the markets will therefore be indirect, and normally they have only sparse information about the wishes of the markets. The problem for the producers of fish (firm A and B) is that the production of fish (especially trout) is highly dependent on the weather conditions. When it gets cold, the fish almost stop growing, and the use of the fish from the fish farms in this way diminishes the stock of fish. What worsens the problem is that the highest demand for (and the highest prices of) e.g. smoked trout is in the winter, when production is low. In most cases, both firm A and B have long-term contracts with the supermarkets meaning that it is extremely important to the firms to have a close contact to the suppliers to ensure a steady supply. The other possibility in the winter is to buy from the fish markets at a very high price, as firm B does.

Firm A has, as its main advantage, the ability to deliver fish from water to table within 24 hours in all countries in Europe. The fish are caught at the fish farm in the morning, smoked, cooled, packed, etc. during the daytime, shipped off in the night by truck or plane and are ready to sell the next morning in a supermarket in e.g. Lyon. The firm clearly has its advantage in delivering the highest possible quality, which gives it a premium price. Several times during the year, controllers from large European supermarket groups visit the factories and the fish farms to control the quality. Several of these supermarkets have extremely precise rules regarding the production of fish; the fish farms for example have to produce their own fry to ensure the quality. This is one of the reasons why firm A has chosen to have close relations to its suppliers of fresh fish. Firm B has instead chosen the 'market solution' and buys most of its supplies on the European fish markets or from large producers of fish. The advantage to firm B is the possibility to 'shop around' at the lowest price, but the disadvantage is on the other hand lack of control with the production. In several cases, firm B has had problems with the external control from e.g. the supermarkets, and now consider more close relations with a few producers of fish in Denmark and Norway.

Summing up the description of the networks of fish farming and fish producers, we can see that because of demands from the international market very close relations between the two parties can be necessary. Close relations give the fish producers (firm A) the possibility of having a stable supply at a stable price. The advantage to the fish farmers is that they know the demand and the price, but – and that is maybe the most important part – that they gain access to information about the market, too.

It was extremely important for especially firm A to have a group of customers (and contracts) and a group of suppliers (the fish farmers), before the firm started its production. The idea was to find the right place in the market by delivering the right product. If it had not been possible to have this stable group of suppliers, the firm would not have started its production. *'It was decisive to have access to one or more suppliers, which could give us the raw materials we needed, when we began'.* Firm A wanted to deliver to the market the right (high) quality at the right time with long-term contracts with the supermarkets. This type of contract was new at that time, and the offer to the supermarkets was to deliver a high quality of fish products, supplied on a stable basis and packed as the supermarkets and the consumers would like it – and at a high price. The main idea thus was *'to close a hole in the market'*, as one of the founders says. Access to the right quality of supplies at the right time was fundamental to the founding of the firm, and one of the solutions to this was to exchange shares with the largest of the fish farmers. This resulted in a close contact between the fish farm and the producer, not only in day-to-day business but in strategic matters too.

The supermarkets demand a very high quality in the production of fish. The consequence is that firm A has to be 100% certain that there are no problems at all at the fish farms. When the controllers from the supermarkets come to Denmark, they visit both the producer (the factory) and the suppliers – the fish farmers. Furthermore, the supermarkets often have special wishes as to the final product – and typically, on a short-term basis – which implies that the producers are forced to have suppliers that they can rely on. The flexibility of firm A is thus one of their main arguments in negotiations with the large supermarkets, but this flexibility has to go through the supply chain to the fish farmers too. Instead, firm B decided to work with short-term contracts with both customers and suppliers and to be '*overall in the market'* as one of the founders said it. To match demand and supply of high-quality fish products in Europe in a time span of often less than 24 hours has been the founding philosophy of firm B.

