Research on Chinese Born Global Firms’ International Entrepreneurial Mechanism and Development Mode

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Abstract

Some small to medium enterprises have successfully expanded into overseas market after firms’ establishment or in a short period after inception, which cannot be fully explained by traditional international business theories. The paper tries to explore Chinese born global firms’ entrepreneurial mechanism and development mode from multi-theoretical perspectives supported by several representative case studies from China. The paper argues that for Chinese born global firms, overseas market opportunity’s recognition and exploitation is the starting point and catalyst for Chinese born global firms’ establishment and growth, global resources integration is growing mode for Chinese born global firms, overseas market knowledge and organization learning is the basis for Chinese born global firms to cultivate and maintain sustainable competitive advantages after they enter into international markets.

Key words: Born global firms; Overseas market opportunity recognition; Organization learning


1. BACKGROUND OF THE RESEARCH

China’s growing international integration into the world economy and its outward foreign direct investment especially by astounding cross-border M&A activities such as TCL’s acquisition of Thomson in 2003, Lenovo’s acquisition of IBM in 2005 and recent Geely’s obscure Chinese private-owned automobile company’s acquisition of world famous brand Volvo in 2010 have attracted international business scholars’ great attention, beneath high visibility media coverage M&A activities a large number of Chinese small and medium enterprises have also embarked on their international expansion journey, some even targeted international markets as a primary source of business from their inception, which known as “Born global or International new venture” in IB field. Although lots of research on this new breed of enterprises can be found in literature, most of them were conducted under western developed countries’ context. The paper tries to assess the validity of western born global theories by applying them into Chinese context. Two intertwined and step-up questions should be seriously taken into: How can Chinese born-global firms involve international activities in their early stages? How do Chinese born-global firms utilize global resources they can reach to evolve and compete with formidable established MNCS?

Traditional international business theories reckoned that enterprises tend to expand into international markets after they have gradually developed well in domestic markets. Among traditional theories, Johanson and Vahlne (1977)’s Uppsala mode seems the most persuasive one. However, as economic globalization and information technologies’ fast development; global business environment has undergone fundamental changes. Since 1990s, lots of small firms had successfully implemented international expansion just after firms’ foundation or in a short period of inception; those firms are featured with clear globalization mindset at the beginning, innovative, customized, flexible technology and product design which can rapidly adjust to meet niche customer needs (Madsen, Servais, 1997). That phenomenon is not constrained to
some western developed countries, but widely exists in other parts of the world such as Middle East, Asia and south pacific regions. In China, as the pace of firms’ internationalization quickens, a bundle of high-technology firms targeted international markets when they were just established, and they have successfully realized high degree of internationalization of capital, technology, human resources and markets in very short time. Although those firms are very small in size, they have successfully survived and competed in international markets, and they also constitute important drivers for China’s industry structure upgrading and innovative country’s construction.

The paper tries to explore those firms’ international entrepreneurial mechanism and development modes through several representative case studies analysis.

2. DEFINITION AND FEATURES OF BORN-GLOBAL FIRMS

2.1 Definition

In 1994, Oviatt and McDougall published their milestone paper named *toward theories of international new ventures*, that paper are widely cited by researchers in the field, they defined born-global firms as “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” (Oviatt & McDougall, 1994). In the paper, the authors also classify those firms into export/import start-up, multinational trader, geographically focused start-up, and global start-up types. Then Knight, Madsen and Servais reckoned that born global firm is “firms less than 20 years old that internationalized on average within three years of founding and generate at least 25 percent of total sales from abroad” (Knight, Madsen & Servais, 2004). Loustarinen and Gabrielson (2006) define global ventures as the firms that “have usually first started to internationalize their operations and, on top of that, have entered global markets, deriving most of their income (over 50%) from non-domestic continents” (Luostarinen & Gabrielson, 2006).

2.2 Some Distinctive Features of Born Global Firms

Lots of scholars summarize distinctive features of born global firms, they believe that majority of born global firms are high technology oriented, lots of cases from western countries support that born global firms are always firms that own some specific leading edge technology, some of them originate from universities’ technical departments and incubators, they are the outcomes of technological inventions being transferred into commercial use.

Studies in the field also indicate that more born global firms engage in B2B markets (Business to Business) than in B2C markets (Business to Customer), since number of customers in B2B markets are much smaller than B2C markets, which make it easier for born global firms to serve their business customers in relative lower cost of marketing and distribution.

