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Entrepreneurship goes global

By Neri Karra and Nelson Phillips

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Entrepreneurship goes global

Think of an entrepreneur, almost any entrepreneur, and you'll probably develop an image of someone doing business in your city, state or province, or country. Rarely is an entrepreneur ready to do business around the world from Day One. But as these authors have discovered, entrepreneurs with particular talents and ambition are increasingly looking to sell their products around the world. No stay-at-homes, this new breed of entrepreneur are "born global."

By Neri Karra and Nelson Phillips

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In 2000, entrepreneur Ismail Karaoglu founded a new venture in Istanbul, Turkey. His idea was deceptively simple. He would source fine leather and high quality accessories like zippers and clasps in Italy, manufacture wallets, mobile phone cases, and other leather fashion goods in Istanbul, and then sell them in Russia and the former Soviet republics. Four years later his firm is highly successful, selling several million dollars worth of leather goods per year in a market that established global leather brands have found too risky. As well, he has done so without ever selling a single bag or wallet in his domestic market.

As this example shows, the nature of

entrepreneurship is shifting. Where in the past hopeful entrepreneurs would build their new venture in a domestic market before expanding globally, these same entrepreneurs have the opportunity and challenge of participating in a highly internationalized market from the moment they are founded. These "born global" firms face a very different challenge than their more traditional, domestically-focused counterparts. In addition to all of the well-known difficulties of founding a domestic business, these new ventures face the challenge of competing in an international environment. And they do so without the experience and resources of a firm that has already succeeded domestically.

For the last two years, we have been researching these unique firms in order to understand why they internationalize at founding and what factors drive their success. In this article, we will build on our research on highly successful born globals, and on the rapidly growing literature on the topic, and discuss the nature of these new firms, the reasons for their increasing prevalence, and some of the factors that explain their success or failure. Understanding the complex dynamics surrounding this increasingly common form of business is important not just for potential international entrepreneurs, but for anyone interested in the rapidly evolving business landscape facing all businesses today.

Globalization and Born Globals

By "born global" we mean a firm that has at least 25 percent international sales within three years of founding and which derives its competitive

advantage from the use of resources and the sales of its products or services in multiple countries. In other words, these new ventures both sell internationally and gain some advantage from internationally distributed purchasing, manufacturing or sales.

Although the reasons for the increasing prevalence of born globals are complex and not completely understood, management researchers have made significant progress in understanding the most important factors. In this section, we draw on our own work and on the broader academic literature to develop a framework useful in understanding the drivers that are leading to the increased prevalence of international entrepreneurship.

Three factors that drive international entrepreneurship

In general, there are three categories of factors driving the increase in international entrepreneurship.

1. First, there are market factors. In fact, some of the most important reasons for the increasing prevalence of born global firms grow out of the familiar story of the rapid globalization of markets that has accompanied the fall of tariff barriers and other legal barriers to trade combined with increased harmonization in business practices and consumer tastes. At the same time, many newer industries (think, for example, of microprocessors or software) have never been strongly segmented into domestic markets in any significant way but have always been global and demanded global participation from their creation.
2. Second, this trend has been exacerbated by changes in technology that continue to lower communication and transportation costs for small firms, erasing the practical boundaries to international

entrepreneurship that previously existed in many industries.

3. Third, there is a set of factors growing out of the increasing use of alliances and the changing nature of firms that make internationalizing from inception not only an option, but a strategic necessity for some new ventures. We will consider each of these in turn.

Rapidly Evolving Global Markets

Rising competition and reduced opportunities in saturated, mature local markets was, unsurprisingly, one of the main factors that we were able to identify in the decision to enter foreign markets from inception. For Ismail Karaoglu, the Turkish entrepreneur, the domestic market in Turkey held little promise. Turkish consumers had limited purchasing power and were overwhelmed with choice in their local market. Members of the large domestic leather industry competed fiercely for market share in a relatively undifferentiated market. Leather goods were perceived as luxury products purchased mostly during special occasions from well known Turkish leather brands and leather bazaars. Facing high entry barriers and intense competition in a saturated and mature local market, he decided that the only option was to operate internationally and move into the relatively underserved market of Central and Eastern Europe and the post-Soviet bloc.

