THE BORN GLOBAL MODEL FOR ROMANIAN SMALL AND MEDIUM ENTERPRISES INTERNATIONALIZATION

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ABSTRACT. The article analyses the possibilities for Romanian small and medium enterprises to internationalize as Born Globals. Small and medium enterprises in European economies and all over the world are more and more exposed to global pressures induced by globalization and market integration processes, which amplifies the need to be competitive and confront international markets through internationalization. Small and medium enterprises internationalization is an amplifying phenomenon, which has been the topic of wide spread research efforts in the last decades. The most recent trend in this field is the Born Global model, which points out to small and medium enterprises that show very rapid and intensive international growth right from or close to inception.

In order to investigate the small and medium enterprises internationalization possibilities as Born Globals, several major underlying factors of the emergence of Born Globals are considered, representing both internal and external push and pull forces to internationalization. The applicability of the Born Global model of internationalization for Romanian small and medium enterprises is outlined by the examination of each factor’s triggering role in the current Romanian context. Based on this analysis, consequent policy recommendations for stimulating the Romanian small and medium enterprises internationalization as Born Globals are proposed.

Key words: Born Global, Internationalization, Internationalization Policy, Small and Medium Enterprises

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1. Introduction

In recent years there has been growing interest among European and world-wide researchers in the subject of small and medium enterprises internationalization, as there is large recognition for the new amplified role they have acquired in a national

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and international context, as a basis of the economic development, which can be explained mainly by the changes in the economy at the beginning of the XXIst century. The evolution to a knowledge-based economy, with all its implications, implies new opportunities and motivations for the small and medium enterprises internationalization in the European Union and world-wide.

The amplification of small and medium enterprises internationalization has challenged the existing theories on firms’ mechanisms of internationalization, as these cannot totally explain their behaviour or cannot satisfactorily predict their evolution. Well-known traditional theories on the internationalization process include: product’s life cycle theory, stage theories, transaction costs theory, John Dunning’s eclectic paradigm, the network approach, etc. Last decade research points out that some firms, especially small and medium enterprises, show very rapid and intensive international growth right from their birth or after a very short time, a phenomenon which cannot be totally explained by traditional theories. Consequently, a new set of theories trying to explain the internationalization process and centered on small and medium enterprises has been developed – the Born Global model of internationalization - and currently is in a consolidation stage.

2. The Born Global model of internationalization

Beginning especially with the 1990’s, it has been noted that some companies no longer follow a gradual, following several stages; they begin to have international activities right from or close to inception, they internationalise on markets at large geographical and psychological distances, penetrate several countries simultaneously, form strategic alliances and joint ventures without the benefit of previous experience, etc. Accordingly, a new approach has been developed, trying to explain such mechanisms of internationalization, currently in process of consolidation. This approach assigned concepts such as "Born Globals", "Born Internationals," or "International New Ventures".

The Born Global model has certainly revived researchers’ interest on the phenomenon of internationalization, particularly in relation to the study of entrepreneurship. However, most studies so far have been mostly focused on the description of new types of companies or have tried to evaluate the extent and economic impact of this phenomenon. Some studies and explores the implications of the internationalization theory.

In the field of entrepreneurship, Born Global phenomenon has challenged the traditional predominantly national orientation, and international entrepreneurship actually has its origins in the studies of this phenomenon. The Born Global enterprises have been identified as new forms of organizations, which requires an adaptation and revaluation of the assigned theories in the international business literature⁵.

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The phenomenon and its implications has not been in any case sufficiently explored, still providing further field for research. If the interest and attention in this area is indisputable, many issues, even fundamental, remain insufficiently explored, one of them being related to the strategies adopted by these firms, underlying factors, content, factors of influence, etc. A large part of their studies, particularly among the first ones, have primarily focused on explaining the emergence of such firms, while aspects such as their strategies being mostly considered as given. Currently, the interest tends to move in this direction.

The conceptualization of the phenomenon has received many forms in the literature, synthesized as shown in the table below, but remained devoted to the term Born Global.