Born global firms tend to focus on niche markets rather than commodity markets, due to their limitations in resources and capabilities, it is impossible for them to serve wide range of customers in industries, some specific kind of customers with specific needs seem more accessible for born global firms. Gassmann and Keupp have even proposed “the extent, to which the firm is able to take a specialized position in international value chains, to be one of the factors that enable an early and rapid internationalization of SMEs” (Gassmann & Keupp, 2007).

Mort and Weerawardena, Freeman et al, Bell et al deemed that networking is playing very important role in born global firms’ survival and growth in international markets. As mentioned above, born global firms are constrained by resources and capabilities’ limitation, thus, networking become viable channels for born global firms to integrate and leverage resources and capabilities externally, they use “vertical and horizontal network relations to rapidly gain access to international markets, to the partners’ marketing infrastructure and capabilities” (Coviello & Munro, 1995), and “to overcome resource limitations related to product development” (Coviello & Munro, 1997).

Autoio believed that absent of embedded organizational routines is the source of born global firms’ competitive advantages over some long-established companies. (Autoio et al., 2000) Embedded organization routines sometimes play negative roles in renewing companies’ old structure and obsolete business model, thanks to the deficiency of those embedded organization routines, born global firms can cultivate innovative and entrepreneurial corporate culture with less impediments than long-established companies, which is crucial for firms’ accelerated internationalization.

Thus, born global firms are featured with inherent entrepreneurial and innovative elements, Knight and Cavusgil argued “international entrepreneurial orientation reflects the firm’s overall innovativeness and proactiveness in the pursuit of international markets. It is associated with innovativeness, managerial vision, and proactive competitive posture. A posture that is innovative, visionary, and proactive may be necessary amongst a class of firms that, in the face of relatively limited resources, takes the initiative to pursue new opportunities in complex markets, typically fraught with uncertainty and risk” (Knight & Cavusgil, 2004).

The researchers have not only explored the features of born global firms as complete organization, they also shed their research perspectives on the characteristics of born global firms founders, they state that most of founders have strong entrepreneurial drive, international mindset and good networking capabilities, some of them also
have high level of education, experiences of working for international business in MNCs.

3. MOTIVES OF BORN-GLOBAL FIRMS

A very important question must be asked is that why can born global firms embark on internationalization journey in strikingly short period after inception although they do not own substantial resources and advantages comparing with long-established MNCs. According to lots of scholars’ research, the motives behind can be probed into from three perspectives.

3.1 Entrepreneur’s Individual Perspective

The entrepreneur’s individual perspective attempts to seek the forming and growth factors of born global firms from individual entrepreneur aspect, they stressed entrepreneur’s overseas experience and knowledge, international aptitude and categories’ influences on growth of born global firms. Oviatt and McDougall analyzed the different characteristics between born global firms and domestic new firms in foundation, they found that entrepreneur’s global mindset and overseas experience are key driving forces to determine the international entrepreneurial ship. Harveston et al. deemed that managers of born global firms are featured with higher global orientation, risk tolerance and richer international experience comparing with managers in traditional firms which follow stage mode in international expansion.

3.2 Enterprise-Level Research Perspective

Enterprise-level perspective analyzes the born global firms’ distinctive features which differentiate from other enterprises. Autio, et al.’s research indicate that most of born global firms are knowledge-intensive firms because knowledge intensity has amplifying effects on internationalization: in new environment, firms which rely on knowledge’s creation and exploitation to cultivate competitive advantages are doing better in adaptive learning than firms which are mainly dependent on physical resources; knowledge, especially explicit knowledge is transferable resource, knowledge’s internal fluidity enable it to combine with firms’ fixed costs such as manufacturing resources and distribution channels at lower cost, thus, knowledgeable new ventures are more flexibly in taking advantages of international markets opportunities than firms dependent on physical resources. Knight and Cavusgil pay more attention to innovative culture of born global firms, they considered that born global firms are more international market oriented in strategy, they focus on developing capabilities needed for internationalization from inception.

3.3 External Environment Perspective

Research in that perspective boils down the emergence and growth of born global firms into the changes of external environment. Madsen and Servais thought that comparing with countries endowed with large domestic markets, countries with narrow domestic markets will push new ventures to actively expand overseas markets. McDougall and Oviatt pointed out that international trade’s liberalization, technology advancement of IT, especially the advent of internet make firms more viable to connect with customers, distributors and suppliers worldwide, which become catalyst of born global firms. Other scholars sum the born global firms’ advent up to the results of multi-factors’ combing action: the function of niche market; development of processing and communication technology; inherent advantages such as flexibility of SMEs; availability of international tools and formation of global networks.