A very high quality of products, long-term contracts with the supermarket chains and a high degree of flexibility are the means according to which firm A has been successfully dealing with the European markets for fish products. This strategy has meant that the firm from the beginning had to establish close relations with the suppliers of fish. For firm A – whose suppliers are all local – the cooperation with the fish farmers has largely been a major part of its success. The supply chain from Figure 2 has in this way changed a lot for this firm:

- Figure 3 app. here –

The local fish farmers are now deeply integrated in the production system of the fish-producing firm. The local fish farmers have to some extent lost their independence – the right to sell on a daily basis on the fish markets of Europe – but instead they have long-term contracts and stable prices. Furthermore, they now have access to information about the customers, both supermarkets and end-users. Instead of the outsourcing of production – as it is often seen – this is an example of insourcing of suppliers, who are a critical resource in the production.

The demand for high-quality products from the consumers and the system of long-term contracts at supermarket level, these factors are in this way – so to speak – moving down in the supply chain to a group of raw material producers who are not used to think in such terms. The fish farmers in Denmark are typically family businesses (man and wife firms) with a strong local orientation, but as suppliers to firm A they have to be international. Close contact with a producer and for example, an inspection from a French supermarket is quite new to these fish farmers. The integration in a value chain has not been easy for the fish farmers and especially one of the founders in firm A has spent almost all his time on being in contact with the fish farmers.

This small case study of the production of fish in Denmark thus shows us that the internationalisation of one firm on the whole can have consequences for the strategy of other firms with a much more local orientation. The fish farmers are not international firms if we define internationalisation as exporting, but through the integration in an international supply chain, they are getting still more international in their outlook and strategy. In contrast to firm A, firm B has been operating in an open market with day-to-day sale and buying. This may be an advantage, especially if the firm is able to find the right match between demand and supply. The two different strategies in firm A and B have some consequences for the employees at the factories. Firm A has long-term contracts with its employees in the production and a monthly salary. Firm B instead pays its workers in the production by the hour, and they can be hired and fired within a few days. It gives firm B a higher flexibility, but it has been difficult for the firm to find workers with the right qualifications. Contrary to firm B, firm A has a very stable staff in the production and has used many resources to educate its employees.

As a natural consequence of firm B's strategy its main supplier of fish bought the firm in 2001. The buyer – a large Norwegian producer of fresh fish, especially salmon – had as its main objective for the investment in Denmark to get closer to the European customers and get access to the knowledge of firm B.

CONCLUSION AND FURTHER RESEARCH

In the beginning of this article, we asked what the consequences are of the existence of one or more 'Born Globals' for a local network of firms – and how the Born Global firms' competence and production depend on the existence of local suppliers. As can be seen from the case study of firm A above, the founding and development of a Born Global firm can be highly locally dependent. On the other hand, precisely the existence of a global firm may influence the development of the local firms. Global and local are in our study not contradictions but two sides of the same coin. The focal connection between the local firms and the international customers has been the Born Global firm. To this could be added that the de facto connector between the global and local actors is the entrepreneur – or entrepreneurs in one of the firms. It is the entrepreneur with both the local and global knowledge of firms and opportunities that finds the right strategy of connections.

If we see strategy as *'a pattern in a stream of action'* to use the words of Mintzberg & Waters (1985), the entrepreneur is able to see a common pattern in the actions of the local firms and the actions of the global customers. Furthermore, the entrepreneur is able to make this pattern develop into a successful strategy. The inter-firm activities, which stems from this strategy development in the Born Global firms, make it possible for even very local firms to keep up with the speed and variety needed in the volatile international markets (Rasmussen & Servais, 2002).

On the other hand – as case B demonstrates – a Born Global firm does not necessarily have to rely on strong local relations with its suppliers to become highly international. Instead, the sourcing of the most important resource – the raw fish – is on a global scale. Even the two firms' strategy regarding suppliers has been different; they both had to rely on the Danish network of fish exporters. Through this network, the firms had access to logistics, market knowledge, insurance, etc. The two cases thus show us that even when two firms start at the same time and have almost the same product and customers, their strategies and further development can be quite different.