### Table 1. The Born Global conceptualization in literature

<table>
<thead>
<tr>
<th>Authors</th>
<th>Background</th>
<th>Conclusions / results</th>
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</table>
| Hedlund, Kverneland (1985) | « Leapfrogging » | - Firms that jump over stages in the traditional models  
- More and more homogeneous export-markets  
- Internationalisation as a part of the firm’s strategy |
| Ganitsky (1989) | « Innate exporters » | - Adaptation to a high degree of the firm’s strategy to the foreign markets  
- Lack of resources and/or experience |
| Jolly (1992) | « High Technology Start-Ups » | - Global niche markets pointed from the start  
- Founder with an international experience |
| McKinsey (1993) | « Born Global » | - Intensive export within the first years after foundation  
- Most sales obtained from exports |
- Gradual internationalisation is dead |
| Oviatt, McDougall (1994) | « International New Ventures » | - A strategy from the birth directed towards the international markets  
- The stage models are not usable any longer |
| Jones (1999) | « International Entrepreneurs » | - Internationalization of the firms often starts with networks, which does not have anything to do with sales  
- Many different roads to the internationalization of these firms |


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Among the factors which determine the development of Born Global enterprises may be mentioned:

- **The growing importance of niche markets** - Increasing demands of consumers in developed economies, as a significant trend of the beginning of the third millennium, has determined an increasing demand for customized products and services. In the context of globalization of markets and increased competition from large multinational firms, many SMEs may specialize on products and services that cover a narrow niche market at a global level.

- **Progress in production processes and technologies** - advanced technology and production processes allow for economic small scale production and, moreover, easy realization of complex non-standard parts and components. Small and medium enterprises are thus given the possibility to compete with large firms in the production and marketing of sophisticated, globally competitive products. This leads to increased specialization in most sectors of activity, as products and services are tailored to meet increasingly diversified consumers’ preferences.

- **The flexibility of small and medium enterprises** - The advantages of small and medium - low reaction time, flexibility, adaptability – allow for an increased capacity to rise to the requirements of preferences and standards at an international level.

- **Global networks** - trade relations at an international and global level are increasingly facilitated through partnerships abroad, with distributors, trading houses, subcontractors, traditional buyers and sellers. Succeeding in international business may considerably depend on the participation in mutually beneficial long-term alliances with foreign partners.

- **Progress in information technology** - recent amplifying advances in information technology and communication have accelerated the speed of information flows. The era of the large firms with high organizational structures and slow, expensive information flows is ended. Increased access to the Internet and other technologies and means of telecommunications such as Electronic Data Interchange - EDI, allows, for small and medium enterprises as well, the ease of conducting business across national borders. Globalization of technology, through international research and development platforms, international transfers of technology, study abroad, allow for small and medium enterprises’ easier access to new, of date approaches to production, innovation, methods and techniques.

### 3. Definitions for the Born Global enterprises

Many definitions for the Born Global enterprises have been proposed in the literature. If there is a consensus in principle on the nature of the phenomenon, namely, enterprises which internationalize their activities right from their establishment or shortly after, the diversity of the definitions arises from the different perspectives and dimensions on the phenomenon. Differentiating between the definitions, there are four main approaches to understanding Born Global enterprises:

1. **The internationalization of early stage firms**: This approach focuses on the internationalization process of firms at an early stage. The definition emphasizes the rapid internationalization of these firms at an early stage, often within the first year of operation.

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after, in order to distinguish the Born Global model of internationalization it is necessary to establish some quantitative demarcations referring to the period of time from the establishment until the beginning of internationalization, and the internationalization scale, usually commensurated as the percentage of sales abroad in total sales.

Table 2. summarizes some definitions according to studies from different countries and continents. Many of the first studies which aimed to highlight the Born Global phenomenon reflect the American perspective, taking roots in the U.S., which represents a large market with a relatively low export rate, and thus many of the first definitions specify a percentage of sales abroad of 25%, in a period of 2 or 3 years from the establishment – e.g.: Knight, Cavusgil (1996). This definition has been largely adopted and features in an appreciable extent in the literature. From the European perspective, the thresholds in this definition are not considered sufficient⁴, because almost any new enterprise in a smaller country offering a specialized product to a niche market can meet these criteria, and especially in the European single market; in this respect there have been proposed higher thresholds and / or the market of reference outside the continent of origin – e.g. Luostarinen, Gabrielsson (2006); Servais, Madsen, Rasmussen

