

The Emergence of Born Global Companies: The Secret of Early Internationalization and Sustainable Competitive Advantages

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Abstract

In Japan, it's almost 20 years since the collapse of bubble economy, but we can't still get out of economic stuck. It's almost impossible for Japanese company to generate income depending only on domestic demand. With that in mind, it is the born global company (we say BGC hereafter) that attracts people's attention.

After considering the background of the emergence of BGC which can be divided into two factors, external and internal, this paper, in the first place, unveiled the internationalization process of BGC. Concretely speaking, this paper clarified what the difference of internationalization process between traditional large-sized MNEs and BGC is, and why the difference comes out. And more importantly, this paper clarified why BGC can realize early internationalization and what factors to make it possible are.

In the second place, this paper clarified why BGC which has only few management resources can compete with traditional large-sized MNEs in international market. And in that case, what is the source of sustainable competitive advantages of BGC? For these issues, this paper analyzed from the following four views: resource-based view, network view, international entrepreneurship view, and 'metanational' management view.

Lastly, this paper introduced concretely the cases of BGC and born-again global companies in Japan.

Keywords

born global company(BGC); SME; early internationalization; sustainable competitive advantages

Introduction

In Japan, after the collapse of bubble economy, 'lost decade' had passed over and it was replaced with the words of 'lost two decades.' How can we overcome such a condition with economic stuck in a rut? Even now, it is

largely expected to realize ‘growth strategy’ which is one of the three arrows propagandas of ‘Abenomics’: bold credit relaxation policy, agile fiscal action, and growth strategy to awaken new private investment.

As everyone knows, in our country, closing rate of companies are higher than opening rate and it remains the worst among advanced countries. It’s no exaggeration to say that there has never been more expecting time for many ventures and SMEs to start business now.

Moreover, in Japan, due to apparent tendency of population decline, the falling birth rate and the aging population, hovering at a low domestic salary, and so forth, it’s difficult for Japanese companies to generate corporate income for many years to come, depending only on domestic demand. It’s the urgent task for even small-sized company to start foreign business through not only export but also local production and R&D by joint ventures or complete ownerships.

And so, it is BGC that attracts people’s attention. The BGC is defined as “venture business or SME that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries” (Oviatt & McDougall, 1994). The BGC is also called international new venture (INV) (e.g., Oviatt & McDougall, 1994).

They are often seen in northern European countries and the United States. Recently, many researchers insist that new international management theory is required instead of traditional international management theory, because traditional theory which describes corporate internationalization process as gradual, successive and incremental steps, can’t explain BGC’s internationalization process that is fast and doesn’t follow the gradual steps. And, moreover, questions are raised why BGCs without having abundant resources can compete with large-scale multinational enterprises in international markets and in such a case what kind of sustainable competitive advantages do they have?

Here, as the traditional international management theory, we refer to the following models: Uppsala model (Johanson=Vahlne), Stopford-Wells model, MNE model (Hymer=Kindleberger), transnational model (Bartlett=Ghoshal), PLC model (Vernon, L.), Internal model (Buckley=Casson), OLI model (Dunning, J. H.), and so forth.

In this paper, after examining the background of BGC’s emergence, we undertake theoretical analyses, focusing on internationalization process peculiar to BGC and the sustainable competitive advantages.

1 Background of the Emergence of Born Global Company

The background of the emergence of BGC is divided into two factors, external and internal. The former includes the development of globalization, the integration of global economy, the development of knowledge economy, the advancement of information and communication technology (ICT), appearance and development of internet, market potential of developing countries and their technology upgrading, and so forth. On the other hand, the latter includes active use of rare management resources by BGC, emergence of international entrepreneurship and so forth. We think that these background factors made BGC easy to enter international market, and realized the early internationalization, and at the same time, built the base of sustainable competitive advantages.

