

Lecture 4: “Born Global” firms, SMEs and Innovation



MAN2142 Topics in International Business

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1. The rise of multinationals: “Born Global” firms (BGs) and International New Ventures (INVs); New Global Challengers; Small and Medium-sized Enterprises (SMEs)
2. The drivers and challenges for internationalizing SMEs.
3. Innovation capability and collaboration for internationalizing SMEs
4. Influence of innovation on large as well as SMEs

The rise of multinationals- from “born global” to “born-again global”



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1. Born global firms (BGs) & International new venture (INVs)
2. New global challengers
3. Small and medium-sized enterprises (SMEs) & the internationalization process

Born global firms (BGs) are also referred to as **international new ventures (INVs)** in the international entrepreneurship literature. They can be defined as

“business organizations that, from inception, seek to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries”.

(Oviatt and McDougall 1994; 2000)

Other key characteristics of Born Global firms (BGs):

- BGs typically are young SMEs characterized by limited resources
- They involve a broader range of value chain activities and entry strategies to start their early internationalization
- Majorly, they exist in technology-oriented industries
- Firm's external environment and founder characteristics strongly influence whether young firms internationalize from inception



Born global firms (BGs) & International new venture (INVs)



Are born global firms (BGs) really global in terms of their cross-border trade and FDI?

- Other theoretical perspectives (the **Resource Based View (RBV)** of the firm, transaction costs economics, organizational learning) in the management field can be found to support the assertion that international new ventures (INVs) and Born Global firms (BGs) are more likely to be born regional, not global.
- The broad concept of the triad regions (i.e. North America, European Union and Asia-Pacific), **INVs are likely to be born regionally, not globally, within their home region of the triad when going abroad into foreign markets.**

Resource Based View (RBV)

- An organisation will have at its disposal various resources that are managed strategically in order to best achieve the greatest competitive advantage. Within resource theory, **Resource Based View** (RBV), resources are considered as internal and specific to that organisation so that such application is explicit to the corporation (Barney, 1991; Bowman and Ambrosini, 2003).
- Barney noted that the causality and implementation of such company specific resource strategy “is understood only very imperfectly” (Barney, 1991, p.109). While the statement was made close to three decades ago, it remains poignant today (Barney et al., 2001; Foss and Foss, 2005).
- RBV broadly reflects the unique needs and wants of organisations

Evolution of BGs- New global challengers (1 out of 3)

New Global Challengers- top firms from rapidly developing emerging markets that are fast becoming key global contenders.

Factors contributing to the rise of multinationals from emerging markets-

- Low-cost capital
- Young population and a growing middle-class
- Powerful, highly networked conglomerates
- Government support
- Proactive market liberalization
- Learning effects- innovation capability

Evolution of BGs- New global challengers (2 out of 3)

New Global Challenger Example-

- **Emerging market challengers** have acquired firms in advanced economies.
- **Automotive Industry Examples- Tata Motors**
 - Trade barriers and bureaucracy were loosened in the 1990s
 - Multiple actions on entry modes with Jaguar and Land Rover, Marcopolo, Fiat as well as Boeing.
 - Tata Motors capitalizes on sister subsidiary Tata Steel as a competitive advantage for manufacturing Nanos and other cars.

Evolution of BGs- New global challengers (3 out of 3)

New global challengers are displacing traditional MNEs

- **Forbes** magazine list of 2000 leading global firms.
 - **1990-** only 19 companies from low-income countries were among the *Fortune* Global 500 listing of the world's largest MNEs.
 - **2005- 2011** -a total of 158 MNEs entered the *Forbes* magazine list (top 2,000 global firms) from just four emerging markets: China, India, Brazil, and Russia
 - **2005- 2011** - a total of 295 firms from the U.S., Japan and the United Kingdom, *fell off* the Forbes list.
 - **2011-** China alone had 61 companies in the Global 500
 - **2015-** Emerging market companies exceeds 500.
 - **2015-** Eight Japanese companies were removed from the list.
- Managers need to devise **innovative strategies** to skillfully compete with the new global challengers
- Scholars are paying attentions on the power **of small and medium-sized enterprises (SMEs).**