Another impact a Born Global firm could have on the local network might be that it is ‘courageous’. This implies that this particular firm has an entrepreneurial experience that not all the local firms have, and that it does not follow the traditional pattern of development. If its international endeavours turn out to be positive, it will serve as a role model to other small local firms. Much knowledge about doing international business will be transmitted through personal and perhaps even professional relations, very much in the vein of *‘If he can, I can too’*. Other influence not only confined to 'Born Globals' is, as we have seen in the previous section, international rules or standards that could have a large impact on the ongoing local business contacts. The relationships as such might not be changed by impact from abroad, but instead the common rules and local norms may be changed over time. In addition, other local relations might be influenced by some firms’ internationalisation, e.g. the relationship to suppliers of wrapping, service providers etc. One could anticipate that the demand for suppliers with the capabilities to understand different cultural settings may increase over time, and if this demand it not fulfilled locally, the firm might be forced to find alternatives elsewhere. These observations are also reflected in the international purchasing literature. Unfortunately, most research has been from the perspective of the exporter rather than the importer (Lye & Hamilton, 2000). Research regarding international sourcing activities is still limited compared to the research on other areas of international business (Liang & Parkhe, 1997). This imbalance is somewhat surprisingly given that the ultimate success of exporters is dependent upon the behaviour of foreign purchasing. Buyer-seller relationships have changed considerably in recent years; instead of the seller taking the initiative, the buyer is increasingly active searching (i.e. reverse marketing) for a supplier that is able to fulfil the requirements.

Furthermore, we can see that even small changes through some firms' internationalisation might have comprehensive local consequences over time. Internationalisation seen in this way is thus not only a question of exporting, but also of innovation, co-operation with suppliers, networking of all types, etc. In this paper, we have focused on some of the possible effects some firms' rapid internationalisation might have on the local network. This work is not at all comprehensive, and more research is needed to understand this diffusion of knowledge. A very difficult task since it really calls for much more longitudinal studies.

'Location is our advantage' as one of the founders of the born global firm A expressed it, but how can location be the main advantage to a firm exporting almost 100% of its production is one of questions we have tried to answer. How location and globalisation interweave in a unique way and the theoretical conclusions to be drawn from this have thus still to be researched into in a more thorough way than possible from a few case studies.

References

Aldrich, H. and Zimmer, C. (1986). Entrepreneurship Through Social Networks. In D. Sexton & R. Smilor, (eds.), The Art and Science of Entrepreneurship, New York: Ballinger, 3-23.

Andersen, O. (1993). On the internationalization process of firms: A critical analysis, Journal of International Business Studies, 24/2, 209-231.

Andersen, P. H., P. Blenker and P. R. Christensen (1995). Generic Routes to Subcontractors' Internationalization, RENT IX Conference on Entrepreneurship and SMES in Milano.

Anderson, S. P. and A. de Palma (2000). From local to global competition, European Economic Review, 44 423-448.

Andersson, S. (2000). The internationalization of the firm from an entrepreneurial perspective, International Studies of Management & Organization, 30/1, 63-92.

Bell, J. (1995). The Internationalization of Small Computer Software Firms: A Further Challenge to "Stage" Theories, European Journal of Marketing, 29/8, 60-75.

Bilkey, W. J. and G. Tesar (1977). The export behaviour of smaller sized Wisconsin manufacturing firms, Journal of International Business Studies, 18 93-98.

Choi, C. J. (1999). Global competitiveness and national attractiveness, International Studies of Management & Organization, 29/1, 3-13.

Christensen, P. R. (1991). The small and medium-sized exporters' squeeze: empirical evidence and model reflections, Entrepreneurship & Regional Development, 3 49-65.

Christensen, P. R. and L. Jacobsen (1996). The role of export in new business formation, RENT X Conference on Entrepreneurship and SMES in Brussels.

Coviello, N. E. and H. J. Munro (1995). Growing the entrepreneurial firm: Networking for international market development, European Journal of Marketing, 29/7, 49-61.

Ellis, P. (2000). Social Ties and Foreign Market Entry, Journal of International Business Studies, 31/3, 443.

Ganitsky, J. (1989). Strategies for innate and adoptive exporters: Lessons from Israel's case, International Marketing Review, 6/5, 50-65.

