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## Phenomenon of “Born Globals” in the internationalization of small and medium-sized enterprises in the Czech Republic

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Iveta Simberova<sup>1</sup> and Eliska Reкова<sup>2</sup>

**Abstract:**

*The article aims to depict the typical features of the internationalization of small and medium-sized enterprises from the perspective of research conducted and available sources, from 1989, and their assessment in connection with the "born globals" phenomenon. The outcome of individual studies conducted in the Czech Republic suggests there is a certain set of typical features, referred to as a western pattern of globalization. The western pattern of globalization is characterized by gradual expansion to foreign markets. On the other hand, there is the phenomenon of „born globals”, which offers an opportunity to examine this pattern of globalization of SMEs in the Czech Republic.*

**Key Words:** *internationalization, born global, SME, international network, knowledge*

**JEL Classification:** *M13, M16, M31*

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<sup>1</sup> Iveta Simberova, Faculty of Business and Management, Brno University of Technology (FBM BUT, [www.fbm.vutbr.cz](http://www.fbm.vutbr.cz)), Kolejní 2906/4, 612 00 Brno, Czech Republic. Telephone: +420 54114 2678, e-mail: [simberova@fbm.vutbr.cz](mailto:simberova@fbm.vutbr.cz). She is long term academically focused on new marketing management concepts and internationalization of small and medium sized enterprises.

<sup>2</sup> Eliska Reková, Faculty of Business and Management, Brno University of Technology (FBM BUT, [www.fbm.vutbr.cz](http://www.fbm.vutbr.cz)), Kolejní 2906/4, 612 00 Brno, Czech Republic. Telephone: +420 54114 2678, e-mail: [rekovae@fbm.vutbr.cz](mailto:rekovae@fbm.vutbr.cz). She is PhD student of Institute of Management.

## 1. Introduction

Companies operating in EU countries have enjoyed the advantage of a relatively long duration of market economy principles. Although the business environment there also naturally underwent various changes (political influences, world economy influences, EU expansion, etc.), such changes were usually of evolutionary nature. Businesses were thus able to develop gradually and to respond to changes in the market and to the emerging trends. Such environment can be referred to as relatively foreseeable to some extent. The internationalization of enterprises described in literature is of a certain nature, and despite various differences and deviations in the results of individual studies, a certain set of characteristic features, the "western pattern" of internationalization, can be observed. Such characteristic features of the western pattern of internationalization include for instance a **gradual development** of expansion onto foreign markets (Bilkey and Tesař, 1977; Cavusgil, 1980; Johanson and Vahlne, 1977; Luostarinen, 1979). Many studies confirmed a theory according to which companies develop their exposure on foreign markets in gradual steps, however they may be defined or distinguished.

Although modern research shows that progress in small steps is diminishing in importance, and provides evidence of a growing frequency of exceptions and other internationalization patterns, the theory of gradual exposure on foreign markets apparently does not lose its general importance because this model is still followed by a great number of SMEs. On the other hand, there are many companies, which, once they achieve a certain degree of internationalization, stop developing and do not progress any further. They focus for instance on development within the relevant internationalization level, or expand on more foreign markets.

According to available literature, European companies in the past tended to enter culturally, mentally and geographically closer markets (frequently, their neighboring countries), and to enter markets that are mentally, culturally and geographically more distant as they gain experience, develop capacities and contacts. *A contrario*, the Tihanyi et al. (2004) study shows that cultural differences may be an asset for the business and its healthy development. Moreover, the validity of this phenomenon is currently more and more under debate in connection with improvements in communication and transportation technologies. A growing number of European enterprises does not seem a significant problem in launching their international activities in a market exhibiting the nature of a mentally or geographically distant one.

The Czech Republic as only a small part of the world economy, participation in international markets is very important with a view to long-term sustainability, prosperity and economic growth, as it represents growth potential for domestic companies, options for increasing production and domestic sales, and improvement of the quality of products and services because of a competitive environment. Most of the studies on the internationalization of SMEs in the Czech Republic focus on

the gradual expansion of the SMEs onto foreign market, and little attention has been given to the "Born Globals" phenomenon. The scientific objective of this article is to focus on an examination of this phenomenon in the Czech environment, and to prepare a theoretical basis for a research study.

## **2. Literature review**

With growing global competition, disappearing international trade barrier and improvement of communication and information networks, many companies, even small ones, are forced to compete on foreign markets. However, studies have shown that some companies stop in the process of their internationalization at a certain point (stage). It is often one of the first steps in a stage model, however, the company usually stops the process before it reaches a stage requiring a fixed commitment on the foreign market e.g., joint venture etc. (Chandler *In* Oviatt, 1995).

"Some reports show a growing tendency of some companies to skip in particular the lower degrees of internationalization" (Calof, 1993; Fuller, 1994).

We would like to focus in our research on the born globals, which, despite their firm place in the theory of internationalization, are still a challenge and a new phenomenon in the area of SME internationalization.

