Resource Scarce Intensive Strategies in the Early Internationalization of Born Globals

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Abstract

The purpose of this paper is to explore how Born Globals solve the resource scarcity problem typical for them. In this paper we will discuss how International New Ventures or Born Globals can increase their internationalization pace with the selection of resource scarce strategies. Our underlying assumption is that with the selection of suitable strategy, the Born Global can contribute to a decreased liability of foreignness and resource scarcity, and to an increased speed of internationalization. Based on the literature we are reviewing resource acquisition strategies, and three different resource scarce strategies, 1) an externalization strategy, including a co-option strategy, 2) a low entry mode strategy, and 3) an Internet strategy.

Keywords: Born Global, International New Venture, Resource Scarcity, Critical Incident Technique

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1. INTRODUCTION

During the last decade a new type of firm has emerged, one that increasingly has attracted the attention of international business researchers, mainly because the new type emerged has been in contradiction with the traditional internationalization research. (See e.g. Alahuhta 1990; Jolly et al. 1991; Oviatt et al. 1991; Rennie 1993; Oviatt & McDougall 1995; Knight & Cavusgil 1996; Madsen & Servais 1997; Autio et al. 2000; Gabrielsson, Sasi & Darling 2004; Luostarinen & Gabrielsson 2004; Knight & Cavusgil 2005). BGs, as all new firms, are ventures characterized by resource scarcity. They enter international markets shortly after inception and experience high international and global growth. In particular it has been suggested that resource scarcity of BGs or INVs pose a critical challenge in terms of rapid globalization (Oviatt & McDougall 1995). Differences in resource availability compared to large global competitors have been reported as one of the major barriers to early internationalization of firms, such as INVs (Karagozoglu & Lindell 1998). The purpose of this paper is to explore how Born Globals, in their early globalization process, solve the resource scarcity problem typical for them.

The primary research questions are. How do Born Global firms actually overcome resource scarcity typical for them in their early globalization process? And what kinds of resource scarce intensive strategies do they use?

In the paper we will discuss how International New Ventures or Born Globals can increase their internationalization pace with the selection of suitable resource scarce strategies. Our underlying assumption is that with the selection of suitable strategy, the Born Global can contribute to a decreased liability of foreignness and resource scarcity, and to an increased speed of internationalization. Based on the literature we are reviewing resource acquisition strategies, and three different resource scarce strategies, 1) an externalization strategy, including co-optation strategy, 2) a low entry mode strategy, and 3) an Internet strategy.

The concepts international new venture (INV), entrepreneurial firm and venture are used as a synonym for born global (BG).

2. LITERATURE REVIEW

2.1. Resource Acquisition

The international entrepreneurship (IE) is "the process of creatively discovering and exploiting opportunities that lie outside a firm's domestic markets in the pursuit of competitive advantage" (Zahra & George 2001). IE is a rather recent research approach focusing mainly on the entrepreneur or the entrepreneurial firm in an international context (Dana et al. 1999).

At present venture growth models in the entrepreneurship literature are assuming a linear process of growth (Block & MacMillan 1985; Kazanjian 1988), and they do not take into account the influence of overseas operations on the process. Block & MacMillan (1985) defined the venture growth process in terms of milestones. The authors described ten typical milestones that new ventures pass, including concept and product testing, first financing, market testing, production start-up, and competitive reactions. Kazanjian (1988) introduced a four-stage model with dominant problems in each stage. In stage 1 resource acquisition and technology development dominates; In stage 2, production related start-up takes over; In stage 3 sales/market share growth and organizational issues dictate, followed by profitability, internal control, and future growth base in stage 4.

The importance of the entrepreneur in the resource acquisition process is widely recognized in the literature. Oviatt & McDougall conveyed that the entrepreneur's role in the resource acquisition process is significant (Oviatt & McDougall 1994). Research has shown that several INVs are started by entrepreneurs who have prior international business experience (Crick & Jones 2000), and they use their prior experience and network in the resource acquisition process. Despite the fact, that resources are vital to venture performance, resources alone are not enough, the entrepreneur must develop skills and choose venture strategy that make the best use of available resources (Chandler & Hanks 1994). Further, the founders must be able to ride the wave of product technology lifecycle (Moore 1994) and capitalize on the right moment.