Gartner, W. B., B. J. Bird and J. A. Starr (1992). Acting As If: Differentiating Entrepreneurial From Organizational Behaviour, Entrepreneurship Theory and Practice, Spring 13-31.

Harris, S. and C. Wheeler (2005). Entrepreneurs' relationships for internationalization: functions, origins and strategies, International Business Review, 14/2, 187-207.

Hayter, R. (1997). The Dynamics of Industrial Location: The Factory, the Firm and the Production System, Chichester, UK: Wiley

Johannisson, B. (1994). Building a "Glocal" Strategy: Internationalizing Small Firms Through Local Networking, International Council on Small Business 39th Annual World Conference, Strasbourg, June 27-29.

Johannisson, B. (1995a). Entrepreneurial networking in the Scandinavian context - theoretical and empirical positioning, Entrepreneurship & Regional Development, 7/3, 189-192.

Johannisson, B. (1995b). Paradigms and entrepreneurial networks - some methodological challenges, Entrepreneurship & Regional Development, 7/3, 215-231.

Johanson, J. and Mattsson, L.-G. (1988). Internationalization in industrial systems - a network approach. In N. Hood & J.-E. Vahlne, (eds.), Strategies for Global Competition, London: Croom Helm, 287-314.

Johanson, J. and J. E. Vahlne (2003). Business Relationship Learning and Commitment in the Internationalization Process, Journal of International Entrepreneurship, 1/1, 83-101.

Johanson, J. and J.-E. Vahlne (1977). The internationalization process of the firm: A model of knowledge development and increasing foreign market commitments, Journal of International Business Studies, 8 23-32.

Johanson, J. and F. Wiedersheim Paul (1975). The internationalization of the firm - four Swedish cases, Journal of Management Studies, 12 305-322.

Jolly, V. K., M. Alahuta and J.-P. Jeannet (1992). Challenging the incumbents: How high technology Start-ups compete globally, Journal of Strategic Change, 1 71-82.

Kanter, R. M. (1997). Strategies for success in the new global economy: An interview with Rosabeth Moss Kanter, Strategy & Leadership, 25/6, 20-26.

Kanter, R. M. (1999). Change is everyone's job: Managing the extended enterprise in a globally connected world, Organizational Dynamics, 28/1, 7-23.

Keeble, D., C. Lawson, H. L. Smith, B. Moore and F. Wilkinson (1998). Internationalisation processes, networking and local embeddedness in technology-intensive small firms, Small Business Economics, 11/4, 327-342.

Knight, G. A. and S. T. Cavusgil (1996). The Born Global firm: A challenge to traditional internationalization theory, Advances in International Marketing, 8 11-26.

Liang, N. and A. Parkhe (1997). Importer Behavior: The Neglected Counterpart of International Exchange, Journal of International Business Studies/Third Quarter, 495-530.

Lindmark, L., Christensen, P. R., Eskelinen, H., Forsström, B., Sørensen, O. J., & Vatne, E. (1994) Småföretagens internationalisering - en jämföranda studie , Stockholm: NordREFO

Lye, A. and R. T. Hamilton (2000). Search and performance in international exchange, European Journal of Marketing, 34/1/2, 176-189.

Madsen, T. K. and P. Servais (1997). The Internationalization of Born Globals: an Evolutionary

Process?, International Business Review, 6/6, 561-583.

McDougall, P. P., S. Shane and B. M. Oviatt (1994). Explaining the formation of international new ventures: The limits of theories from international business research, Journal of Business Venturing, 9 469-487.

McKinsey & Co. (1993) Emerging Exporters. Australia's High Value-Added Manufacturing Exporters , Melbourne:.McKinsey & Company and the Australian Manufacturing Council

Mintzberg, H. and J. A. Waters (1985). Of Strategies, Deliberate and Emergent, Strategic Management Journal, 6 257-273.

Oviatt, B. M. and P. P. McDougall (1994). Toward a theory of international new ventures, Journal of International Business Studies, 25/1, 45-64.