Small and Medium-sized Enterprises (SMEs)

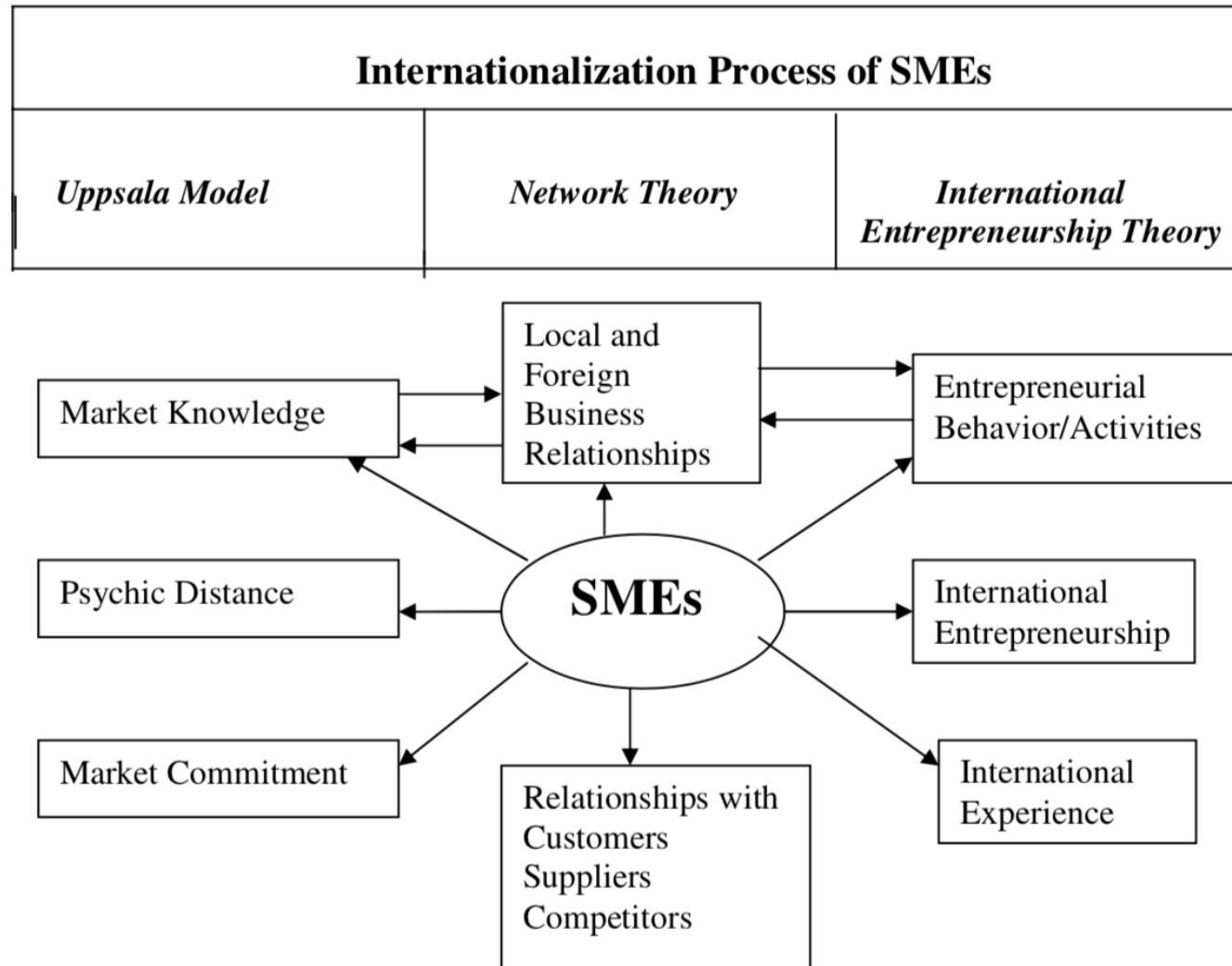
Various definitions

Enterprise category	European Union		United States	Japan		India	
	Employees	Turnover	Employees	Manufacturing enterprises: employees	Retail/ service enterprises: employees	Service enterprises: investment in equipment	Manufacturing enterprises: investment in plant and equipment
Medium-sized	< 250	≤ €50 mill (US\$70 mill)	< 500	< 300	< 50	Rs.5 crore (US\$1 million)	Rs.10 crore (US\$2 million)
Small	< 50	≤ €10 mill (US\$14 mill)	< 100	< 300	< 50	Rs.2 crore (US\$40,000)	Rs.5 crore (US\$1 million)
Micro/small offices	< 10	≤ €2 mill (US\$2.8 mill)	< 10	< 300	< 50	Rs.10 lakh (US\$20,000)	Rs.25 lakh (US\$50,000)