In general young ventures, such as International New Ventures or Born Globals, have great difficulty obtaining external financing because they typically invest in riskier assets and in many cases there is information asymmetry between the entrepreneur and financier (Megginson 2004). Access to finance has been identified as a significant constraint on the development of technology-based businesses. The early phase of venture start-ups is most often heavily dependent on initial insider finance (savings, cash flow from revenues, retained earnings, bootstrapping), and informal external finances (angel finance). Also other informal external finance (loans from relatives and friends) is important (Mason & Harrison 1999; Brophy 1997). Bootstrapping (cf. Bhide 1992) – defined here as starting and operating a business with little or no money or assistance from outside investors – becomes more important for these firms. Bootstrapping include sweat capital, i.e. personal commitment of resources by entrepreneurs to signal to other resource providers of his/her intentions towards building the venture. Successful acquisition of early stage financing, such as angel financing can be crucial to a fast-growth venture's survival, and ultimately to qualify as target for institutional venture capital investment (Freear & Wetzel 1992). Although important, institutional venture capital and business angel finance are used by only a small proportion of new and growing ventures, even among fast-growth ventures and new technology-based firms, especially in Europe (Harrison et al. 2004). European firms typically receive venture capital in a later business development stage, after the product has successfully been test-marketed, to finance full-scale marketing and production (Berger & Udell 1998). Thus, *seed and early start-up phase financing* in European growth firms, such as European Born Global firms, is heavily dependent on internal finance and government support.

Another of the primary difficulties for new ventures, in addition to scarce availability of equity and difficulty caused by information asymmetry, is the extremely cyclical venture capital industry. The vitality of the exit stage has a significant impact for the entire venture capital cycle, because it affects the monetary incentives of venture capitalists to invest and re-invest in. The reverse direction is important too, because the opportunities for exits influence the venture capitalists' ability to raise capital in the future. With the evaporation of the IPO exit route, alternative exit strategies become available, such as mergers and acquisitions (Bygrave & Timmons 1992).

2.2.Resource Scarcity

Rapidly globalizing firms, the so-called Born Globals, have increasingly drawn attention (Knight & Cavusgil 2005) since the early 1990s. The INVs enter international markets shortly after inception and experience high international and global growth, despite being constrained by resource scarcity typical for early ventures. Because of resource scarcity, these firms tend to use different kinds of internationalization strategies than the traditional internationalization literature advocates.