But it is not just the push of crowded local markets that leads entrepreneurs to look internationally for new opportunities. In several cases that we studied, entrepreneurs experienced unexpected global pull for their goods or services. In these cases, the international aspect of the business developed as a reaction to a perceived demand that was more or less unexpected when the product or service was first conceived and which led the firm to rapidly internationalize. One of the realities of highly globalized markets is that buyers often search widely

for particular products and goods with particular characteristics. Highly differentiated products may therefore find unexpected demand in pockets of underserved consumers that large international competitors are unwilling or unable to respond to. For instance, the Portuguese-based footwear company, Calzeus, decided to open its first international store in 1998 in London in response to what it perceived as a market opportunity for its unconventional brand Swear. Based on its experience in London, the company opened stores in other cities where it perceived an unmet need for its specialized footwear. By 2000, the company had stores in a number of major cities around the world and had sales of over 6 million Euros with about 90 percent of its sales outside Portugal.

Communication and Transportation

The role of communication and transportation in enabling entrepreneurs to access international markets cannot be overstated. The rapid drop in the cost of long distance voice and data communication and the widespread availability of the internet make developing a presence in a geographically distant market not only possible but commonplace. While this is a familiar story, the full impact of these technologies on small business is only beginning to be felt. Fundamentally, these technologies allow small businesses to assemble market fragments from many geographically diverse locations into one viable composite market. As managers in these firms become familiar with the possibilities, and as new approaches to using these technologies in the context of a small business are developed, these profound changes will continue to accelerate.

In addition, the rapidly falling cost of transporting goods and the increasing reach of global transportation systems is dramatically reducing the number of industries where being located geographically close to customers is a source of competitive advantage. While barrier to market entry

remains strong in service industries, it is no longer an issue in many product-based businesses. This is also true of the economies of scale that used to exist in transportation. New approaches to transportation and logistics are rapidly reducing any returns to scale in transportation costs, again breaking down traditional boundaries between markets.

Network Forms of Organization

Born globals rely on networks of production and distribution that span traditional market boundaries. What allows them to function internationally is not having international capabilities themselves, but rather being part of a network of firms who together have the necessary capabilities. To put it another way, they are highly networked forms of organization. They may produce locally and rely on a distribution network in an international market, they may rely on an international production network and then sell locally and internationally, or, most commonly, they may sit at the centre of a broad network of international and domestic production, distribution and sales that provides difficult to imitate competitive advantage. These new ventures strongly reflect the increasing prevalence of alliance building and specialization that is occurring generally among businesses. As businesses of all sizes become more skilled at building and maintaining alliances,

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Interestingly, among born globals these networks are often built on ethnic or other social ties that allow for high degrees of trust in uncertain environments. In our case, most of the born global firms we studied were connected through ethnic ties, and in fact, those ethnic and historic ties were a major factor in the foundation and operation of their businesses. These networks not only functioned as organizational structures providing social support, but also operated as channels of communication and exchange, providing opportunities for learning and increasing the chances of interaction, contact, and support to a degree not possible for individuals who are not so 'networked'.

Global Opportunities for Value Creation

Finally, the increasing connections between geographically distant markets combined with increasingly developed market knowledge among many entrepreneurs leads to the possibility of radical new opportunities for value creation. Opportunity identification for these firms becomes a complex international process of connecting market knowledge and production possibilities with sales and distribution systems to produce value in new and innovative ways. In some cases the market for the product has always been global and the international entrepreneur succeeds by bringing together new combinations of capabilities to serve an existing global market. This is true in many high technology products which have highly globalized markets. Alternatively, international entrepreneurs may build complex global business propositions to serve geographically separated markets in new ways. In either case, the increasingly interconnected and open international business arena creates global opportunities for creating value for those with the

particular combination of market knowledge needed to identify and access the opportunity.

Success Factors

Given this complex new environment, the critical question is what leads to success in international new ventures? For a budding entrepreneur, a potential investor, or a possible alliance partner, this question is crucially important. Based on our research into success in international new ventures, there are number of factors that increase their chance of success. In particular, we identified four factors that were essential.

1. Global Vision

First, a global vision was central in every case of successful international entrepreneurship that we studied. For our successful international entrepreneurs, there was no boundary between domestic and international in their view of the market they were serving. They saw their market as an international one cutting across traditional geographic boundaries. We heard on many occasions that "people just want good products" or "quality sells everywhere". Their business success grew out of complex market knowledge that allowed them to identify and understand an international group of customers that value similar product or service attributes. Fundamentally, it is this global vision that separates international entrepreneurs from domestic entrepreneurs who simply import a product and sell it locally.

Building on their global view of their market, our successful international entrepreneurs built global business propositions that reflected this complex international understanding. These were not domestic businesses that were internationalized. The highly successful international entrepreneurs we studied built a global business proposition that in turn built on complex international arrangements of production, distribution and sales. These business models have no domestic equivalent and in executing

these international arrangements the entrepreneurs rapidly built up rare and difficult-to-replicate knowledge about various international markets which, when combined, provided difficult-to-imitate sources of competitive advantage.