4. STATEMENT ON RESEARCH METHODS

Since China’s open door policy are still relatively short comparing with Western developed countries, quantity of Chinese born global firms is small, which determine that quantity research approach may be not very viable due to its requirement for large amount of research samples. Thus, the paper select case studies as research approach, which is in accord with most research approaches in the field. Because the research aim of case studies is to induce relevant theory rather than frequency calculation, so the selection of case studies not needs to follow sampling rule but ensure case studies are special and typical enough. Of course, under the correct circumstances, multi case studies approach will be more effective to extract theories and form better structure for research.

The paper selects Tsingtao Kingking company, Wuxi Suntech corporation and Beijing Vimicro company as case studies. The reasons for choosing those three companies are based on following consideration: firstly, internationalization activities should be occurred within three years after firms’ foundation. Anderson and Wictor define born global firm as “percentage of overseas sales exceed 25% in the first three years after company’s foundation.” Above all three firms actively enter international markets within three years after their firms’ foundation, they just skip and accelerate traditional internationalization development path which evolve according to “local markets-regional market-national market–international markets”. Second issue is about company’s internationalization mode, although Andersson, etc. apply quantitative criteria, their definition doesn’t take entry mode into consideration, we argue that a firm can not be regarded as truly international company if it rely on export as only overseas market entry mode although its overseas sales occupies high proportion among whole sales revenues. The cases the paper has selected all undertake higher level of entry modes such as cross-border merger and acquisition, establishing wholly owned subsidiaries in foreign markets. Through applying higher commitment of entry modes, those companies
seek location advantages and acquire efficiencies from worldwide business running. The third issue is that those companies realize their fast growth thanks to internationalization activities. Theories on born global firms need to not only answer the question of how newly established firms go global but also to explore how newly established firms to expand into overseas markets under complicated international business environment.

4.1 Case Study One: Tsingtao Kingking Company

Tsingtao Kingking Company was established by Suobing Cheng in 1993 in Tsingtao city, Shandong province, the company developed its patent glass product in 1994 and it expanded into American market very rapidly in 1995. During company’s 20 years development history, its overseas markets expanded very quickly, its products and brand are recognized by large number of foreign customers. In 2005, Kingking company’s total sales revenue reached about RMB 1600 million, among them, 95% of sales revenue come from overseas market. The company’s products are widely sold and distributed among world’s 110 countries and districts, directly serve more than 1500 clients globally. Especially in European and American markets, one in four families use Kingking company’s products, after the success of overseas markets expansion, Kingking turn it back to develop domestic markets, which immeasurably contrast with traditional firms’ internationalization process. The founder of Kingking Company recognized invaluable business opportunity of candle consumption which is prevalent due to western cultural influence when he studied in United States. According to statistics, glass products like glass candleholder yield not less than $3000 million volume of trade globally. Chen believed that glass products are the last industrial factors China lacks, Kingking Company would realize its supernormal development based on glass products. By recognizing and exploiting that business opportunity, Kingking company rapidly develop in very short period, till now, Kingking company has established business alliances with lots of Fortune 500 companies such as Wal-mart, Metro, Carrefour, etc. At the same time, Kingking group further its go-global strategy to meet local customers’ needs through localization R&D, design, production and sales. In order to avoid international trade and technological barriers, Kingking Company has set up its own subsidiaries, R&D centers, outbound processing plants in many countries of Europe, North America, and Southeast Asia. By that way, Kingking Company’s R&D, manufacturing and sales activities are effectively integrated into global value chain.

4.2 Case Study Two: Wuxi Suntech Company’s Foundation and Growth Course

Wuxi Suntech company was founded in 2001 by Zhengrong Shi who has been committed to photovoltaic industry for long time. In 1999, He got his PhD Degree in photovoltaic products research from Australia, he chose to return China for his entrepreneurial life in 2001, thanks to his PhD supervisor’s reputation in the field, Suntech company entered German markets in 2002, then the company gradually expanded its business into other countries in Western European countries. Due to European countries environmental protection bill’s compulsory implementation, solar energy photovoltaic industry gradually develops into a seller’s market, which makes supplying of Suntech’s products is not adequate to the market demand. Under that environment, Suntech company further strengthen its international marketing networks, the company formulates its marketing strategy centering on Germany while extending to other countries in Europe, Australia, United States and Asia Southeastern countries. Suntech has become an recognizable brand in international photovoltaic industry, according to international authoritative photovoltaic industry magazine Photon international’s statistics, the solar energy cell production capabilities of Suntech company was ranked No. 8 in 2005 and Top 3 in 2006.