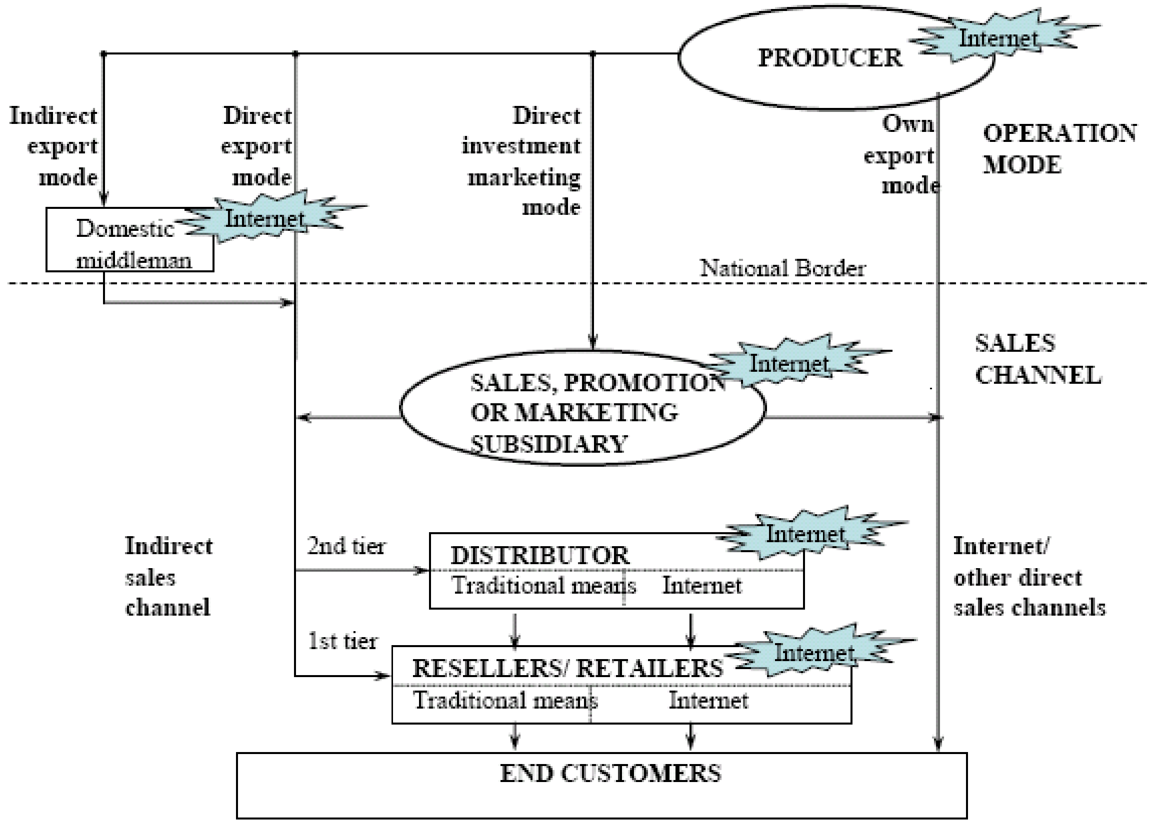
In the literature we found examples of three different types of resource scarce strategies used by INV. Firstly, an externalization strategy suggested by Oviatt & McDougall (1994). They propose that INVs in general uses "alternative governance structures", such as franchising and licensing, or even a network structure to internationalize. This enables firms to access critical resources without having ownership control over them. Starr and MacMillan (1990) highlight cooptation, the social role of contracting in securing legitimacy and resources for start-ups in early phases of its business life.

Secondly, INVs can internationalize a smaller percentage of their resources (McDougall et al. 1994) than a mature organization in general would. Typically, it means that INVs use entry modes requiring minimal resources. For example, most firms in Crick & Jones' study used direct exporting through international agents as their main international operation mode (Crick & Jones 2000). Shrader et al. found that U.S. firms entered several countries using low resource consuming entry modes, thus minimizing their international risks by maintaining a low dependence on any single foreign market (Shrader et al. 2000).

Thirdly, INVs are able to minimize the need for different international operation modes by using the Internet. Arenius et al. argued that the Internet can be used as a resource conserving strategy, and consequently has an instrumental impact on BGs globalization process. For example the Internet was important in marketing, and as a sales and distribution channel. Finally, the need to be physically present was reduced with the Internet (Arenius, Sasi & Gabrielsson 2005). Without the use of the Internet INVs would probably be forced to use other, more resource consuming strategic alternatives, such as using traditional agents and importers. Thus, the need to invest heavily in marketing to be able to grow would increase, slowing down the globalization process.

Figure 1 shows that the Internet can be used on three sales channel levels: (1) by the producers for exporting purposes; (2) by the foreign sales, promotion or marketing subsidiaries; (3) by the channel members in sales and marketing.

Figure 1



Source: Arenius, Sasi & Gabrielsson (2005, p.281).