**Born globals.** According to the classical describing the internationalization of companies, it is obvious that they follow an evolutionary development, i.e., that the companies operate on the market in their parent country, and only expand later. Lopez et al. (2008) refers to "born globals", i.e., companies already established for the purpose of exports to foreign markets, as a less frequent approach. Many studies in EU countries confirm the growing important of born globals: for instance, the "Models of Czech companies' internationalization" study by Zapletalová (2015). According to the traditional international trade theory, companies first establish a good position on the domestic market, and only enter onto the global market in later stages of their life cycle. (Bilkey and Tesaf, 1977; Cavusgil, 1980; Johanson and Vahlne, 1977; Luostarinenem, 1979). However, this view is challenged by research showing that some companies enter into the international arena shortly after their establishment - the "born globals".

A fundamental difference between the "stage" model and "born globals" model lies in the speed of the internationalization process. "Born globals" adapt to the dynamic environment, and because of the fast internationalization process, they are unable to make full use of the potential of accumulation of market knowledge, on which the "stage" model is based." (Mudambi and Zahra, 2007). In case of a "born global" company, entry onto a foreign market thus ought to occur within 3 years from its foundation (Varma, 2009; Freeman et al., 2013).

"Born globals" are expected to focus strongly on innovations and growth, and as such can greatly contribute to the revival of economy and labor market sought by Europe following the worldwide economic crisis. (Eurofound, 2012). The term "born-globals" was first used in scholarly literature in the 1990s in connection with a McKinsey and Company study for Australian Manufacturing Council (Rennie, 1993). We can also encounter terms such as "global start-ups" in connection with this type of companies (Oviatt et al., 1995), high technology start-ups, international new ventures (Oviatt et al., 1995), the abbreviation "INV", by which the companies are defined as "international new ventures" with a competitive edge in the utilization of resources and sale of output in multiple countries, "born globals" (Cavusgil et al., 2009; Madsen and Servais, 1997) or "instant internationals".

According to some studies, "born globals" do not focus on domestic markets before the internationalization process (Cavusgil et al., 2009), but may conceivably return to the domestic market, in particular before a further expansion abroad (Freeman, 2007).

More and more experts lately assume that international networking and links play an important role in the process of SME internationalization; such studies initially focused on western economies (Musteen et al., 2014), but later on turned to transforming economies as well (Francicev and Bartlett, 2001). Even where "born globals" are established, international links seem to be of key importance for the utilization of opportunities and the selection of markets and industries (Kontinen and Ojala, 2011; Cieslik and Kaciak, 2009).

### **3. Material and Methods**

Apart from a review of scholarly literature on SME internationalization, to write this article, the authors also drew on research conducted by Šimberová et al. (2004), and other research studies available and carried out with regard to SME internationalization in the Czech Republic from 1989 to the present. Using logical pairing methods, the results of the studies were examined critically, with a view to their respective focus. Conclusions were drawn as to possible areas for the examination of SMEs in the Czech Republic, and theoretical prerequisites for a further examination of the "born globals" phenomenon in the Czech environment.

### **4. Results and Discussion**

As regards small and medium sized enterprises ("SMEs"), given their historically short operation in the market economy environment, it is still very difficult to identify the precise manner in which such enterprises enter into international operations. Works examining the internationalization of Czech companies after 1989 include for instance Muller (2001), who notes that 13.9 per cent of all companies in the Czech Republic were "start-ups"; that is a much higher share than that observed in other transforming economies. The question is for what share SMEs account in

that percentage. Before the Czech Republic's entry into the EU, Černohlávková and Klváčová (2003) dedicated a comparative study to changes in the macroeconomic and competitive environment in EU member states before and after they joined the EU, and what impact that fact had on SMEs, while a team of authors, Šimberova et al. (2004), examined typical patterns of SME internationalization in a grant project, Símová (2010) examined the evolution of the internationalization process after 1990 and up to 2010, Kubičková and Peprný (2006) studied, by way of a questionnaire research, the strategies of Czech SMEs in the internationalization process.

In the last twenty years, more and more authors have been examining the issue of SME internationalization in the Czech environment (Pollard and Simberova, 2002; Kubičková and Peprný, 2006; Pollard and Jemicz, 2010; Starzyczna, 2010; Richter, 2015; Břečková and Havlíček, 2015; Havlíček, Thalassinou and Berezkinova, 2013; Břečková and Havlíček, 2013; Havlíček and Schlossberger, 2013; Zapletalová, 2015; Toulová et al., 2015; Šťastná, 2011 and others); the growing dynamic of changes in the environment opens up further new options for the examination of the internationalization process, for instance, the born globals, studies of which are rather unique even in the Czech Republic (Zapletalová, 2015). Mejstřík (2013) quantified the number of "born globals" in the Czech Republic as 6% of the total number. Mejstřík (2011) identified a group of companies of the "born globals" among exporters in the Czech Republic; there are fewer of them for the time being but they develop very fast, are innovative, have a high benefit, and a high degree of internationalization.

Selected results of examination of the process of Czech SME internationalization can be summarized by way of the following theses:

Certain characteristic features can be observed in the process of Czech SME internationalization: a "western pattern".

