

14.5: From Entrepreneurship to Born-Global Firms

Learning Objectives

1. Understand the nature of born-global firms (or global start-ups).
2. See why global start-ups are challenging to manage and yet increasing in prevalence.
3. Know the two phases of global start-up assessment.

Global Start-ups and Born-Global Firms

More and more firms—even very small ones—have operations that bridge national borders soon after their founding. Thanks to the Internet and related information technologies (IT) that enable many of them, this new breed of firms began emerging in the 1990s and is dubbed “born-global” because their operations often span the globe early in their existence. A **born-global firm**, also commonly called a **global start-up**, is “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.” Benjamin M. Oviatt and Patricia Phillips McDougall, “Toward a Theory of International New Ventures,” *Journal of International Business Studies*, First Quarter 1994, 47, accessed December 24, 2010, aib.msu.edu/awards/25_1_94_45.pdf. A common characteristic of such firms is that their offerings complement the products or capabilities of other global players, take advantage of global IT infrastructure, or otherwise tap into a demand for a product or service that at its core is somewhat uniform across national geographic markets. While many firms may fall into this category by virtue of their products, the operations and customers of born-global firms do actually span the globe—exploiting a combination of exporting and foreign direct investment.

Did You Know?

The born global firm is defined 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. In due course, these distinctive firms are gradually becoming the norm among companies that do international business. The distinguishing feature of born global firms is that their origins are international, as demonstrated by management’s global focus and the commitment of certain types of resources to international activities. Here we emphasize not the size, but rather the age by which the firm ventures into foreign markets. In contrast to the traditional pattern of businesses that operate in the home country for many years and gradually evolve into international trade, born globals begin with a “borderless” view of the world and develop the strategies needed to expand abroad at or soon after the firm’s founding. The focus is on the phenomenon of early internationalization and the approaches that companies leverage for achieving superior performance in international business from the inception of the firm. S. Tamer Cavusgil and Gary Knight, *Born Global Firms: A New International Enterprise* (New York: Business Expert Press, 2009), 1.

Logitech, the computer peripherals company, is perhaps one of the best early examples of a successful born-global firm. Benjamin M. Oviatt and Patricia Phillips McDougall, “Global Start-Ups: Entrepreneurs on a Worldwide Stage,” *Academy of Management Executive* 9, no. 2 (1995): 30–44. Focusing first on the PC mouse, the company was founded by two Italians and a Swiss. The company’s operations and research and development were initially split between California and Switzerland, and then it expanded rapidly with production in Ireland and Taiwan. With its stylish and ergonomic products, Logitech captured 30 percent of the global computer mouse business by 1989, garnering the start-up a healthy \$140 million in revenues.

