

THE “BORN GLOBALS” PHENOMENON IN CZECH REPUBLIC

Eliška Reková

*Faculty of Business and Management, Department of Management, Brno University of Technology,
Kolejni 4, Brno, Czech Republic
E-mail: rekovae@fbm.vutbr.cz*

Abstract. The aim of this article is to analyse the “born globals” phenomenon in Czech Republic from history until present and to critically evaluate available definitions and their comparison in worldwide context. The scientific aim of this paper focuses on finding out at which level is the general knowledge about the “born globals” topic amongst both younger generation of future entrepreneurs and already established SME companies in Czech Republic. This paper also aims to define foreign market entry barriers. This paper uses the analysis of both primary and secondary data, it focuses on questionnaire research and the results are then processed and evaluated by using descriptive statistics methods and relative frequency analysis. The result of this paper is to analyse the phenomenon of “born globals” in the Czech republic, evaluate the general knowledge about the “born globals” term, define foreign market entry barriers and propose solution on how to eliminate the barriers. This paper should help managers to understand current trends, identify foreign market entry barriers while starting “born globals” companies and support the processes of internationalization and innovation in business.

Keywords: barriers, born globals, business, internationalisation, management, phenomenon.

JEL Classification: F6; M2; O1.

1. Introduction

Internationalization is the phenomenon of the modern age (Kraus 2008). According to Jurek (2012), is internationalization defined as adjusting products and services to multiple nations. The process of internationalization does not mean only export and import, but focuses also on cross-border relationships between companies and economies, international cooperation, searching for competitive resources, new technologies, innovative solutions and mutually supporting approaches (Ec.Europa 2015). Starzyczna (2010) also adds that internationalization means expanding the company’s activities abroad. According to Lopez (Lopez *et al.* 2008), evolutionary approach to internationalization is the most common. This way company starts in its original country and only then expands abroad. Born globals approach is less common according to Lopez. These companies are founded with the specific aim to expand abroad. Lopez’s theory that “born globals” companies are rare in Czech Republic is confirmed in study “Models of Czech companies’ internationalization” by Zapletalová (2015).

“Born globals” basically means “born for globalization” and presents new upcoming trend which is supported by many development programs. The European foundation for improvement of environmental and work conditions (Eurofound 2012) has

published an article which highlights the potential of “born globals” companies in Czech market.

2. Literature review

This article provides structured research of scientific articles from all over the world published on the topic of “born globals”, clarifies the terminology by comparing available definitions and puts the “born globals” term into the context of Czech market. All definitions agree on expanding the company to foreign market. For this reason does this part of the article focuses also on possible market entry barriers and proposes ways of eliminating them.

2.1. Born global

Traditional theory of international trade says that companies first build strong position in their original market and enter the global market in the later stages of their life cycle (Bilkey, Tesař 1977; Cavusgil 1980; Johanson, Vahlne 1977; Luostarinen 1979).

This opinion is put to question by performed research which shows that some companies enter international field shortly after being founded. This makes them “born globals”, which is new phenomenon, which develops in accordance to the quick international expansion of the companies. Many

authors (Fan, Phan 2007; Hashai, Tamar 2004; Kandasaami 1998; Knight, 1997; Madsen, Servais 1997; Sharma, Blomstermo 2003) have looked into this topic.

Being “born globals” company assumes strong focus on innovation and growth. This way they can contribute to restoration of economy and work market, which have been damaged during the worldwide financial crisis (Eurofound 2012).

The term “born global” company has been used for the first time in 1990s in a study performed by McKinsey for Australian Manufacturing Council (Rennie 1993).

In connection to this kind of company, it is also possible to encounter terms such as “global start-ups” (Oviatt, McDougall 1994), high technology start-ups (Jolly *et al.* 1992) and international new ventures International new ventures (INV) are defined as new international companies which competitive advantage of using resources from multiple countries. Another terms related to such companies are “born globals” (Knight 1997; Madsen, Servais 1997) and “instant internationals” (Preece *et al.* 1999).