<table>
<thead>
<tr>
<th>Dimension/author</th>
<th>Vision</th>
<th>Time before starting export</th>
<th>Export versus global growth/age</th>
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<tr>
<td>Oviatt, McDougall (1994)</td>
<td>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.</td>
<td>-</td>
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<td>McKinsey (1993), Rennie (1993)</td>
<td>Management views the world as their market place from the outset.</td>
<td>Began exporting, on average, only 2 years after foundation.</td>
<td>Achieved 76% of their total sales through exports at an average age of 14 years.</td>
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<tr>
<td>Knight, Cavusgil (1996)</td>
<td>Management views the world as its marketplace from the outset.</td>
<td>Begin exporting one or several products within 2 years of establishment.</td>
<td>Tend to export at least a quarter of total production.</td>
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<tr>
<td>Chetty, Campbell-Hunt (2004)</td>
<td>-</td>
<td>Within 2 years of inception.</td>
<td>80% of sales outside New Zealand; markets are worldwide.</td>
</tr>
<tr>
<td>Servais, Madsen, Rasmussen (2007)</td>
<td>-</td>
<td>Within 3 years of establishment.</td>
<td>More than 25% of foreign sales or sourcing outside home continent.</td>
</tr>
</tbody>
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Studies originating in Australia and New Zealand, which have highlighted for the first time the phenomenon in the literature, and have provided numerous studies and analyses, markets with a large international openness, proposed even higher thresholds – e.g.: McKinsey (1993) Rennie (1993); Chetty, Campbell-Hunt (2004).

We can notice at a first view the high diversity of the approaches, with high differences between the quantitative elements of the definitions. Beyond its utility for isolating the Born Global enterprises in order to highlight them as a distinct phenomena, one can say that the attempt to define the Born Global phenomenon by quantitative criteria, and, moreover, the attempt to establish a uniform quantitative definition is not recommended and even irrelevant. There are a variety of elements that make their imprint on the Born Global-type internationalization and thus, it may not be framed within quantitative criteria; it should be understood as a vision, as a model, as an internationalization strategy. The share of the international activities of firms, as well as the geographical area of these activities, will always be influenced by the size of the home country and its economy, the markets neighboring the country of origin and other factors, such as the nature of activity. Then, there are numerous small and medium enterprises which “revolve” around large multinationals, for example arising from the general trend of outsourcing of activities, that meet the quantitative criteria and can be considered Born Globals, but they are not independent and do not face the risks normally associated with business start-ups.

4. The Born Global model analysis framework

As argumented before, the characterization of Born Global enterprises should be based on qualitative demarcations in order to capture the essence of the phenomenon, and in this respect, as a synthesis of the approaches that extensively deal with the theme in the literature, we propose a model of analysis as shown by Figure 1., which emphasizes the major underlying factors of the emergence of Born Globals, representing both internal and external push and pull forces to internationalization:

1. Entrepreneur’s experience, characteristics and network: the importance of entrepreneur on small and medium enterprises behaviour has been widely analyzed in literature, and there is wide consensus on the correlation between the international development and the entrepreneur’s attitude, motivation, experience and network related to internationalization. Entrepreneur’s experience, characteristics and network are important resources for a firm and at the same time, motives or factors that facilitate internationalization. International experience can be defined as the understanding and realistic perception of foreign operations, risks and benefits of internationalization.


It is recognized that the factors related to managers’ skills, international orientation and vision shall constitute key factors of internationalization. Concerning the entrepreneur’s skills in the context of internationalization, it was proposed to distinguish between entrepreneurs’ technical, marketing, and structural orientation\textsuperscript{11}, being suggested that entrepreneurs with predominant marketing orientation are most proactive in terms of internationalization, while entrepreneurs with technical and structural orientation focus more on technological and organizational aspects, and are less active related to internationalization. International entrepreneur orientation significantly influences the formation of networks on foreign markets, considered essential to the development of a Born Global\textsuperscript{12}, which further influences the direction of international expansion.

\textsuperscript{11} Svante Andersson (2006), \emph{op. cit.}, p. 109.
and the internationalization strategy. The literature devoted to the Born Global phenomenon recognizes from the very first studies the importance of entrepreneur for the Born Global internationalization model, stressing that the overall vision at the firm’s establishment is probably the most important characteristic associated to the phenomenon\textsuperscript{13}. For the Born Global-type entrepreneurs, the rapid internationalization of business is the entrepreneurial element which gives them the status of entrepreneurs.