Sources: Annual Report, 2008-09. Ministry of Micro, Small and Medium Enterprises, India; www.msme.gov.in; Shambhu Ghatak, 2009. Micro, Small- and Medium Enterprises (MSMEs) in India: An Appraisal: <http://www.esocialsciences.com/data/eSSResearchPapers/eSSWPArticle20091126151144.pdf>; EU Enterprise and Industry directorate, SME definition: http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/sme-definition/index_en.htm; USAID, 2007, Booklet of Standardized Small- and Medium Enterprises Definition-2007, the United States Agency for International Development http://pdf.usaid.gov/pdf_docs/PNADM845.pdf

What are the key drivers for SMEs' internationalization process?

Uppsala Model by Johanson and Vahlne (1977; 2009 and 2011; 2013)



- **Dynamic capability** is

“the firm’s ability to integrate, build and reconfigure internal and external competences to address rapidly changing environments”.

- **Innovation capability & Innovation Collaboration**

Within studies of SMEs in general, there is some evidence that they are *more innovative* than their larger counterparts.

Read more...Knight, G.A. and Liesch, P.W., 2016. Internationalization: From incremental to born global. *Journal of World Business*, 51(1), pp.99

Innovation

- Innovation forms and processes
- Innovation focus on R&D strategies
- Innovation capability for internationalizing SMEs
- Innovation collaboration for internationalizing SMEs
- Advantages and challenges of innovation for large as well as small and medium-sized enterprises

What is INNOVATION?



The **introduction of new or improved** products, or of new or improved processes and organizational methods in the design, production and distribution of goods and services.



A new, useful process, machine, improvement, etc., that **did not exist previously** and that is recognized as the product of some unique intuition or genius.

21st Century Innovation Focus on R&D strategies (1 out of 3)

The Key Areas of Innovation Focus: Company tend to follow these **3 innovation models**



- Using superior insights about customers too generate new ideas. (e.g. retail stores; Big Data analysis)
- Encourage openness to new ideas from stakeholders

21st Century Innovation Focus on R&D strategies (2 out of 3)

The Key Areas of Innovation Focus: Company tend to follow these **3 innovation models**



- Create value via incremental innovation to products from market.
- “Fast Follower”: customizing; service for local markets;
- Seek a culture of collaboration across functions and geographies.

21st Century Innovation Focus on R&D strategies (3 out of 3)

The Key Areas of Innovation Focus: Company tend to follow these **3 innovation models**

TECHNOLOGY DRIVERS



- Internal technological capabilities to new products/services
- Discoveries.
- Respect technical knowledge and talent.

21st Century Innovation Focus on R&D strategies (3 out of 3)