On 14th Dec, 2005, Suntech Company was listed in American New York Stock Exchange, which made the company the first non state-owned high technology firm which was listed in New York Stock Exchange. Till 2007, the NYSE value of Suntech Company reached $5000 million, which was the highest among Chinese private firms, while Zhengrong Shi’s personal wealth also reached $2340 million. Transforming from an unknown overseas scientist to one of richest guys in China, Zhengrong Shi only takes 6 years, which become the most rapidly growth case among China’s entrepreneurial histories.

4.3 Case Study Three: Internationalization of Vimicro Company

Vimicro company was founded by several returned Chinese silicon valley scientists in 1999 under the proposition and support from national information industry ministry, the company headquarters in Beijing Zhongguan village which aspires to become China’s silicon valley. Contrast to traditional company’s domestic market-overseas market internationalization path, Vimicro company targets overseas market at the beginning of its foundation. In 2000, Vimicro Company set up subsidiary in American silicon valley, in 2002, Vimicro set up Vimicro (international) in Hong Kong to strengthen its overseas marketing.

Vimicro Company has dedicated to developing advanced digital multi-media technology, going through two years painstaking efforts, Vimicro Company launched its Chips with whole independent intellectual property rights in international markets in Sep. 2001, which demonstrates that a private company only takes two years to expand into intensely competitive international markets, its internationalization pace has surprised lots
of its competitors. Vimicro’s chips are widely adopted by international reputable electronics companies such as Samsung, Philips and HP, etc. It occupies about 60% market share in computer image input chips.

5. CROSS CASE STUDIES ANALYSIS

5.1 International Entrepreneurship Opportunity’s Recognizing and Exploiting

According to different entrepreneurial motives, entrepreneurial activities can be divided into opportunity-pull and poverty-push entrepreneurial activities. Under Opportunity-pull perspective, entrepreneurs are mainly attracted by markets opportunities in contrast to compelling due to poverty in poverty-push perspective. As a new entrepreneurial mode of globalization epoch, born global firms’ foundation and growth are featured with distinct opportunity-pull entrepreneurial activities characteristics, they focus more on utilizing various resources to exploit unknown business opportunities rather than compelled by poverty. In above three case studies, all founders including Shuobing Chen of Tsingtao Kingking Company, Zhengrao Shi of Suntech company and Vimicro founding team have higher level of education, they all had enviable jobs before setting up their own business, why did they give up those stable and enviable job and choose to set up their own company with risks? The main reason is that they all discover and recognize business opportunities from international markets.

When Shuobing Chen studied in United States, he just noticed that candle related glass products have great business potential in Western countries, all production factors related to glass products are prevalent and inexpensive in China, by connecting inexpensive China’s manufacturing capabilities with customized R&D and marketing capabilities in western countries, Tsingtao Kingking Company achieved rapid international expansion in very short time.

In Suntech company’s case, due to the cost of photovoltaic electricity generating system is much higher than market’s mainstream electricity generating system, so its market expansion is closely related to government policies, since 2003, European countries had forcefully implemented environmental protection bills, which made low carbon solar energy a ideal government supported electricity generating alternative, by that reason, Suntech company ushered in a rare opportunity, and the solar energy photovoltaic industry gradually evolve into a seller’s market.

In Vimicro’s case, the company is proactively involved in the cutting edge technological transferring trend from western developed countries to Asian countries especially China, which endows Chinese domestic high-tech companies invaluable opportunity to develop their own innovative core technology and commercialize those technologies. Although western countries are advantageous in leading technologies and mature fund raising system, China is also endowed with maturing market economic environment, large promising domestic demand, comparatively lower cost of human capital and innovative technologies which are greatly valued and supported by Chinese government, all of which provide domestic firms with fantastic development opportunity and environment.