3. RESEARCH DESIGN AND METHODOLOGY

In our multiple-case study (Yin, 1989) we developed ten case studies to gain more understanding of Finnish INVs and their resource scarce strategies. Most of the primary data were collected in a large project where over 130 potential Finnish Born Global was identified by interviewing several entrepreneurs, venture capitalists, business angels, and searching through various association member lists. We followed Jones (2001) calling for studies focusing on narrowly defined groups of firms generating rich data, and identified ten firms that fulfilled our criteria of belonging to the Finnish Information and Communication Technology sector in the metropolitan area of Helsinki, Finland. The firms met the Born Global criteria suggested by Oviatt & McDougall (1997). Different respondents, mainly founders / entrepreneurs and CEOs from the case companies were personally interviewed, as well as external informants, such as advisers, financiers, and customers.

The interviews were loosely structured, so that the respondents could talk freely about the firm's internationalization process. The respondents were asked to relate the story of how the firm's international involvement had evolved from the start until the time of the interviews. The "story of the internationalization process" theme was the only one explored throughout the interviews. The selected methodology enabled us to capture the process view of international involvement, in addition to acquiring some degree of longitudinal data through the respondents' stories. Using a process approach is significant, because an organization faces different task and resource requirements at different stages of its organizational development (Kazanjian 1988).

4. ANALYSIS AND DISCUSSION OF CASE

The case companies studied were founded between 1992 and 1999. This time period was characterized by several trends, which affected them. Housemarque was founded to capitalize on the growth of the PC game markets. Deregulation of the telecommunication markets was important for Iobox and Jippii. Futuremark, Kronodoc, AtBusiness and SSH benefited from the growth of the Internet. Solidtech was founded to capitalize on the changes in the information technology.

Whether the firms have the objective to become an international firm (Nedecon, AtBusiness, MatchOn, Jippii) or a global firm (Solidtech, Housemarque, SSH, Futuremark, Kronodoc, Iobox) appears not to depend on the year of founding. International firms are those that have rapidly internationalized within their home continent (Europe) by deriving over half of their sales outside their home country (Finland). Global firms refer to companies that have rapidly (mostly within two to three years) reached a stage where over half of their sales is generated external to their home continent (Europe) (see Gabrielsson, Sasi and Darling; 2004; p. 592).

The following interview material illustrates the objectives of the case firms (Table 1 in the Appendix).

Case Futuremark: The main strategy of the firm from foundation was to become "the standard" for test-programs. In our interview, the firm founder pointed out that they wanted to be part of the extremely growing Internet market and the more moderately growing PC market and become world leader in their particular niche, a target that the firm has attained.

Case Jippii: From the founding, internationalization has been one of the key factors in the company's strategy. "of course our target was to become international, but we will go abroad when the time is right and then we will act quickly…" one of our respondents commented Jippii's internationalization strategy. It has been stated that one objective of Jippii is to be among 3-5 biggest Internet and telecom service providers in Europe by 2003.

Case SSH: The initial goal of SSH's top management has been to develop products for global markets. Our respondent said "that the main thing is that we have few competitors. In some cases, we have been part in developing the standard. This has helped us to create a good reputation as a firm in the forefront of security software." Actually, it can be said that being a global player was a given factor since Internet provides companies with a global business environment from the outset. Like in any other software company, after the rather long product development phase the products are released to global markets as soon as possible. This is due to the short product life cycles within the software industry where constantly new improved products appear to the markets.

4.1. Internationalization Pattern

We find that the time intensity in the internationalization process for of most of the case firms is low. Rather than increasing the country diversity (Jippii) or the mode diversity over a very short period of time, the case firms appear to act gradually, however in much faster pace than in traditional firms. In the case of Jippii, the high time intensity was the result of the chosen strategy of international acquisitions, which was enabled by the IPO in 2000. There is evidence that some firms rather quickly increase their level of international activities to a certain level, which they then sustain over a longer period (Futuremark). In the case of Futuremark, the case firm considered the U.S. market area as its main market area and has never even considered any other market areas. Since the U.S. market is a large and heterogeneous market area, and it takes a long time to develop successful activities on the market, the internationalization process of Futuremark has not develop since the year 2000, when it opened a sales subsidiary in the U.S.