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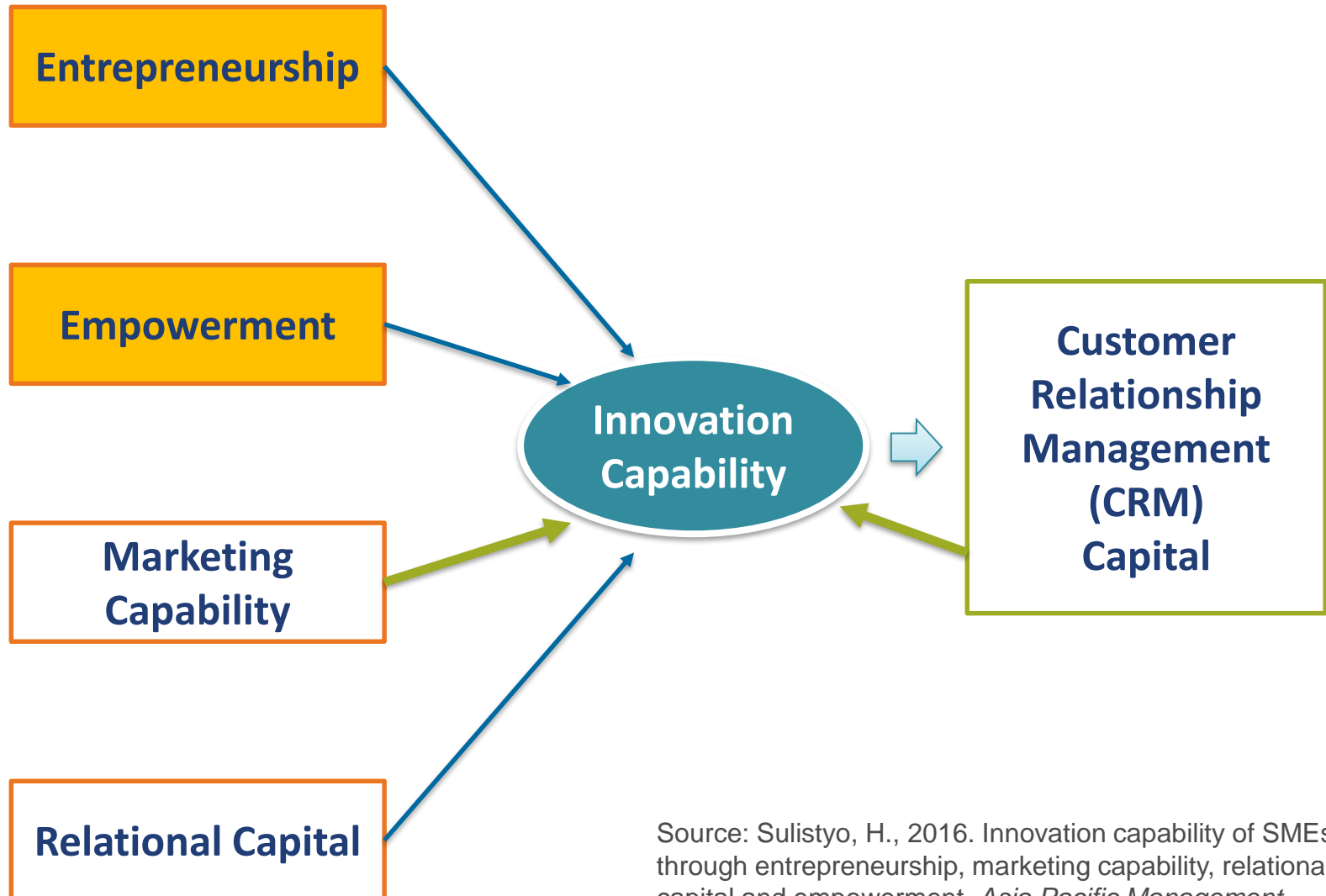
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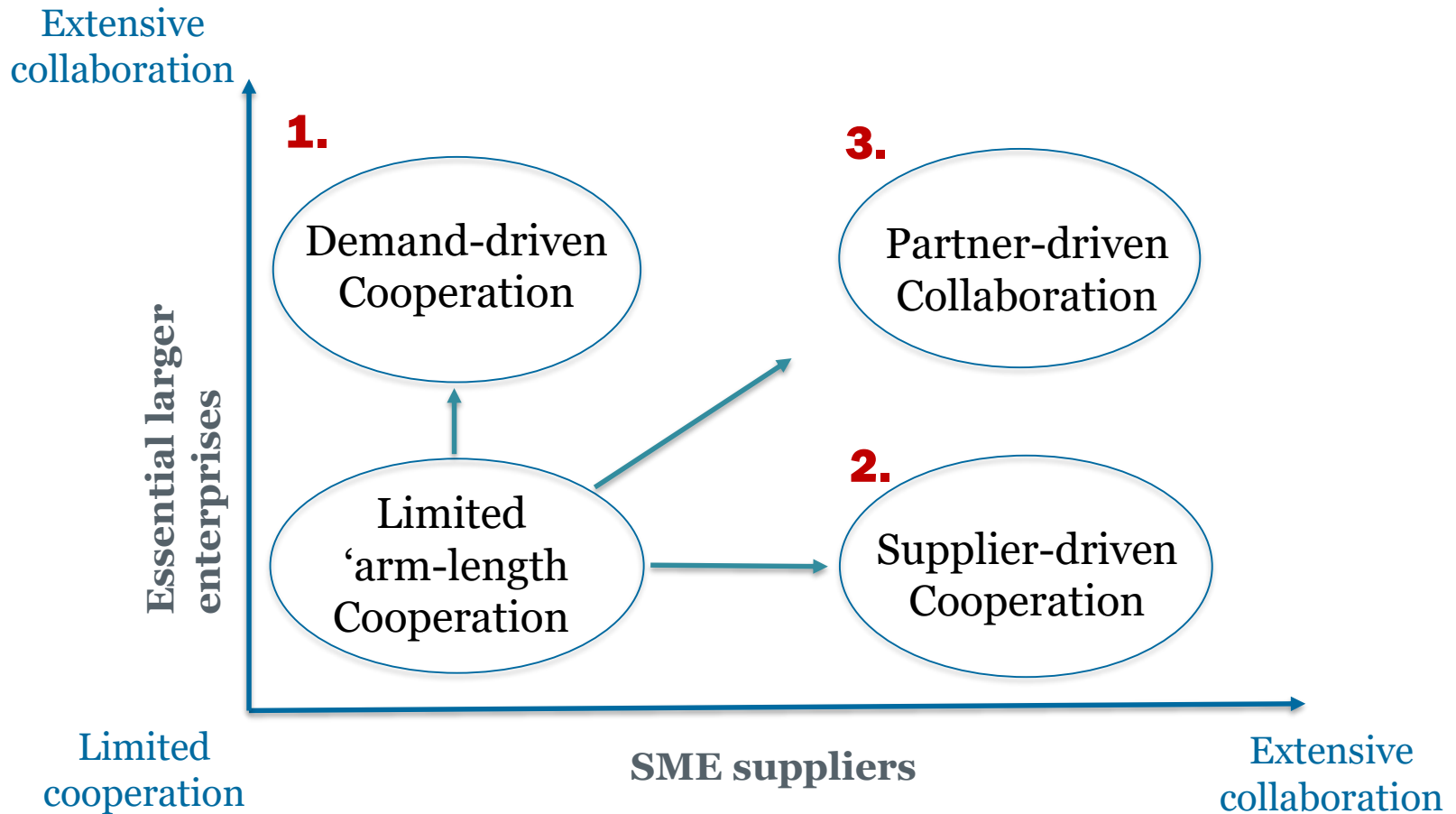
Source from: Jaruzelski, B., Staack, V. and Goehle, B., 2014. Global innovation 1000: Proven paths to innovation success (ten years of research reveal the best R&D strategies for the decade ahead). Strategy&, PwC.