- The SME internationalization tends to be characterized by a gradual exposure on foreign markets.
- A certain group of SMEs exhibits the opposite internationalization direction (i.e., from higher to lower forms), or enters into international transactions unsystematically and randomly.
- SMEs usually skip some of the degrees of internationalization, in particular the lower ones.
- Czech SMEs typically do not progress all the way to investment forms of entry onto a foreign market.
- Typical reasons for a shift from a particular form of internationalization to another is a trustworthy foreign contact, with conditions existing on the foreign market playing a certain role as well.
- Czech small and medium sized enterprises do not differ greatly from the same type of enterprises operating in the European Union as regards preferences for entry onto foreign markets.

- The most frequent reason for stagnation in the sense of suspension of progress between the individual stages of internationalization is that the form of entry onto the foreign market is perceived as satisfactory, and that there are insufficient financial resources available at the moment.
- An overwhelming majority of SMEs in the Czech Republic will focus with greater intensity on the development of international transactions in the sense of the number of foreign markets they interact with.
- Czech SMEs perceive mental/geographic distance as an important factor in their decisions on international transactions, unlike European enterprises in the same category.
- Companies usually decide to expand to more distant markets (to neighboring countries) only after they gain experience and network contacts on close markets.

## **Conclusion**

The role of small and medium sized enterprises in the economic development of transitioning economies has been recognized a long time ago, for instance, in the stimulation of competitiveness, innovation and economic growth. When entering onto foreign markets, small and medium sized enterprises are faced with numerous issues. As a result, key debates on the internationalization of small and medium sized enterprises featured in the analyzed studies and scholarly literature include for instance the following: issues, barriers and risks faced by small and medium sized enterprises, mechanisms of the internationalization process, the role of aid agencies and government institutions, the need to develop new skills and knowledge, marketing knowledge of markets and strategies for selected markets, etc.

In a globalized world economy, competition on world markets is becoming more fierce, and due to the openness of the Czech economy and the virtually complete liberalization of the domestic market, it is more and more difficult for Czech producers to sell their production on the internal market. Small and medium sized enterprises in particular find themselves in a much more difficult situation, especially those without foreign capital and sales links to foreign business entities.

As for the generation of sales on foreign markets, small and medium sized enterprises struggle in particular with difficult access to marketing information. This negative factor impacts both costs and timing (Morgan and Katsikeas, 1997).

Another reason why it is difficult to capture the characteristic features of SME internationalization in the Czech Republic is the fast changing business environment, as mentioned above. In the course of the last 26 years, from the Velvet Revolution in 1989, many significant changes have occurred in the business environment, in terms of legislative changes, changes of accounting and tax systems, import and export terms, etc.

Another characteristic feature are barriers impacting the internationalization process. Barriers faced by Czech SMEs were identified by Pollard and Jemicz (2010), and divided into internal and external. Key external barriers include a lack of international networks and distribution channels, the growing intensity of both domestic and foreign competition, insufficient government support and lack of effective strategies with regard to SMEs, institutional bureaucracy, poor payment discipline, etc. As regards internal barriers, they have identified for instance the lack of capacities and suitable competencies and skills, lack of management knowledge and experience, lack of financial resources, etc.

Another area that could be examined in greater depth are marketing strategies employed by the "born globals": these companies are known for their aggressive growth strategies, which in turn means they have a greater need of financing, international markets and management knowledge than traditional companies (Baum et al., 2000).

Some of the claims associated in literature with the "born globals" phenomenon: (Madsen and Servais, 1997; Freeman et al., 2010)

- "born globals" are based on one or several strong business persons with sound international experience, and moreover a strong product.
- The spread of the "born globals" phenomenon is linked to a growing internationalization of the market.
- "Compared to other exporters, "born globals" are more specialized and focus on niches in the market.
- The geographic placement of the activities of "born globals" is conditioned on the past experience of the founders and partners.
- "Born globals" rely on the supplementation of their competences by their partner companies.
- The growth of "born globals" is associated with high innovation abilities, including R&D, and also in relation to distribution channels.
- Companies in countries with a small domestic market have a stronger tendency to become "born globals" than companies in countries with a large domestic market.
- "Born globals" from small countries can rely on many different products, while "born globals" from large countries may be limited by the high tech industry.
- Countries with greater numbers of immigrants may have a higher share of "born globals".
- Business network models may be used both to identify resources and to search for markets suitable for internationalization.
- The time element and the speed of development are important elements in the examination of the "born global" phenomenon.
- The study of born global companies ought to be based on the following perspectives: networks, information, knowledge, and the building of trust.

In a further examination of the "born globals", attention needs to be given to many areas, a selection of which was outlined in this article. The fundamental research question, given the growing importance of the "born global" phenomenon in the internationalization of companies, is whether the role of "born globals" is gaining importance in the case of Czech SMEs as well. We believe the starting point could be the above list of claims, which we do not consider complete. It is to serve as a basis for the direction of our research of the "born global" phenomenon in the internationalization of SMEs in the Czech Republic.

### **Acknowledgement**

The paper has been prepared within the project of the Internal Grant Foundation of the Brno University of Technology, Faculty of Business and Management "Výzvy v managementu: Teorie a praxe" (Challenges of Management: Theory and Practice), reg. number FP-S-15-2627.

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