The case companies took various amounts of time to commence international activities. Out of the 10 case companies, four firms could be defined as instant internationals, which had international activities at or immediately after firm founding (Futuremark, MatchOn, Housemarque, Iobox). Three firms operated on the domestic market between 1 and 2 years (Kronodoc, Solidtech, Jippii) and three firms took 3 or more years to commence international activities (SSH, Nedecon, AtBusiness). All the case firms fulfill the born global criteria of having commenced international activities during the first six years of their existence (Oviatt & McDougall 1997). Three out of the four instant internationals were operating on the business-to-consumer segment at firm founding (Iobox, Futuremark, MatchOn). Since that, Futuremark has switched to business-to-business segment, and MatchOn was trying to change its strategy to a business-to-business just before it went into bankruptcy in 2001. All other case firms focused on the business-to-business segments. Probably the business-to-consumer segment requires many resources and such high level of resources is difficult to acquire in Finland.

Both Nedecon and AtBusiness, which took 4 years and 3 years respectively to commence international activities, are consulting firms. It may be that the internationalization of services, which requires internationalization of human capital, takes longer than internationalization of products. Particularly, products that need no local adaption, such as extreme games of Housemarque.

It appears that the gap time as defined by age at international entry does not correlate with the year of firm founding in our sample. That is, those firms that were founded earlier did not have a longer gap time between firm founding and commencement of international activities. Admittedly, we are only looking at a ten-year period (1990s), which was characterized by favorable trends in the ICT industry, which for a majority of the case firms was the reason for their existence.

One important decision during the internationalization process is the decision of the cross-border business mode. According to the traditional process view, internationalizing firms follow a pattern of gradually moving from the less risky cross-border business modes to the more risky, resource-consuming modes (Johanson & Vahlne 1977). On contrary, the international new venture literature emphasizes the hybrid modes (more cooperative modes), which generally are resource economical (Oviatt & McDougall 1994). In our case data, we find no evidence of linear development of the cross-border operating mode. The dominant international modes are export (direct) and opening an international sales subsidiary. The firms started using these operation modes simultaneously or one after the other. For example, Futuremark commenced export and created a sales subsidiary during the same year. Of those firms, that has used both export and sales subsidiary, Solidtech and Kronodoc, first used export and only later on a sales subsidiary (traditional Uppsala chain of operations). Iobox first relied on a sales subsidiary and then commenced export. The case firms can be divided according to their level of mode diversity.

Among the case firms we find very little evidence of an Uppsala development pattern (an establishment chain). Only SSH was has somewhat followed the Uppsala development pattern by first using an indirect export mode (agent in Finland) and then commencing direct export and opening a sales subsidiary. Notably the last two cross-border modes were commenced simultaneously, and not sequentially as predicted by the Uppsala development pattern.

Only two out of the ten case firms made international acquisitions (Jippii, Nedecon). The internationalization strategy of Jippii was to acquire small local firms with one to two employees, which had a teleoperating license. The strategy that relied on acquisitions was resource consuming and to acquire the required resources, Jippii was listed on the Helsinki Stock Exchange in 2000 (at the age of 2 years). The same year the acquisitions were started. Also Nedecon relied on public offering to obtain financial resources for the acquisitions. It went into public in 1999 at the age of 5 years, and commenced international acquisitions in 2000.

Currently the case firms show various states of globalization. Truly global firms that operate on the home continent and on two others continents include Solidtech and SSH (Nedecon until Endero merger). Housemarque, Iobox, Futuremark, MatchOn (before it went into bankruptcy) and Jippii operated on one other continent in addition to their home continent Europe. Firms that operate only on European markets include Kronodoc and AtBusiness.

There is evidence that the development of country diversity is somewhat linear, rather than cyclical. Nedecon, AtBusiness and Kronodoc have started on the nearby markets, and approached only a few markets at the same time. On the other extreme, Jippii started operating a number of international markets simultaneously and rapidly increased the number of countries with physical presence. It has also approached nearby and distant markets simultaneously. Majority of the case firms has however, identified a few main market areas (or even a single market area) and focused on creating sales revenues on the selected few markets.