5.2 Global Resources and Knowledge’s Integration

To newly established ventures with very constrained resources, the crucial question of internationalization activities not lie in how to fully elaborate their extant resources and capabilities, but how to acquire, accumulate external resources for further growth in a better, faster, and more effective approach. In the foundation and development process of Tsingtao Kingking Company, not only domestic industrial resources and low-cost production capabilities are fully exploited, but external networking opportunities such as distribution channels of international large supermarkets such as Wal-mart, Carrefour are leveraged. In Suntech’ case, Zhengrong Shi utilized every network resource in the solar photovoltaic industry he was able to access at the beginning of firm’s foundation. In order to enter developed countries market, Mr. Shi asked his PhD supervisor Martin Green to help him in product introduction, his colleagues in Australia pacific solar energy research centre were invited to do market research for Suntech company, in start-up capital aspect, the company was also substantially supported by Wuxi municipal government’s state-owned enterprises funds. In target market aspect, Suntech is fundamentally European markets orientated. Thus, Suntech company’s entrepreneurial path and resource integration approach can be summed up into “Overseas returnee + Overseas advanced technology + International markets + Listed in Overseas stock exchange”. At the beginning of Vimicro Company’s start-up, it established subsidiaries in American Silicon Valley and Austin, the purpose lies in not only to obtain latest scientific breakthrough information but also demonstrate and distribute Vimicro’s cutting edge technological products. Developed technologies, expertise, mature business management and venture capital running industrial factors are widely existed in Silicon Valley, while large markets with great potential, numerous clients and qualified engineers are available in China. By connecting Silicon Valley’s high technology, innovative corporate governance with Chinese markets and manufacturing capabilities, Vimicro Company grows rapidly and overseas market could be expanded in an accelerated way.

5.3 Entrepreneurial Team with Rich Overseas Market Experiences

One crucial reason for born global firms to realize their global resources and knowledge integration, successfully
recognize and exploit opportunities in overseas market lies in that born global firms are endowed with entrepreneurial team which has rich overseas market experiences.

The founder of above case companies all once studied or worked in foreign countries. Suobing Chen of Tsingtao Kingking company once studied in America and obtained master degree of economics there, he also worked four years in a local American company; Zhengrong Shi of Suntech company once studied in Australian University of New South Wales, and was supervised by “father of solar energy”, 2002 Nobel environmental Prize winner Professor Martin Green, when he completed his PhD studies in Australia UNSW, he worked as senior manager and Scientist in Australian pacific solar energy electricity company, Ltd. In Vimicro’s case, the entrepreneurial team is formed up of about 45 overseas returnees, most of them once studied in top universities in western developed countries and worked for reputable companies in Silicon Valley. Thus, those entrepreneurs with overseas education background, overseas working and living experiences have demonstrated intensified global mindset and internationalization tendency, international experiences and overseas knowledge which they have obtained before setting up their own companies enable them to reduce risks and exploring costs in international markets expansion effectively, and by that reason, those newly established companies manage to conduct their internationalization activities shortly after foundation.

5.4 Born Global Firms are more Advantageous than Traditional Firms in Learning

Comparing with large Multinational Corporation, newly established firms which are less constrained by routine and traditions are more advantageous in learning especially under new international business environment. Born global firms are much simpler in corporate organization structure, managers and employees within different departments have more opportunities to have communication and discussion, and those intimate interactions will enable tacit knowledge to be shared throughout the company. The reason why Vimicro company manage to realize series of technological heavy weight innovation and breakthrough lies in that the company benefits a lot from knowledge sharing platform which is set up by those entrepreneurial returnees from Silicon Valley, most of them have rich work experiences in computer chips design when they worked for international famous IT companies in Silicon Valley, they didn’t take their experiences and knowledge as top secrets which must be kept carefully but encourage employees to learn from them. Company founder and technological gurus do scientific experiments with employees, they just transfer their cutting edge technologies to those employees who have just graduated from universities in a generous way, that mentoring knowledge sharing method enables lots of employees who have just graduated from universities to get access to world’s most advanced technologies. Vimicro Company also encourages its employees to learn related technologies in other departments apart from their own departments, to undertake more challenging technological projects. That mentoring organization learning platform promotes Vimicro Company to cultivate a technological research and development team which can compete with foreign computer chip design giants; the company combines every excellent resource it can access to produce world’s leading technologies and products.

CONCLUSION

As a new form of Multinational Corporation, one fundamental question must be asked is that how born global firms are set up. A further question follows is that how those born global firms realize their fast development when they are not endowed with resources advantages and competencies that widely exist in mature multinational corporations? Through above case studies analysis, we found that International entrepreneurship enables Chinese entrepreneurs to perceive and exploit Oversea opportunities by taking risks, which become the prerequisite of Chinese born global firms’ emergence; international social capital and network relationships serve as intermediaries to make Chinese born global firms’ further growth viable; Chinese born global firms’ ongoing process of internalization also provides firms with international expansion knowledge and organizational learning opportunities which are absorbed and leveraged by Chinese firms to constitute sustainable competitive advantage.

REFERENCES