2. Nature of industry / sector of activity: It is generally acknowledged in the literature that the nature of industry or sector of activity constitutes a determinant of the entrepreneurial and Born Global phenomenon, concerning both their triggering and subsequent behavior\textsuperscript{14}. Increasing globalization in many industries or sectors of activity as a determinant of firms’ internationalization practically meets consensus in literature, in that the trend of integration of markets and competition contributes to simplifying and reducing the duration of firms’ internationalization. The influence of the technological intensity of the industry on internationalization is that firms in high technology sectors may be required to internationalize wear faster due to rapid technologies’ moral hazard and high imitation risk. Two flows of opinions have been outlined in the literature concerning the types of industries where the Born Global phenomenon arises: on the one hand, most researchers consider that the Born Global enterprises can be found in sectors of high technology and high degree of globalization, and on the other hand, it has been argued that Born Global enterprises may be also incurred in traditional sectors, especially in small economies, highly open outwards\textsuperscript{15}. Industry structure may also favor the Born Global-type internationalization especially if it is characterized by: the positioning in a growth stage, medium level of concentration, knowledge intensiveness, a high degree of internationalization at the local level, strong integration at a global level, capital attractiveness\textsuperscript{16}. Then, distinguishing between the services and the production sectors, services’ characteristics – intangibility, heterogeneity, simultaneity of production and consumption, perishability, appropriateness impossibility - determine increased risks in the internationalization of firms in the services sectors, and issues related to human resources, quality and control increase the costs and requirements of internationalization. In this respect, as shown by empirical research, the Born Global model of internationalization will be mostly found in the production sector\textsuperscript{17}.

\textsuperscript{15} John Knight, Jim Bell, Rod McNaughton (2001) “Born Globals”: \textit{Old Wine in New Bottles?}, ANZMAC – Conference of the Australian & New Zealand Marketing Academy, Auckland, NZ.
\textsuperscript{17} Anders Blomstermo, Dharma Deo Sharma (2003) \textit{op. cit.}, p. 261.
3. **Product characteristics**: The characteristics of the product which makes the offer of Born Global-type enterprises are closely related to the globalization of industry. It has been argued that the product strategy of globalizing small and medium enterprises is based on the development of *innovative products* in response to certain changes in the industry or sector of activity at a global level. The development of a *unique product*, which incorporates a source of significant competitive advantage, the identification and filling of a *global niche market*, are frequently associated with the development of Born Global-type enterprises. The increasing speed of new technologies development has led to **reducing products’ life cycle** and **increasing innovation intensity**, which further led to increased competition globally. Reducing products’ life cycle imposes the need to amplify the efforts on research and development, with increased consequent costs; at the same time, the reduced products’ life cycle involves a reduction of the investment recovery duration. Consequently, it can be argued that especially in the case of small and medium enterprises operating on small, local markets, a high volume of sales at global level is required, in order to divide costs and increase profitability. Also, reduction of the products’ life cycle requires innovation in order to launch new versions of products to offset the decline of the previous, therefore, small and medium enterprises are called upon to use their featured innovative potential.

4. **Internationalization scale**: From a qualitative point of view, internationalization scale may be analyzed through two key elements of the internationalization strategy: foreign market selection and methods of operation determination. Regarding *foreign markets selection*, Born Global-type enterprises start their international activities on several markets simultaneously or after short periods of time, and not necessarily on the closed markets. Internationalization and growth strategies on foreign markets of Born Global-type enterprises involve more direct and faster *operation methods* as compared to those proposed by traditional theories concerning internationalization as a slow, gradual process. Avoiding quantitative demarcations, such as the time from establishment until the onset of internationalization or the share of sales abroad in total sales, seeks to surprise the substance of Born Global-type enterprises, which is the approach they adopt with regard to internationalization; internationalization scale can be thus regarded as a specific mechanism of internationalization and subsequent strategy.

5. **The Born Global model for Romanian small and medium enterprises**

The applicability of the Born Global model of internationalization for Romanian small and medium enterprises is outlined by the examination of each factor’s triggering role in the current Romanian context, according to the general framework of qualitative analysis presented before.

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It should be mentioned, however, that Romanian small and medium enterprises internationalization issues are currently only tangentially approached, by both researchers and policy makers, and until present there are no studies regarding the internationalization status of Romanian small and medium enterprises. Consequently, it is difficult to appreciate an estimative level concerning Romanian entrepreneurs’ international experience, characteristics and networks. An international orientation by strategic decision makers is seen as a necessary, though not sufficient, condition for small and medium enterprises even beginning to respond positively to governmental initiatives seeking to foster a greater degree of international activity. Only after the willingness of strategic decision makers is established in terms of international orientation can attention move towards the second and subsequent phases of policy, namely the provision of functionally directed business support services. In this respect, the importance of entrepreneurship education, which should also include international entrepreneurship, becomes obvious.