Once the internationalization process has started, the firms tend to remain operating on international markets. None of the case firms withdraws from the international market during the study period. Moreover, the firms show some evidence of structural inertia, by becoming stagnated with the markets they have chosen to target. For example, Futuremark has always considered the US as its main market area. It did not have the nerve to enter physically this market area at the beginning and first opened a sales subsidiary in UK, then moved it to Canada and finally, during the third years of international operations, moved the sales subsidiary to U.S. market, where it has since then remained.

4.2. The role of the Internet

Most of the firms, with the exception of Solidtech and Housemarque, we studied were using either Internet or mobile technology or both at a time when Finland was considered worldwide to be a test laboratory for these technologies. By using the Internet as sales and marketing channel, the case firms could decrease its liability of foreignness. First, the Internet decreased the costs directly associated with spatial distance. Once being developed, it is possible to distribute a software product to different countries using the Internet without any additional cost per unit of downloaded or distributed software. Internet as sales channel also decreased travel costs, which are among the first category of sources of liability of foreignness. Second, using the Internet as sales and marketing channel also decreases the costs resulting from the host country environment, such as the lack of legitimacy of foreign firms and economic nationalism. It has been proposed that Internet make firms stateless, thus removing the source of economic nationalism (perception of being alike).

Most of the case firms were able to decrease its liability of foreignness by staying in the Business-to-Business market or by moving from the Business-to-Consumer to Business-to-Business market. In fact, by using the Internet, the case firms studied could approach more market areas simultaneously, without the threat of distributing their resources too thinly on too many markets. The Internet turned out to be an effective tool to create market pull for a software product by raising the company's profile and getting other people talk about it, which is often called building mind-share. Because marketing is all about creating perceptions about a product in the minds of the customers, the battle for mind-share is critical for success. The usage of Internet turned out to moderate the effect of resource scarcity on firm internationalization, and thus to influence positively the speed of internationalisation.

4.3. Externalization strategy and founder's network

At the time of founding, the interests of the founders align with those of the firm. The obligations of the founders to the firm are general – to contribute all that they know that is relevant to the firm, should there be a need for them to do so. The firm and the founders are almost inseparable, as the firm is perceived as an institutionalized extension of the founder(s) (Casson 1996). Using existing ties lowers the firm's search costs of finding an attractive exchange partner. INVs also use their existing network ties to obtain referrals to new network partners and to increase their attractiveness. Relying on referrals has also been reported to increase the likelihood that the firm and the network partner have complementary capabilities (Uzzi & Gillespie, 2002, Starr & MacMillan 1990). Firms are more inclined to engage in relationships with partners that have demonstrated their trustworthiness and cooperative ability in other relationships (Hill, 1990). By building on existing ties INVs can increase their attractiveness and add new relationships faster. This is particularly true for social relationships, which have been argued to be *path dependent* in the sense that prior linkages determine the formation of future linkages (Gulati, 1995; Walker et. al., 1997). Larson & Starr (1993) report how entrepreneurs select certain relationships and drop others, while other relationships continue to evolve, and new ones are added. They behave opportunistically to assess and acquire resources for the emerging organization.

The case firms were typically founded by a team of two or more persons, who knew each other well before start-up, with the exception of SSH. In most cases their relationships were that of friends (cf. Rasmussen et al. 2001). Many of them had met during their studies, such as the founders of Kronodoc and Solidtech. Others had met later on in their business career, as the founders of Housemarque and MatchOn. The founder (s) of the firms were in average very international, and they were able to contribute to their firms internationalization and technology knowledge, access to resources, such as funding and personnel, and to customers. The founder teams also tended to combine different backgrounds, such as technology and business. They were also able to provide their firms with credibility and trustworthiness, crucial for firms internationalizing early.

