9 International Entrepreneurship and Growth

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Globalization allows not only the international expansion of multi-national companies (MNCs) but also the growing success of early internationalizing firms, who go global and succeed in multiple foreign markets at birth or early in their operation as part of their early growth strategy. This chapter focuses on these early internationalising firms and will help you understand how these firms excel with their performance in competitive global markets. You should then be able to:

- ☐ Understand the globalization influences, the emergence of early internationalized firms;
- ☐ Understand and explain the theoretical foundation of international entrepreneurship;
- ☐ Identify different motivations for international entrepreneurs;
- ☐ Examine the characteristics and traits of an international entrepreneur;
- ☐ Build international entrepreneurial capabilities for starting and growing an international venture.

Globalization and the internationalization of start-up firms

In today's world of a truly globalized economy, consumers are familiar with buying products and services which are made in not just one country but in multiple countries. A daily product such as a smart phone has its components coming from different OEMs (Original Equipment Manufacturers) in Taiwan and Korea, memory chips from Europe, is designed in America and assembled in China. The product is truly made globally.

Globalization influences

Globalization – the continuous integration of the countries in the world towards a liberalised and unified global market – impacts on all national economies. The increasingly free market is opening up opportunities for firms and individuals to interact and do business, even virtually, regardless of geographical locations. The movement of many previously controlled economies in the former Soviet blocs towards more free and market-oriented systems, the development of the Pacific Rim, the emergence of new markets in Asia, Latin America and Middle East have brought about countless opportunities for firms to start new businesses or to expand their business globally.

Decreased trade barriers and facilitating institutions have been observed to initiate many international business set-ups and expansions. Since after World War II, the growth of international trade and investment has been faster than the growth of domestic economies, including those of the United States and China (Hisrich, 2013). The development of trading blocs, such as NAFTA (North American Free Trade Agreement) and the European Union, with tax exemption policies, have lowered the barriers for firms to import and export their products to other countries within these customs unions.

Facilitated by advances in information and communication technology in particular, the boom of the internet, international transport, advances in process technology and integration of world financial markets, the impact of increased levels of globalization on entrepreneurship has been witnessed more than ever before. Increases in efficiency due to advancement in information, production and communication technologies have reduced costs and raised efficiency thus making it possible for firms to internationalised rapidly (Knight and Cavusgil, 2005).

Firms once focused solely on domestic markets have been recognising constraints in business development locally and the new opportunities to do business globally. We have observed many big companies, from small nations such as the Nordic countries, prove their success globally; to name just a few: H&M (a global clothing fashion company from Sweden), IKEA (a global furniture company from Sweden), LEGO (a world-leading toy company from Denmark). These companies have quickly expanded their business abroad due to the limited sizes of their home markets and the prospect of entering growing markets elsewhere. The entrance of new international competitors who are penetrating local markets has changed the competitive nature of local industries, putting pressure on domestic firms to adapt and look beyond their local territories. High labour costs, high R&D costs in the domestic markets further urge domestic firms to outsource their business in other countries (Vestring *et al.*, 2005)

Internationalization of start-up firms

The globalization trend of international markets has stimulated the international business expansion of multinational companies (MNCs) in the last few decades. However, this globalization of markets and new technologies allows not only the international expansion of large established firms such as IKEA, Zara, H&M and Lego, but also the growing success of firms who internationalized and succeed in multiple foreign markets at birth (international start-ups) or early in their operation, despite limited resources.

Cochlear – an Australian company producing implants for the profound deaf is an example of a 'born-global' firm. The company has relied on their strong relationship with hospital and research centres located all around the world right from inception to maintain a strong technological base for their product innovation. Its technological partners and network of institutions are located in Australia, Switzerland, Germany and the United States. (Rennie, 1993).

Tip: Early internationalising firms succeed in multiple foreign markets early in their operation despite limited resources. Consider if resource constraint would be an opportunity for firms to be innovative and an option for growth strategy.

Logitech – a world famous mouse device company – was founded by one Swiss and two Italians, who had a strategic vision from the start to build a global new venture. The company has two headquarters, in the US and Switzerland, and later on has expanded to Taiwan and Ireland. Its customer base has been globally built, e.g. a Japanese company was the first customer to sign a commercial contract with Logitech (Alahuta, 1990).

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Easyjet – a well-known international low cost airline– was founded by a Greek entrepreneur. Stelios Haji-Ioannou, who lives in the UK, travelled to the US and realised the potential of replicating the low cost airline business model by American based Southwest Airlines in the UK market. Stelios has been successfully adapting the business model in the international context, focusing on multiple markets as its initial strategy. These companies are excellent examples of early internationalized firms or born-global firms.

Case study: Skype– global from the start

Skype provides free internet phone and messaging services and is a born-global start up. Users need to install software with internet phone technology to communicate with others. There are millions of users logged in on Skype and the program and service has made such a strong impression that the term "Skype me" has replaced "call me" in some circles. Niklas Zennstrom and Janus Friis, the same two entrepreneurs who invented

KaZaA (one of the most popular internet file-sharing software programmes in the world) also developed Skype. Initially founded in Sweden as Tele2, Skype is now headquartered in Luxembourg and has offices in Europe, the United States, and Asia. Skype has received significant funding from some of the largest venture-capital firms in the world. Skype is a typical born global start-up with characteristics of being innovative, seeking for global resources to make them succeed.

Source: http://www.skype.com.

Case study: Seaflex – seeking new international markets

Seaflex was founded in Sweden with ten employees in 1999. The product of the company is an environmentally friendly elastic mooring system that secures pontoons and buoys or floating docks without damaging the sensitive ecosystem on the seabed. Due to the limited domestic market, Seaflex mainly relies on foreign sales which account for 98% of turnover. Over eight years, Seaflex has increased its sales by around 30% each year and doubled its staff. The company in recent years has expanded its traditional markets in Europe and the United States into new and emerging markets in the Middle East and Asia. CEO Lars Brandt made it clear: "During those first years, I tried to find international customers because Sweden is so small and I think if you have a product that everyone else can use, it is a missed opportunity to sell it only on the domestic market … the whole world is our market!"

Source: http://www.seaflex.net, Adapted from Eurofound, 2012

Knight and Cavusgil (2005) confirmed the emergence of a uniquely characterised breed of international firms whose origins and initial orientations are international and from infancy seek to gain competitiveness through establishing significant foreign sales. McKinsey in 1993 spotlighted the emergence of small and medium enterprises who successfully competed almost from their inception against large and established players in the competitive global market (Rennie, 1993). The study of young Austrian firms also showed that these firms began exporting only two years after their foundation and 76% of their total sales came from export activities. (Rennie, 1993). About 20% of new enterprises in Europe are born-global firms and they comprise up to half of young firms in Romania, Belgium and Denmark. (Eurofound, 2012). This reflects partly the limited market size of some European countries and also the regional integration trend leading to international firm foundation (Eurofound, 2012). Another study by Madson and Servais (1997) on 328 export-oriented enterprises from Sweden, Norway, Finland and Denmark revealed that most export enterprises began their international activities right after their establishment, with offshore business accounting for 20% in the first year, and after just two years reaching