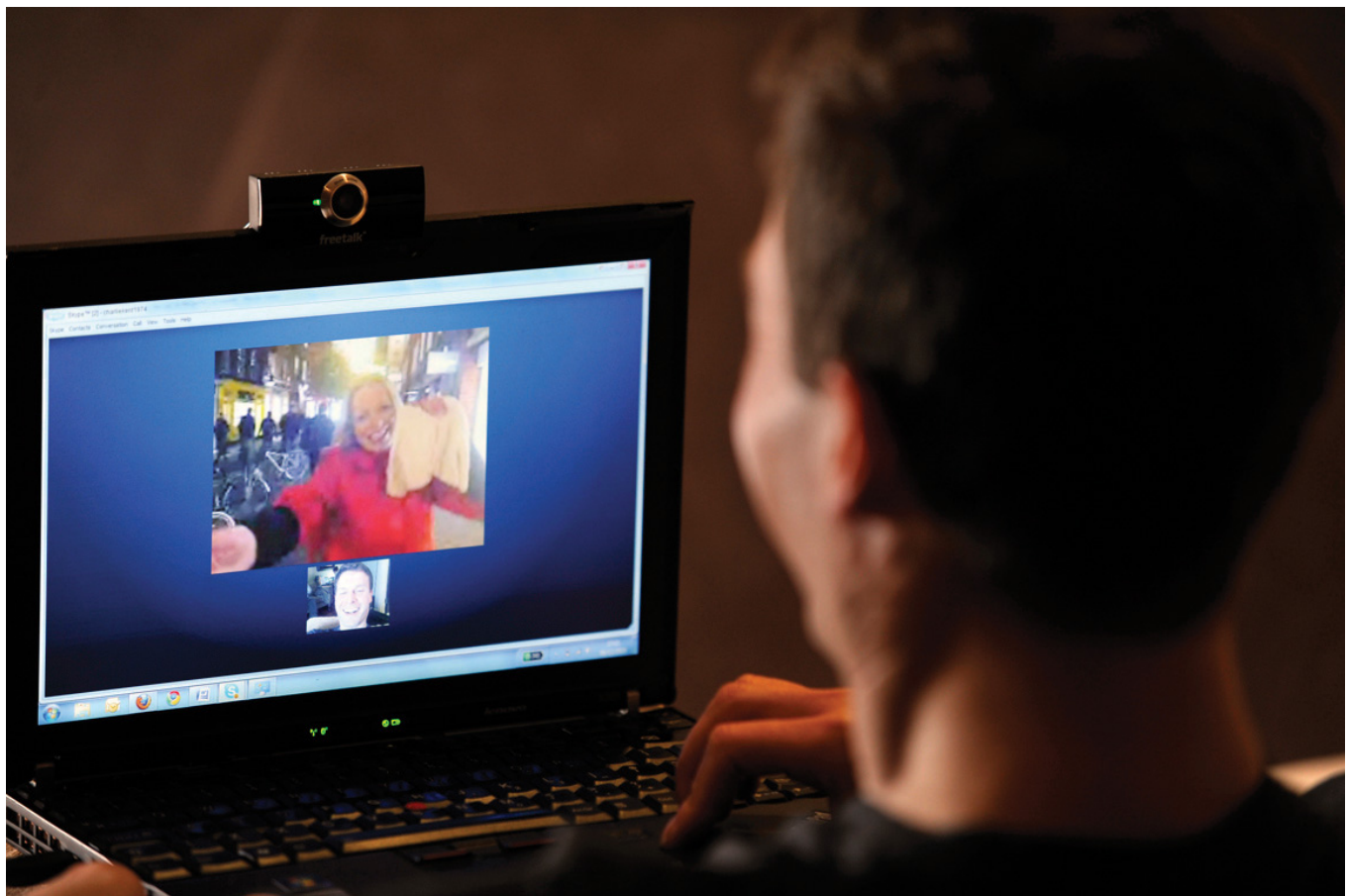


Its innovative and stylish products have made Logitech a global leader in computer peripheral devices.

Courtesy of Logitech Inc.

Today, Logitech is an industry leader in the design and manufacture of computer peripheral devices; has manufacturing facilities in Asia and offices in major cities in North America, Europe, and the Asia-Pacific region; and directly employs more than 6,000 people worldwide. Logitech website, accessed November 1, 2010, <http://www.logitech.com>.

Skype Limited is a more recent born-global firm. You may already have its software on your laptop or desktop computer to take advantage of this free Internet phone technology, called voice-over Internet protocol, or VoIP. Skype website, accessed November 1, 2010, <http://www.skype.com>. At any point in time, there are millions of users logged in on Skype; the program and service has made such a strong impression that the term “Skype me” has replaced “call me” in some circles. Niklas Zennstrom and Janus Friis, the same two entrepreneurs who invented KaZaA (one of the most popular Internet file-sharing software programs in the world) also developed Skype. Initially founded in Sweden as Tele2, Skype is now headquartered in Luxembourg and has offices in Europe, the United States, and Asia. Skype and has received significant funding from some of the largest venture-capital firms in the world. “Where Is Skype?,” Skype, accessed December 27, 2010, about.skype.com/where-is-skype. Both Logitech and Skype share certain characteristics—ripe conditions for global start-ups, what it takes to build them, and what it takes to make them succeed.



Skype's video calling capabilities have enabled businesses to connect with team members around the world economically and efficiently.

Courtesy of Skype Limited 2011.

Two Phases of Global Start-up Assessment

Global start-ups need to pass through two phases. If you can answer yes to all or most of the questions from Phase 1, then you need to be sure that you can quickly build the resources and capabilities identified in Phase 2. Research has shown that firms unable to connect the dots in Phase 2 are forced to cease operations after a short, but lively, period of time. Benjamin M. Oviatt and Patricia Phillips McDougall, "Global Start-Ups: Entrepreneurs on a Worldwide Stage," *Academy of Management Executive* 9, no. 2 (1995): 30–44.

- Phase 1: Should my firm be a global start-up?
 1. Do I want to build the brand around the world right from the start?
 2. Do I need human resources from other countries for my company to succeed?
 3. Do I need financial capital from other countries for my company to succeed?
 4. Will my target customers prefer the services of my company to the services of my competitors if I am global?
 5. Can I put an international system in place more quickly than domestic competitors?
 6. Do I need global scale and scope to justify the financial and human capital investment in the venture?
 7. Will a purely domestic focus now make it harder for me to go global in the future?
- Phase 2: Now that you have committed to going global, here is what you need:
 1. A strong management team with international experience
 2. A broad and deep international network among suppliers, customers, and complements
 3. Preemptive marketing or technology that provides you with a first-mover advantage with customers and can lock out competitors from key suppliers and complements
 4. Strong intangible assets (e.g., both Logitech and Skype have style, hipness, and mindshare via their brands)

5. The ability to keep customers locked in by linking new products and services to the core business while constantly innovating in the core product or service itself
6. Close worldwide coordination and communication among business units, suppliers, complements, and customers

So why is the introduction of global start-ups important at this point in your international business education? One reason is the increasing prevalence of global start-ups, driven in part by globalizing consumer preferences, mobile consumers, large global firms, and the pervasiveness of the Internet and its effects. The other is that global start-ups are very relevant to the subject of intrapreneurship, which you will learn about in [Section 11.5](#).

KEY TAKEAWAYS

- Global start-ups, also called born-global firms, are an increasingly important phenomenon in the world of entrepreneurship. A global start-up is 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.
- A common characteristic of such firms is that their offerings complement the products or capabilities of other global players, take advantage of global IT infrastructure, or otherwise tap into a demand for a product or service that at its core is somewhat uniform across national geographic markets.
- There are two phases of global start-up assessment: (1) deciding if a firm should become a global start-up and (2) deciding what the firm needs to do to make that happen.

EXERCISES

(AACSB: Reflective Thinking, Analytical Skills)

1. What are the characteristics of a global start-up?
2. What might explain the increasing number of global start-ups?
3. Why might a global start-up be harder to manage than a purely domestic company?
4. What key pieces of information would you need to assess whether you should launch a global start-up?
5. Once you have decided to launch a global start-up, what key resources and capabilities must you begin putting into place?

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