2. Promiscuous Collaborators

Second, as we have mentioned above, the successful firms we studied were founded on strong international networks of production and distribution. Successful international entrepreneurs have real skill (and sometimes luck) in building and managing complex international networks. In fact, the entrepreneurs we studied had a strong preference for collaboration and explored avenues for possible collaboration with companies and individuals whom they felt were excellent at what they did. In many cases, their successful networks were as much a product of trial and error driven by a strong desire to collaborate as any sort of explicit strategy.

This preference for collaboration was in stark contrast to the preference for "going it alone" that seems to characterize many domestic entrepreneurs. Our international entrepreneurs were, by and large, promiscuous collaborators who sought out opportunities to collaborate and then built new activities on these opportunities. This is, of course, also in contrast to the accepted wisdom in the literature on alliances that you begin with a problem and seek out a potential collaborator. However, in the highly uncertain world of the international entrepreneur, it was clear that successful business activity could be more easily built on strong collaborative bonds that could be forged around business challenges.

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As mentioned, the entrepreneurs we studied were able to build their networks based on the fact that they shared a similar ethnic identity with the other members in the network and were driven to help each other. But this is not the only basis on which to build these strong networks. In some cases, educational or professional backgrounds functioned in a similar fashion to provide a basis for strong and lasting networks. The source of the underlying common basis for collaboration did not seem to be important. What was important was that there was some basis to begin collaboration and something to act as "social glue" for the collaborations as they proceeded.

3. Cross-Cultural Competence

Third, while they, without exception, argued for the critical role of English as the international language of business, they invariably spoke several languages and had multiple cultural competencies. They were often immigrants creating new businesses in a new country or else they had lived substantial periods abroad and were bringing their international competence and connections back to their home country. Ironically, their knowledge of international business and the way they approached their business relationships made international opportunities less risky for them than simply serving the local market. Combined with the existence of strong local competitors in their domestic market, or the small size of their domestic market, this international orientation made international activity more feasible than more traditional domestic entrepreneurship.

Continuing with our example of Ismail Karaoglu, his intimate knowledge of the language and culture

of the former Soviet Union had several important ramifications. It provided him with the basis for developing a deep understanding of the market for fashion goods in this area. In addition to recognizing a potential opportunity, the cultural competence of the founder allowed him to understand the direction of market evolution and to identify complementary products to sell through the rapidly developing distribution network. Other firms' lack of this cultural competence, and their corresponding inability to tailor a market strategy to local conditions, helps explain why he succeeded in a market where established global fashion brands failed. In addition, this cultural competence extended to the management of relationships with the governments of the various countries in which he operated. Again, one of the barriers faced by any international firm trying to enter these markets, whether a new venture or an established multinational, is the vagaries of dealing with governments that are highly unpredictable and, from a Western perspective, difficult to deal with. But, from his perspective, the dynamics of the government were familiar and manageable. The importance of personal connections, understanding how to manage relations with different parts of the government, understanding which parts of the government were critical to have relationships with, and predicting the inevitable instabilities were competencies of the founder and early partners in the firm.

The Challenge and Opportunity of International Entrepreneurship

The implications of this new reality are significant. For entrepreneurs, it means greater opportunity combined with greater risk. The greater complexity of these new businesses increases the management challenge facing entrepreneurs while simultaneously making success more rewarding. Dealing with the complexities of international operations, cultural differences, and networks of alliances requires a set of special skills in addition to the well-documented and complex skills of a domestic entrepreneur.

International entrepreneurship, like international management, is clearly not for everyone. But for those with the right combination of interests, skills and market knowledge it opens up exciting new possibilities to create businesses with international scope and difficult to imitate sources of competitive advantage.

For existing small businesses, it means that their market is more and more accessible to entrepreneurs located around the world. Small businesses focused on local niche markets can find themselves facing equally specialized global competition at any moment. But it also means opportunities to collaborate with international entrepreneurs who can provide a conduit to international markets. What domestic small businesses require is the necessary skills to manage the complex collaborations that international entrepreneurs demand. Identifying potential partners and then managing the resulting alliance become the critical skills for domestic businesses who want to work with international entrepreneurs.

For large firms, this trend means a continued erosion of their market by small, specialist firms with global products and cheap production costs. The current trend towards market fragmentation will only be accelerated, and existing large firms will need to have strategies in place for meeting this challenge. It also means that more and more, customers, suppliers, and potential alliance partners will be international new ventures and why understanding how they work and why they succeed is now of increasing importance. ■