2 Internationalization Process Peculiar to Born Global Company

Two problems exist here. At first, what is the difference between BGC's internationalization process and traditional process of large multinational company, and why does the difference occur? According to the chain model constructed by Uppsala model, it is considered the internationalization process moves "pure domestic" to "export" and to "local production" systematically. BGC, however, may select various market entrance options, and in some cases, use different entrance options according to the foreign markets. Whereas the internationalization processes of traditional large-scale multinationals are gradual, successive, and incremental, BGC doesn't take always the same process as large companies, and sometimes BGC passes some internationalization processes. This is called "leapfrog" phenomenon. Then, why does such a difference occur? At first, the present environment surrounding the companies encounter has dramatically changed comparing it with the situation before BGC has emerged. Concretely speaking, the external environmental factors greatly changed as we showed in the previous section.

These external environmental factors have also the same influence on the large-scale MNEs, so even if these factors were necessary conditions to facilitate the internationalization of BGC, we can't say these are sufficient conditions to be able to explain the difference between BGC and large MNEs. Then, we have to search the reason what is more substantial. We think those are internal environmental factors such as the active use of rare management resources and the emergence of international entrepreneurship of BGC.

The second problem of internationalization process is why BGC can attain early internationalization, and what the factor to make it possible is. Some

of researchers suggest that global integral standard inside a certain industry and the degree of competitors' internationalization affect a pace of going international realized by emerging companies.

According to Johanson and Mattosson (1988) Model, early starter has only few networks across border and recognizes uncertainty is high, and the degree of market-specific knowledge remains low level. Late starter like BGC, however, has the opposite features. Namely, late starter stays in highly internationalized market where company can easily hold many networks across borders and recognizes few uncertainty. BGC, therefore, tends to advance highly internationalized company soon, and become specially internationalized company.

Table 1. Relationship between the Degree of Company Internationalization and the Degree of Market Internationalization

	Low Degree of Market Internationalization	High Degree of Market Internationalization
Low Degree of Company Internationalization	Early Starter	Late Starter
High Degree of Company Internationalization	Isolated International company	Specially Internationalized company

(Source) The author revised Johanson & Mattsson(1988)

Moreover, McNaughton (2003) who investigated SME exporters, suggests that the more the company possesses proprietary and knowledge intensive products, is a member of an industry with strong global orientation, and is founded in a country with a small domestic market, the more likely it is to target numerous foreign markets. In this regard, we also made field research of supporting institutions of BGC in northern European countries (Nakamura, 2011, 2012).

Besides, Mathews & Zander (2007) who researched international entrepreneurship (entrepreneurial dynamics) of accelerated internationalization argued that the salient features of rapid and early internationalization are best captured at the intersection of the entrepreneurship and internationalization perspectives.

Additionally, Zhou (2007) argued that in early internationalizing companies, foreign market knowledge tends to emanate from the innovative and proactive pursuit of entrepreneurial opportunities. Zhou (2007), interestingly, delineated three dimensions of entrepreneurial proclivity, and found that proactivity in particular is the most influential, followed by

innovativeness, but the risk-taking dimension was found to be least influential.

Kudina & Balkema (2008) who examined BGC in Britain and found that the primary reason for early internationalization appeared to be the small size of the domestic market. As important factors pushing companies to internationalize early, they highlighted the presence of global networks and alliances, homogenization of buyer needs around the world, and advances in communication technologies.

3 Source of Sustainable Competitive Advantages of Born Global Company

The next problem is that, despite of possessing only rare management resources, why BGC can compete with traditional large-scale MNEs in international market. To analyze this problem, we propose four approaches (views): resource-based approach, network approach, international entrepreneurship approach, and “metanational” approach.

At first, according to resource-based view, possessing the following four internal resources would be a source of sustainable competitive advantages of the company. Barney (1991) showed them as VRIO framework: value, rarity, imitability, and organization. As for imitability, the resource-based view pointed out unique historical conditions, causal ambiguity, social complexity, and patents as the cost disadvantage in imitating resources. These features of resources are requirement for sustainable competitive advantages of every scale of companies including both MNE and BGC.

Accordingly, these features and requirements of resources are not sufficient conditions, but necessary conditions to originate sustainable competitive advantages for BGC. The company owns resource and capability as management resources. We deem that in order to structure sustainable competitive advantages, it is important to have capability, the ability to make use of resource. Capability is defined as corporate capacity which allocates resources toward a desired result, or corporate specific ability which is developed by consuming time throughout interaction (Takai, 2007).