2.2. Born globals definition

There is no strict definition of the “born globals” term. According to Varma (2009), “born global” companies differ from other exporting companies mostly in the speed of their internationalization and the growth of their geographical market, which covers at least the original country and one or more foreign markets. Varma (Varma 2009) agrees with Rialp *et al.* (2005), Freeman *et al.* (2013) and Gabrielson, Kirpalani. (2012) on the fact that there should be maximum 3 years long gap between founding of the company and entering foreign market. The length of time between founding the company and entering foreign market has also been discussed in the study by Kubíčková (2012), where she focused on 724 Czech SMEs from the ICT market (only 40 of them responded) and examined the time period between founding of the company and entering foreign market. According to this research, 64% of the companies entered foreign market within the first year of the company’s existence. 21% of the companies entered foreign market within the first 5 years and only 15% began their internationalization process 5–10 years after being founded. These results point towards another scientific question, which should prove the influence of the industry branch on the speed of foreign market entry.

Ferreira *et al.* (2010) define “born globals” simply as companies which offer their products and

services in the international market, i.e. they confirm the characteristic of trading in more than one country. Some authors also use the criteria of income from foreign markets into the evaluation whether a company is “born global” or not. However, there is no strict definition which would define the amount of income from foreign markets needed for being considered “born global”. Some authors, such as Kandasaami, Huang (2000) require 10% of total income to be from foreign markets, some other authors, such as Maadsen *et al.* (2000) require 25%. Other authors also take into consideration the amount of experience the company has (i.e. how long it has been in the market). This way, the “born globals” companies would be automatically disadvantaged, because they skip most of the usual phases of company development. Empirical studies (Ellis 2000; Oviatt, McDougall 1994; Reuber, Fischer 1997) show that the age of the company has no effect on the ability of working in the foreign market.

The concept of “born globals” companies has been introduced to Czech Republic by prof. Mejstřík (2013). He divides Czech exporting companies into four different categories: Subsidiaries of foreign companies, Traditional exporters, Experimental exporters and Born globals. According to Mejstřík, the “born globals” differ from other companies by high level of internationalization, rapid development, entering multiple foreign markets at the same time (often even outside EU) and often are operating in very innovative branch of industry with high level of added value.

There is no unified definition of the “born globals” term and therefore for the purpose of this article the following definition has been established: “*The term “born globals” is descriptive term for companies which expand to foreign market, where they sell their services and products, within three years after being founded and the income from the foreign market represents at least 25% of their total income*”.

The data provided by OECD (2009) show, that the “born globals” companies present only 3–6% of all the exporting companies. These companies are very innovative, use their contact network to identify new market demands, enter new markets, apply pro-innovative policies and quickly achieve large turnover in the foreign markets. This type of company has been on the rise in Czech Republic in the last five years, mostly due to governmental support of innovation incubators (JIC 2014) and start-ups.

Due to the high level of specialization and growing added value, the word used to describe the “born globals” is phenomenon, which according to Kraus (2008) means something remarkable, unusual and extraordinary in its specific field.

2.3. Foreign market entry barriers

For Czech Republic, which presents only small part of the global economy, it is very important to be involved in the international market in order to be able to achieve long-term sustainability, prosperity and economic growth (Calof, Beamish 1995). Data provided by Czech statistical office show that the export in 2010 equalled 79% of the total GDP. In comparison, in the same year export amounted only up to 50% in Germany.

According to Kislingerová (2011), the "born globals" companies in Czech Republic represent above-average amount of entrepreneurial activity in relation to GDP. This is very important in the growing international competition, where the companies are reliant on their knowledge potential and related innovativity. "Born globals" companies in Czech republic are supported by the Ministry of Industry and Trade (MPO 2014), which has approved new pro-export oriented strategy, which supports doubling the number of innovative exporters ("born globals" companies) until 2020.

Despite all this, there are couple of barriers, which limit the possibilities for Czech exporters. According to Toullová, Votoupalová, Kubíčková (2015), the biggest barriers in Czech Republic are lack of language knowledge (40.9%) and lack of local environment knowledge (39.8%). Third biggest barrier are high costs of market entry in marketing and promotion (34.1%). Other barriers are then administrative issues (29%), cultural differences (14.8%), geographical distance (8%) and issues with finding local partners.