Innovation **Capability** for Internationalizing SMEs



Source: Sulistyo, H., 2016. Innovation capability of SMEs through entrepreneurship, marketing capability, relational capital and empowerment. *Asia Pacific Management Review*, 21(4), pp.196-203.

Innovation **Collaboration** for Internationalizing SMEs



Source: Brink, T., 2017. SME routes for innovation collaboration with larger enterprises. *Industrial Marketing Management*.

Influence of innovation on enterprises

What innovation advantages do all multinational firms have?

- To add competitive advantage: recombining resources, assets and capabilities **from different locations**
- To meet the changing needs of clients and customers in different markets around the world,
- MNEs have the scale, scope and diversity of options to out-innovate local rivals.

What benefits and challenges to SMEs are relative to large multinational enterprises for innovation?

Influence of innovation on enterprises (cont'd)

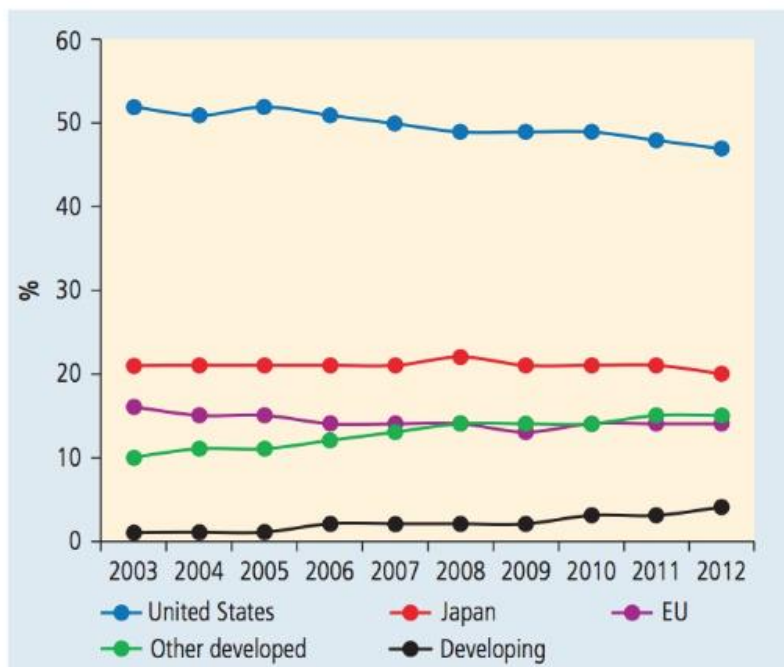


Figure 3.3 USPTO patents granted, by location of inventor, 2003–12

Source: USPTO, Calendar Year Patent Statistics, 2015.

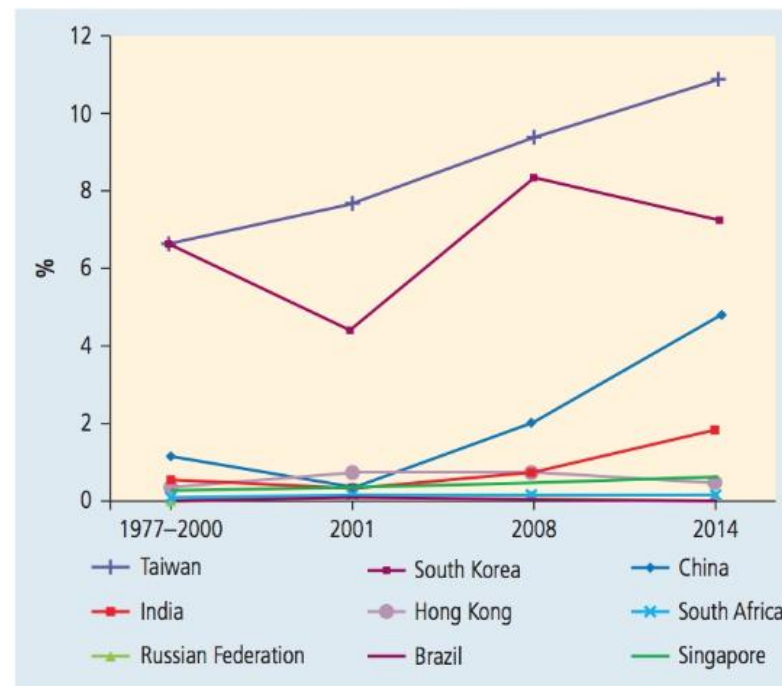


Figure 3.4 The share of the largest emerging economies in US patenting

Source: USPTO, Calendar Year Patent Statistics, 2015.

However, Patents – a help or hindrance to innovation?

- Does it help to increase the ROI?
- Does it stifle the competition or boot follow-up innovation?
- Does it help to increase economic productivity and customer welfare?

Readings

- Knight, G.A. and Liesch, P.W., 2016. Internationalization: From incremental to born global. *Journal of World Business*, 51(1), pp.93-102.
- Jaruzelski, B., Staack, V. and Goehle, B., 2014. Global innovation 1000: Proven paths to innovation success (ten years of research reveal the best R&D strategies for the decade ahead). *Strategy&, PwC*.
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- Brink, T., 2017. SME routes for innovation collaboration with larger enterprises. *Industrial Marketing Management*.

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Next...

Seminar case study: GE Healthcare in India