The sustainable competitive advantages are often brought by the capability rather than the resource. In order to create resource and capability, it is necessary to have a fit with strategic industrial factors like customers and rivals, and with strategic assets the company possesses. And to build sustainable competitive advantages, we need to combine several innovations successively, and accumulate organizational ability

which makes innovations happen continuously. In other words, we can build up sustainable competitive advantages which are gained by organizational ability to combine several innovations successively such as radical innovation, market creative innovation, incremental innovation and so forth.

Lado et al. (1992) presented a system model which integrally links four sources of competencies, namely managerial competency, resource-based competency, transformation-based competency and output-based competency. These competencies may be valuable to the company and their interlinkage may lead to a unique competitive advantage that is not subject to imitation. Such building up sustainable competitive advantage will be valid for not only MNC but also for BGC.

In addition, from the view of network approach, the following findings are considered important for the BGC's sustainable competitive advantages. The connection of networking is sometimes strong and sometimes weak. The connection usually becomes weak when the amount of time, emotional strength, intimacy, and mutual dependency are low level. The important thing here is that the company having many weak ties can enjoy more advantage than the company having strong ties.

As the reasons, at first, the company that maintains many weak ties takes more favorable position than the company possessing strong ties at cost dimension. To keep strong ties, tight integration is required among the companies and then the maintenance cost becomes higher. Secondly, weak tie provides more fresh knowledge than strong tie does. The knowledge of company which is connected with weak ties has fewer similarity. The company staying in the midst of strong ties tends to employ and develop similar knowledge base. At third, as weak tie means the separate relationship (de-coupling) among companies, this means that restraint to the corporate adaptive behavior becomes lesser. The companies in the midst of weak tie can take advantageous position to search new knowledge, and enjoy larger autonomy, and also adapt to the surroundings. Strong tie may restrict the knowledge-based adaptive reaction of the company. Accordingly, the company with many weak ties may be able to develop highly customized products and services for the sake of fewer customer needs (Granovetter, 1974, 1985, 1992; Burt, 1992, 2004).

From the view of international entrepreneurship, moreover, as the background of BGC emergence, besides external environments above mentioned, we can propose the appearance of many entrepreneurs who possess abundant international experience and knowledge, and have

vigorous entrepreneurship as internal circumstance.

According to many studies about international entrepreneurship, one of the remarkable characteristics of BGC is a tendency to demonstrate powerful entrepreneurship at international activities. Especially, it is reported that BGCs tend to have top management who take comparatively aggressive posture in overseas markets and to have organizational culture which gives support to positive exploration and pursuit of international opportunity. These tendencies reflect that, to attain competitive and strategic objectives, BGCs take innovative and positive action not to be afraid of risks.

In addition to these three views, we can propose that the management of BGC is much similar to “metanational” management which also emerged under the contemporary knowledge economy. Especially, it should be noted that even the companies that have only rare management resources and were born in the wrong places, can become global corporations, depending on how they do it.

The characteristic of metanational management is the management depending not only on competitive advantages based on the home country, but also beyond the home country on competitive advantages in global scale. In other words, it is the management to sense the knowledge about new technology, capability and market needs scattered around the world, and to mobilize dispersed knowledge to innovate products, services and manufacturing process, and to operationalize newly created solutions, in usable form, into the day to day operation and to create competitive advantages (Doz et al, 2001). The metanational management exactly shows BGC the direction to go in future. It seems that adopting the merit of metanational management is connected to sustainable competitive advantages of BGC.

4 The Case of Born Global Company in Japan

(1) TERA MOTORS CORPORATION

The founder and CEO is Mr. Toru Tokushige and he had established it in 2010. The company sold 3,000 electric motorbikes for 2 years after founding and became famous as number 1 company in electric motorbike in Japan. It has overseas branches or factories in Vietnam, Bangladesh, India, and Philippines.