The topic of market entry barriers is discussed within many studies. For example, San Diego State University, Musteen (Musteen *et al.* 2014), Raff, Kim (1999) and Kneller, Pisu (2011) are dealing with the problem of information shortage. Cultural distance is examined in detail by Tihanyi *et al.* (2005). Zhao *et al.* (2004) describes the challenges of choosing the right legal form of the company and market entry strategies. Journal of Behavioural Science (Westerhoff 2003) focuses on psychological barrier in relation to foreign exchange market. The influence of insufficient governmental support is highlighted in article by Cranmer (2008). The connection between internationalization of Czech institutions and impact of projects handled by European Union is discussed in study by Štátná (2011). Unfortunately, this study focuses on the university sector only.

3. Research study

The empirical research has been performed by the quantitative method of questionnaire research. This research focuses mostly on evaluation of general knowledge about the "born globals" companies in Czech Republic and on identifying the foreign market entry barriers and proposal of solutions which could help to reduce or eliminate these barriers. The objects of this research are two different groups who have been given the same questions. First of the groups contains students of University of economics i.e. new generation without experience, which represents the future entrepreneurs. Into the second group belong already established companies. These companies are small and medium size enterprises (SMEs) which are already exporting to foreign markets. The outcome of this research presents the perception of the "born globals" term in Czech Republic from both hypothetical (students) and practical (experience of exporting companies) point of view.

3.1. Methodology

This paper uses analysis of primary and secondary data. Secondary data focuses on structured data collection. The research contains literature overview, definition of the term "born globals" and its comparison in global context. Primary data collection is performed by questionnaire research, which has been applied to two groups: students and companies. The outcome of this research answers the scientific question of this research: What is the general awareness of the "born globals" in Czech Republic and what kind of market entry barriers are considered to be the most important. The evaluation of the results is performed by using descriptive statistics and relative frequency analysis.

3.2. Object of research

The first group of respondents, Group A, are students of university of economics. The respondents of the questionnaire have been selected from the students of Faculty of Business and Management at Brno University of Technology. The students have been selected to represent all the groups between the first and fifth year of their study. The results show that there was no real difference in the answers from students in different years of their study and therefore the year of the study will not be taken into account in this study. In total, 75 of students have taken part in this research and therefore these 75 will be considered to be the initial value of 100% of the respondents. This group of respondents has been included in the research in order to evaluate the level

of general knowledge of the “born globals” companies amongst students who represent the future entrepreneurs and to put this newly obtained data in comparison with the general knowledge of the same topic amongst already exporting, experienced companies.

The second group of respondents (Group B) consists of small and medium-sized enterprises, which are private limited companies, based in Czech Republic, not based in Prague and older than 2 years. The entrepreneurial activities of the selected companies are defined by CZ–NACE as follows: Section B: Mining and quarrying, Section C: Manufacturing, Section D: Manufacturing and distribution of electricity, gas, heat and air, Section F: Construction, Section J: Information and communication activities, Section M: Professional, scientific and technical activities, Section N: Administrative and supporting activities, Section S: Other activities. These companies have not been selected randomly. All of these companies have taken part in the operational programme Marketing in between years 2010 and 2014, which has provided support for the company to attend international fair or exhibition. In total, 692 companies have taken part in the programme, but for the purpose of this research only the 503 companies, which use the most common legal form (i.e. limited companies) were selected. However, some companies received more than one grant and therefore it was necessary to remove the duplicate data and the data set has been narrowed down to 338 companies, all of them have been asked to take part in the research to make the respondent set complete. 125 companies have replied to the request, and their answers have been evaluated during this research. These 125 companies will be considered to be the initial value of 100%. These Czech SMEs with experience in exporting to foreign markets have been questioned in order to assess the level of their knowledge of the “born globals” companies and to provide insight into the topic of market entry level barriers.

3.3. Results

The first scientific question of this research has been the level of general knowledge of the “born globals” companies in Czech Republic. Even though the term “born globals” has been in use since 1990s, 90% of the respondents in group A are not familiar with the term and only 10% responded that they have already encountered the “born globals” term. The numbers in group B have been more optimistic. 32% of respondents from group B (40 out of 120) said that they were familiar with the term, the rest (68%) has given negative answer.

The definition of the “born globals” term has been provided to the respondents right after the first question. The definition provided is identical to the one established for the purposes of this article, i.e. *“The term ‘born globals’ or in other words ‘born for globalization’ is descriptive term for companies which expand to foreign market, where they sell their services and products, within three years after being founded and the income from the foreign market represents at least 25% of their total income”*.