Oviatt, B. M. and P. P. McDougall (1995). Global start-ups: Entrepreneurs on a worldwide stage, The Academy of Management Executive, 9/2, 30-43.

Oviatt, B. M. and P. P. McDougall (1997). Challenges for internationalization process theory: The case of international new ventures, Management International Review, 37/2, 85-99.

Porter, M. E. (2000). Location, Competition, and Economic Development: Local Clusters in a Global Economy, Economic Development Quarterly, 14/1, 15-34.

Preece, S. B., G. Miles and M. C. Baetz (1999). Explaining the international intensity and global diversity of early-stage technology-based firms, Journal of Business Venturing, 14/3, 259-281.

Rasmussen, E. S., T. K. Madsen and F. Evangelista (2001). The Founding of the Born Global Company in Denmark and Australia: Sensemaking and Networking, Asia Pacific Journal of Marketing and Logistics, 13/3, 75-107.

Rasmussen, E. S. and Servais, P. (2002). Industrial Districts, Networks and Born Global firms. In T. Knudsen, S. Askegaard, & N. Jørgensen, (eds.), Perspectives on Marketing Relationships, Copenhagen: Thomson, 125-148.

Sharma, D. D. and A. Blomstermo (2003). The internationalization process of Born Globals: a network view, International Business Review, 12/6, 739-753.

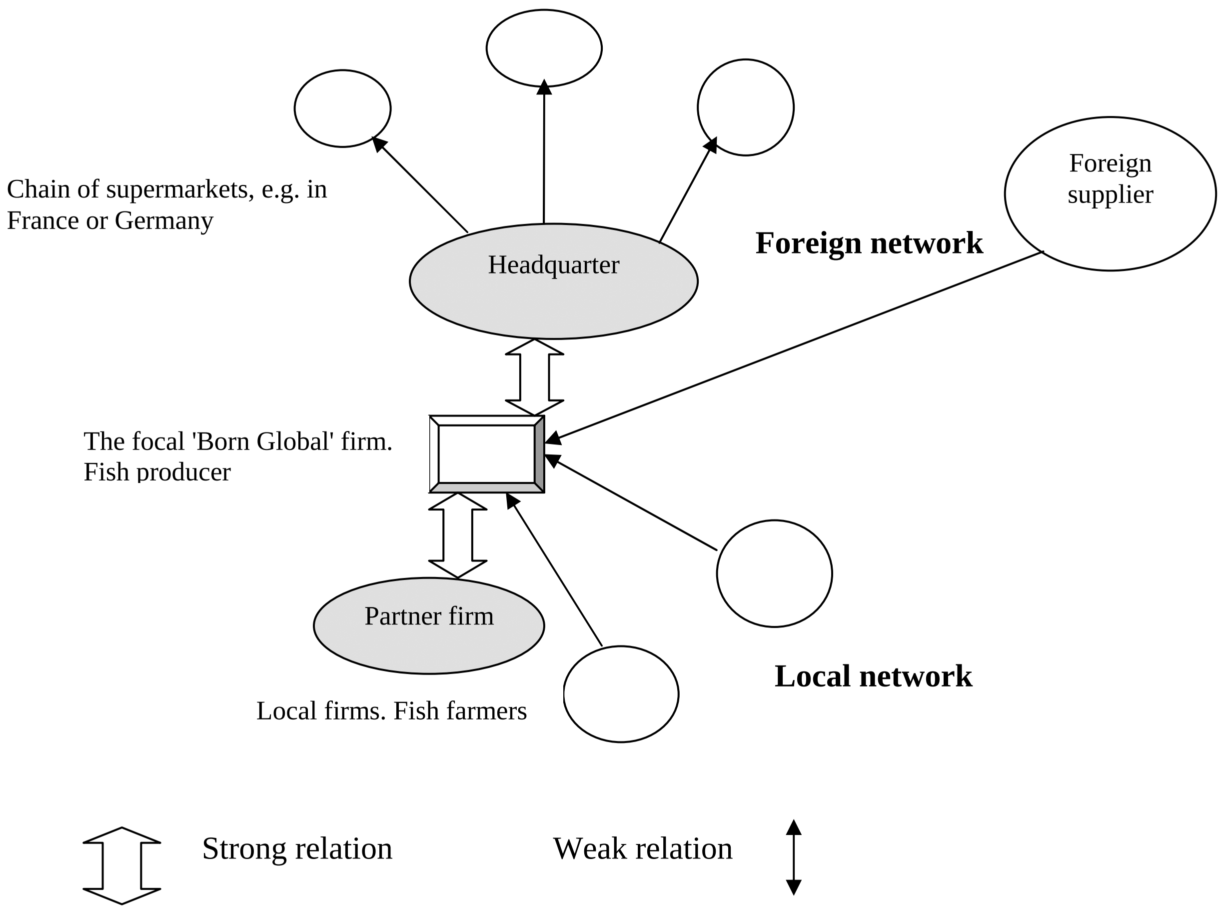
Starr, J. A. and I. C. Macmillan (1990). Resource Cooptation via Social Contracting: Resource Acquisition Strategies For New Ventures, Strategic Management Journal, 11 79-92.