Mr. Tokushige possesses vigorous international entrepreneurship. As for the early internationalization of Terra Motors, the company has corporate strategy to target a world market from founding. Mr. Tokushige says Japanese

companies need to execute drastic reform of consciousness so that Japanese managers can think Asian market is one of the domestic market. He also says “there is no room for Japanese large companies where they can win in the world business because their decision makings are too slow. The speed is, in particular, the most important among management resources nowadays.”

Regarding the sustainable competitive advantages of Terra Motors, he says as follows. The reasons why Terra Motors targeted electric motorbike are recent high oil price in the world and emergency of emission control policy in emerging countries. Electric motorbike is, moreover, quieter than gasoline motorbike, and cheaper in charge fee. It doesn't emit Co2, and can enjoy comfortable ride without having vibration. Market entrance barrier is lower than that of gasoline bike because electric motorbike is powered by motor and battery supplied by parts manufacturers with horizontal division of labor. Small company can't have competitive advantages of gasoline motorbike, but has of electric motorbike.

For your information, please refer to <http://www.terra-motors.com>

(2) MIRAIKIKAI, INC.

The founder and CEO is Mr. Tohru Miyake. He and his associates had established it in 2004 when Mr. Miyake was a doctoral student of Kagawa University. He received doctoral degree of robotics there, so this is a university venture specialized in robot engineering. At first the company developed “window sweeping robot” to clean up windows of office buildings. But the sales results wasn't better than expected mainly because customers worried about if dropping accident may happen.

Mr. Miyake felt a limitation of increasing demand in domestic. So he developed “solar panel sweeping robot” afterwards. He found a lot of demand in the Middle East and North African countries. In those countries, many solar panels are installed to generate electric power. But, the air is extremely dry because of sunny weather and grit and dust come from desert by wind and they accumulate on the solar panels. These countries were, therefore, the best place to promote solar panel sweeping robots. After entering into these foreign markets, the company performance is remarkably rising.

Needless to say that sustainable competitive advantage of Miraikikai is the technology of robotics which consists of autonomous moving robot structure and the control technology.

The company could successfully raise a large amount of money from venture capital as the first case of university venture business in Shikoku Region. For your information, please refer to <http://www.miraikikai.jp>

5 The Case of Born-again Global Company (BaGC) in Japan

NIPPURA CO. LTD

Born-again global company (BaGC) is similar to BGC. But, the difference is that BaGC is the company, after a fairly long time of domestic operation, to have changed the direction toward a sudden internationalization, for some reason or another. NIPPURA is typical BaGC in Japan. The founder and CEO of this company is Mr. Tetsuhiro Shikiyama. He had established it in 1969.

Nippura has been doing business as domestic company for more than thirty years before changing course to rapid internationalization as BaGC and now Nippura designs, manufactures, and installs large scale acrylic panel for aquarium around the world.

Nippura encountered the management crisis because of market invasion by large-sized company and then decided to go overseas market.

The company found out the U.S. is leading market in aquarium construction eventually. In 1993, Nippura's product and technology were admitted by Monterey Bay Aquarium in California which was the largest aquarium in the U. S., and since then a good name and reputation of Nippura prevailed in aquarium circle of the world.

Sustainable competitive advantage of Nippura is high degree of laminating adhesive technology which realizes the world best intensity and transparency. Huge aquariums built by Nippura are exhibited in Dubai Mall, Okinawa Churaumi Aquarium, Chimelong Hengqin Ocean Kingdom (China) and so forth. Now, the company has built aquariums in more than 50 countries and occupies about 70 percent of processing huge acrylic panel for aquarium. For your information, please refer to <http://www.nippura.com>

Conclusion

For the theme of whether BGC's internationalization process is explicable by the traditional international management theory, our answer is "no." However, for the source of BGC's sustainable competitive advantage, the answer is "yes" because it is explicable by conventional international management theory.

As for the concept of BGC, however, there are still many other themes for research left. For example, (1) is the subject of BGC's internationalization the export, or the local production (joint venture or complete ownership), or the R&D, or does it includes all of them? (2) Is the subject of BGC an industry specific such as bio industry and IT related industry, or does it include all industries regardless of specific industry? And moreover, (3)

what is the difference among born-again global company and other ones with similar concept such as global niche top company (this term is used in Japan)?

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