After the term has been explained, 20% of the respondents in group A have been able to identify “born global” company. The same applied to 44% of respondents in group B.

For illustration, positive answers have been visualized in the following Figure 1: General knowledge of the “born globals” term. Answers to the first question of the questionnaire is marked as 1, the answers to the second question, which has been answered after the explanation of the “born globals” term is marked as 2. The horizontal axis presents 100% and the data clearly shows that the term “born globals” remained unknown for more than half of the respondents.

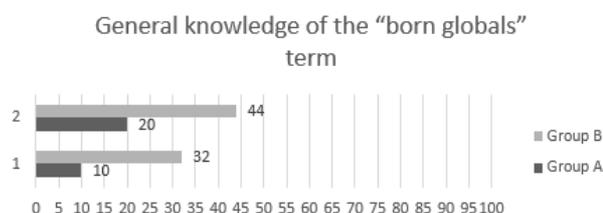


Fig. 1. General knowledge of the “born globals” term (Source: own work)

Due to the growing globalization trend becomes the “born globals” way more and more popular form of company and is being used all over the world. For example the Austrian Chamber of Commerce issues yearly championships focusing on the “born globals” companies and about 70 companies participate every year (WKO 2015). The question remains: why is not this type of enterprise more popular in Czech Republic, are there any foreign market entry barriers that prevent the companies from benefiting from this trend? For this reason, the questionnaire research appealed to both the respondent groups to identify the barriers from the point of view of both experienced exporting companies and inexperienced students. The goal was to find out if the barriers are perceived in the same way and if the barriers identified by students are indeed relevant and not just imaginary and putting the future entrepreneurs off the foreign market entry. Last, but not least

goal was to propose solutions to eliminate the identified barriers.

The respondents have been asked to identify the biggest foreign market entry barriers and have been presented with 5 different answers, including the "other" option. It was possible to choose more than one answer.

Group A (students) has inclined to hypothetical barriers rather than to the real ones. 55.1% of the respondents have chosen the lack of experience and information as the biggest barrier. 20.8% have voted for high market entry costs, 17.4% identified the lack of language and local environment knowledge, 12.1% think that the barriers are also created by Czech government and only 2% have chosen the option "other" without further comment.

Nevertheless 54% of respondents from group B (firms) have said that the biggest barrier are high market entry costs, 21% identified barriers created by Czech government, such as political situation, legislation changes, CNB interventions etc., as their biggest worry. 17% of the respondents have answered "other" with the supplementary information about inability to find experienced staff and representatives in the new country.

The results from both groups are represented in Figure 2: Barriers to enter foreign market.

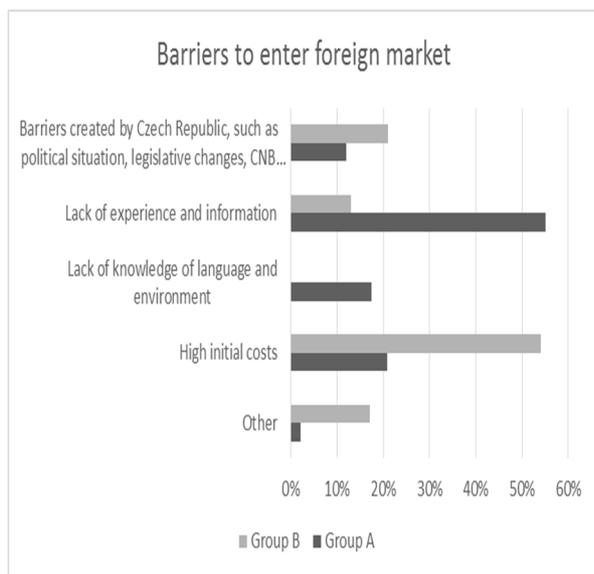


Fig. 2. Barriers to enter foreign market (Source: own work)

The results presented by Toulová *et al.* (2015), where 40.9% of the companies identified lack of language knowledge and lack of knowledge of the local environment as the biggest barrier, are more similar to the answers given by the students rather than to the answers given by the exporting companies.

The following question in the questionnaire has examined the perception of the barriers and ways of their reduction or complete elimination. Czech government has defined few ways of supporting the companies within the pro-export oriented strategy. The questionnaire responses show that there is lack of knowledge about the available possibilities.