The Romanian Government introduced entrepreneurship education in its “Strategy for the development of human resources, increase of employment and fight of social exclusion”, as part of the “National Development Plan for 2007-2013”\textsuperscript{19}. In this document, it is recognized that education has a significant contribution in fostering entrepreneurial skills and attitudes in the Romanian society. Overall, it can be stated that there is an impressive development of initiatives and a large variety of curricular and extra-curricular activities, which allow for an increased number of good practices in Romanian universities aiming at the entrepreneurship education. Still, for higher education, an integrated approach is necessary at the university level, as well as a clear policy support from the Ministry of Education, in a way to allow upgrading the role and value of entrepreneurship education.

In what concerns the nature of industry or sector of activity as a triggering factor for the Born Global internationalization model, several aspects should be noted related to the Romanian economy. Increasing globalisation is an undisputable trend that has also affected our country’s economy; moreover, the adhesion to the European Union and The Single European Market has provided major opportunities – but also risks, like that of a more intense competition – for Romanian small and medium enterprises internationalization. At the same time, technological intensity is relatively low among Romanian industries and industries’ structures generally do not favor a Born Global-type internationalization. Romania owns comparative advantages as compared to the European Union mostly for traditional industries, like in the production of clothing, whose sustainability is questionable. It is unquestionable, however, the rise of some high technology sectors, especially in the IT industry.

A potential advantage that Romania owns for the adoption of the Born Global-type internationalization among Romanian small and medium sized enterprises is the innovative spirit, the ability to develop innovative products that may fill global

\textsuperscript{19} Romanian Government (2005) Planul Național de dezvoltare 2007-2013, Bucharest, Chapter II.
niche markets. This can be illustrated by the international recognition received at various events in this respect, like for example The International Exhibition of Inventions of Geneva, where Romania has constantly obtained numerous medals and prizes.

Lastly, concerning the internationalization scale, the stimulation of small and medium enterprises internationalization is required, by more direct and faster operation methods, like the Internet, direct export, etc, and on several foreign markets simultaneously or after short periods of time, and not necessarily on the closed markets in terms of physical or psychological distance. However, this implies clear and strong policy incentives, firstly oriented to the more generic issue of small and medium enterprises internationalization. There is a large variety of policy incentives that can be adopted, supporting small and medium enterprises internationalization in general, and also an internationalization according to the Born Global model, among which we can mention: the identification of the barriers that impede or restrain the internationalisation of SMEs and the drivers that move companies to internationalise, a set of policies adressing the identified barriers and drivers, a fluid, integrative and consultative process between all the stakeholders (Government, support agencies and SMEs) at a sectoral, local and regional level, ensuring access to the knowledge necessary for internationalization according to the Born Global model.

6. Conclusions

The Born Global model of internationalization is an incontestable reality as applied by small and medium enterprises from around the world, beginning with the last decade, and has determined the development of a new set of theories trying to explain the internationalization process and centered on small and medium enterprises, that challenge the traditional ones, though still providing further field for scientific research.

Consensus regarding the conceptualization or definition of the phenomenon has not been reached. Most studies have proposed quantitative demarcations, refering especially to the period of time from the establishment until the beginning of internationalization, and the internationalization scale. There is a high diversity of the approaches, with high differences between the quantitative elements of the definitions. We have argued such an attempt to establish a uniform quantitative definition is not recommended and even irrelevant, since the Born Global model of internationalization cannot be framed within quantitative criteria and should be understood as a vision, as a model, as an internationalization strategy. Consequently, we have proposed a set of qualitative demarcations in order to capture the essence of the phenomenon, emphasizing the major underlying factors of the emergence of Born Globals, which includes: entrepreneur’s experience, characteristics and network, nature of industry / sector of activity, product characteristics and internationalization scale.
According to this framework, we have examined the possibilities for Romanian small and medium enterprises to internationalize as Born Globals, by examining each factor’s triggering role in the current Romanian context. We can conclude that Romania holds a potential for applying this model of internationalization, but there is strong need for clear and strong policy incentives for stimulating small and medium enterprises internationalization. Unfortunately, Romanian small and medium enterprises internationalization issues are currently only tangentially approached, by both researchers and policy makers.

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