Stevenson, H. H. and J. C. Jarillo (1990). A Paradigm of Entrepreneurship: Entrepreneurial Management, Strategic Management Journal, 11 17-27.

Yin, R. K. (1993). Applications of Case Study Research .Sage

Zahra, S. A., R. D. Ireland and M. A. Hitt (2000). International expansion by new venture firms: International diversity, mode of market entry, technological learning, and performance, Academy of Management Journal, 43/5, 925-950.

Figure 1: Important relations



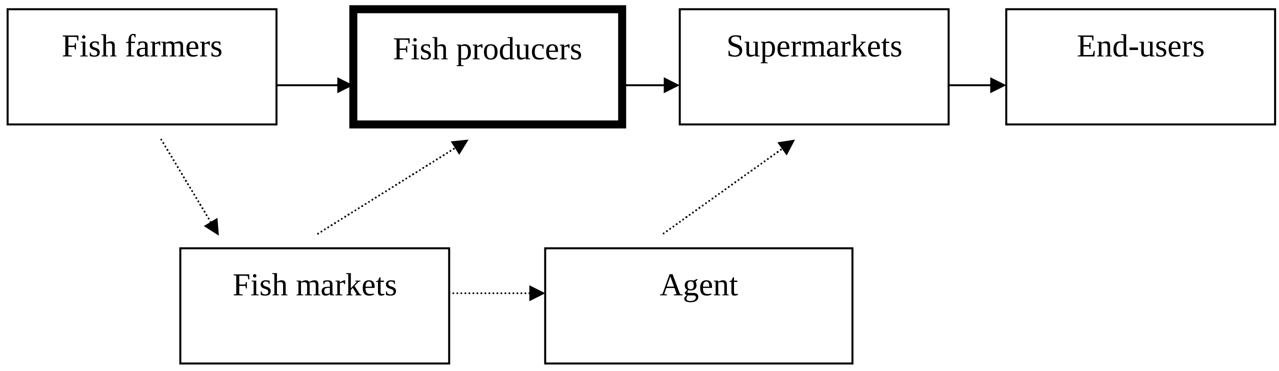


Figure 2: Supply and sales network for the Danish fish producers

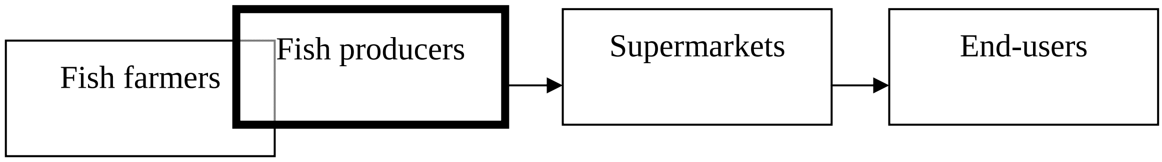


Figure 3: The ‘new’ network