5. CONCLUSIONS

In the literature review we concluded that INVs typically use resource conserving strategies. Most of the firm using Internet and mobile technology chose the US as their main market immediately or after a short time span. We can say that in terms of Internet technology Finland and the US were having the same time reference, whereas in terms of mobile technology the US lagged behind Finland, thus explaining why the firms with main emphasis on mobile technology were slower to enter into the US. Solidtech's main emphasis was on PC technology, where Finland was lagging behind the US. The differences in reference time might explain why Solidtech chose to move their headquarters to Silicon Valley. Finnish game developers, such as Housemarque, acted in a very successful business area in Finland, but with very small actors. Contrary to the other firms we studied, Housemarque had difficulties in finding suitable personnel and had to train their personnel themselves. We found that both the home market and the target markets should have a common reference time (i.e. the development of a particular industry trend should be on the same level) and that this particular area needs to be studied in more in detail.

Our respondents identified three different areas extremely important in marketing, use of the Internet, the work done in standard development, and high-profile business users.

Finance was typically not an obstacle among our case firms. However, after the IT market recession and stock market crash in 2000, demand for software products reduced considerably and case firms acting in more resource consuming segments, such as the Business-to-Consumer area or in consulting got into financial troubles

In our analysis we found several important critical issues that are consistent with the earlier research, but there are also differences. In the analyzed cases, reputation building was extremely important. Born Globals, typically suffer from a double liability, liability of newness (Stinchcombe 1965) and liability of foreignness. Liability of newness, typical for new ventures is intensified by a liability of foreignness. Our case firms typically overcame the slowing effects of both liabilities by heavy reputation building, especially in the start-up stage, by using the Internet, through co-optation and by using important customer references in marketing and sales.

In the literature review we presented three different types of resource scarce strategies. Firstly, an externalization strategy, secondly, a low resource consuming foreign entry mode strategy, and thirdly, an Internet strategy, that minimize the need for different international operation modes. Firstly, externalization and cooperation was important for the case firms, typically through the founder's and customer's networks. We propose that the founders opportunistically focus on international relationships, and develop their personal one-dimensional relationships into a business network of multidimensional relationships. Secondly, the resource scarce strategies employed by our case firms are very much consistent with the literature presented earlier in the start-up stage. The case firms however, tended to use hybrid, resource economical strategies in the development stage, even when subsidiaries where established abroad. Thirdly, Internet as strategy was clearly important for most case firms, because it acted as reputation builder, as distribution vehicle and finally as mode to service remote, smaller markets.

The growth process of the case firms is not linear as suggested by the literature. There has been a continuous process of product development, entering new markets and servicing new customer groups, from OEM to end-customers.

The criticality of resource acquisition, as suggested by Kazanjian (1988) did not emerge in the case firms. Instead, the resource scarce strategy build-up by the case firms typically enabled the firms to concentrate on developing the best possible product, the money was clearly not a big issue for the firms in the beginning. So instead of entering into a phase of stability in the last stage as suggested by Kazanjian (1988), the firms are entering into a stage of instability in the maturity stage. Fortunately, also IT architecture evolution and new legislation will set tighter requirements for security and increase security spending by government agencies, banks and corporations and open up new opportunities for the firms. Currently the ICT industry is like any mature industry: there are a lot of players and tight competition. On the other hand, in the IT industry there is always room for creativity and innovation.

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Table 1: Case Firms

Solidtech	Finland 1992	Private, acquired by IBM in December 2007	Information management solutions
Nedecon	Finland 1994	Merged with HSE listed Endero in 2001	IT consulting services
Housemarque	Finland 1995	Private	Game developer
SSH Communications Security	Finland 1995	Listed on HSE 2000	Security software for networks
ATBusiness Communicatiuon	Finland 1996	Management buy-out 2006	Internet-based CRM Solutions
Futuremark	Finland 1997	Private	PC 3D test program
Kronodoc (form. Single Source)	Finland 1997	Private	Web-based project management tool
Jippii Group	Finland 1998	Foreign business sold to UK LSE listed iTouch	Tele and Internet services
Iobox	Finland 1999	Acquired by TerraMobile in July 2000	Europe’s first wireless web portal
MatchOn Sports	Finland 1999	Failed in 2001	Portal with sports entertainment and news