Even though the companies in group B have taken part in the export supporting subsidy project, there is the lack of knowledge of governmental subsidy programmes provided by Czech government. 79% of the respondents in group B stated that they are familiar with the programmes offered by CzechInvest and 63% stated that they are familiar with programmes offered by CzechTrade agency.

The knowledge level in group A has been rather similar. About half of the students are familiar with the CzechInvest and CzechTrade programmes. There has been no correct answer to the question "What is the official name of the entrepreneurship and export portal?".

Table 1 contains complete list of all the possible answers to the question "Which support programmes offered by the government of Czech

Table 1. Which support programmes offered by the government of Czech Republic in order to support the exporting activities of Czech companies are you familiar with? (Source: own work)

Which support programmes offered by the government of Czech republic in order to support the exporting activities of Czech companies are you familiar with?	Group A	Group B
Programmes offered by CzechInvest agency	53%	79%
Programmes offered by CzechTrade agency	55%	63%
Points of Single Contact (PSC)	0%	4%
SOLVIT centres	0%	0%
Product Contact Points (ProCoP)	0%	0%
One Stop Shop for exporters	0%	0%
Green export line	3%	0%
The Czech Export Bank (CEB)	28%	21%
The Export Guarantee and Insurance Company (EGAP)	14%	17%
60 MIT centres situated abroad I can get in touch with	7%	17%
I am aware of the existence of the web portal for exporters which is available free of charge	0%	0%
I am familiar with the three pillars of Czech pro-export policies and twelve basic programmes	0%	0%
Other	7%	4%

Republic in order to support the exporting activities of Czech companies are you familiar with?" and the amount of answers given by both groups. It was possible to select more than one answer.

4. Conclusions and discussion

This scientific article focused on the analysis of the "born globals" phenomenon in Czech Republic. The first part contained structured overview of scientific papers, which focus on the "born globals" topic. The definition of the term "born globals" has been extrapolated from these papers and the term has been put into the Czech context.

In order to succeed in the ever growing international competition are the companies more and more dependent on their knowledge potential and innovativity. Studies show, that there are strong relations between innovations and internationalization, which have positive effect on the competitiveness of the companies (Ec.Europa 2015).

Due to the fact that innovativity, high level of specialization, rapidly growing added value, quick expansion to foreign markets and quickly achieved turnover in foreign markets are all typical attributes of "born globals" type of companies, is this trend very important for the future of the open economy in Czech republic and therefore it is supported by the Czech pro-export strategy for years 2012–2020.

The "born globals" companies are often considered to be the phenomenon of the modern age. The empirical research performed for the purpose of this study analysed the perception of this phenomenon by students of university of economy, who present the potential future entrepreneurs, and by already exporting small and medium-sized exporting companies. The general knowledge of the term "born globals" has been rather disappointing. Only about 10% of the students and 32% of the representatives of the exporting companies are familiar with the term. There has been an increase in the positive answers after being presented with the definition of the term, but in neither of the groups had the success rate been more than 50%. The conclusion drawn from this data is that the general knowledge of the "born globals" companies in Czech Republic is very low.

Both the groups have also identified the foreign market entry barriers, i.e. barriers preventing the company from further development in the international environment. The answers provided by the students have been significantly different to the answers provided by the companies. The students have identified the lack of experience and lack of knowledge of the local environment to be the most significant barriers, while the companies have

pointed out the high market entry costs and barriers created by Czech Republic itself, such as political situation, legislation changes and CNB interventions. It is then safe to say that the barriers identified by the students as the most important differ from the barriers experienced by the exporting companies. This study has also aimed to propose a way of eliminating the barriers and the respondents have answered questions about what kind of support would they like to receive. The results have been rather surprising: the required support is already available in Czech Republic, but the potential users are not aware of it. From all the offered options, most of the respondents were only familiar with CzechInvest and CzechTrade, which are offering subsidy programmes supported by commercial subsidy agencies. The proposed way of eliminating the market entry barriers is closely linked to the medialisation of the export supporting programmes in Czech Republic.

This study also aims to aid the managers to understanding the current modern trends, identifying the foreign market entry barriers while starting "born globals" companies and to support the process of internationalization and innovation in business.

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