

Networking Capability And 'Born Global' Exporters

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Abstract

This paper broadens the boundaries of international marketing, working at the interface of marketing and international business addressing the role of networking capability in the 'born global' firm. A special breed of small firms, 'born globals' are operationally defined as exporting within the first three years and deriving at least 25 percent of the sales income from exporting. Drawing on six exemplar case studies this research identifies the role of fundamental and secondary networking capabilities, how networking capability enables identification and exploitation of market opportunities, facilitates the development of knowledge intensive products and firm international market performance. Implications of findings and future research direction are discussed.

Key Words: networking, capabilities, exporters, born global

Background to Research and Literature Review

The role of small firms within the economy is well documented (DFAT, 2001; ABS, 2001). Small firms are also increasingly active in international markets (Erramilli & D'Souza, 1993; Haahti, Hall & Donckels, 1998; Coviello & Martin, 1999) with estimates (DFAT, 2001) of a 30 percent contribution to total Asia-Pacific Economic Cooperation exports of US\$3.1 trillion. However, a considerable number of small businesses fail at their infancy or within a few years of inception (Watson & Everett, 1996; Ladzani & van Vuuren, 2002). Literature has attributed this to 'resource poverty' (Welsh & White, 1981), lack of financial capital (Boer, 1992) or management skills (Martin & Staines, 1994). Recently, a special breed of small firms, termed 'born globals' (McKinsey/AMC, 1993), has drawn attention, rapidly internationalising and overcoming the adversity of resource poverty. These firms enter the global market, sometimes bypassing the domestic market, exporting highly innovative and cutting edge products (McKinsey & AMC, 1993). 'Born globals' are exemplar small firms that challenge the conventional theories of incremental or gradual internationalisation and the belief that the strategic options of small firms are constrained by resource poverty. Australian research on small firm internationalisation is limited with inadequate follow up on the McKinsey (1993) study. A recent review of a decade of 'born global' firm internationalisation (Rialp-Criado, Rialp-Criado & Knight, 2002) observes that the literature remains fragmented with a comprehensive theoretical explanation and causal models of the phenomenon still lacking (Knight et al., 1996; Oviatt & McDougall, 1997; Servais & Rasmussen, 2000). Overall there is a need for a unified framework that can facilitate future research. In particular, little is known about 'born global' firm marketing strategies and processes for understanding global market needs and developing new products. Developing a unified framework goes beyond the limits of this study. Here we concentrate on the role of networking in the rapid internationalisation market performance of 'born global' firms. How 'born global' firms overcome their resource poverty related constraints has important implications for broadening the boundaries

of international marketing and international business, developing theories of internationalisation and international market performance and is the focus of this research. Therefore, the research problem guiding this study is: *What is the role of networking capability in the internationalisation processes of 'born globals'?*

For this study, Beamish's (1990: 77) definition of internationalisation is adopted: 'the process by which firms both increase their awareness of the direct and indirect influence of international transactions on their future and establish and conduct transactions with other countries.' This definition is most useful as it provides one holistic interpretation (Coviello & McAuley, 1999), integrating learning with investment, and recognising both behavioural and economic components (Coviello & McAuley, 1999). There is a lack of a relevant theory on small firm internationalisation. The extant internationalisation theories (Coviello and McAuley, 1999) tend to rely on large multinational firms as the unit of analysis. The extant literature exists of two broad streams - the economic school and the behavioural school (Benito & Welch, 1994), subsuming the network approaches (Johanson & Mattsson, 1988; Sharma, 1992). The network theory of internationalisation emphasises the impact of business relationships upon the growth and internationalisation of firms (Johanson et al., 1988; Johanson & Vahlne, 1990, 1992). This draws upon the theories of social exchange and stresses the interdependencies of firms rather a firm specific advantage (Coviello & McAuley, 1999). The role of the marketing manager's social capital in a firm's global network has been discussed (Griffith and Harvery, 2004). There has also recently been some advance in understanding at the broad level of 'born global' internationalisation and organisational capability (Knight and Cavusgil, 2004). However there has been little specific attention to the role of networking capability. The literature on networks and their role in strategy has grown in volume, with the majority of the literature emphasising the value of networks as a resource. The literature has failed to conceptualise networking activity as an organisational capability. Past research has also failed to examine networking activity in a unifying framework incorporating antecedent factors and performance outcomes.

There is evidence to suggest that networks are important for born global firms because of their resource constraints (Coviello & Murno, 1995, 1997). However, the role of the decision maker and the firm's characteristics in taking up opportunities for international penetration, extension, integration and operations remain unclear (Chetty & Holm, 2000). Networks have been argued to contribute to the success of born global firms by helping to identify new market opportunities and contribute to building market knowledge (Coviello et al., 1995; Chetty et al., 2000; Madsen et al.; 1997). Other themes have also been explored. For example Ritter and Gemünden (2003) sought to examine the characteristics of the company and its association with network competence and Jaklic (1998) and Chetty et al. (2000) examined and categorised born global firms' position in a network. Studies by Ritter et al. (2003) and Chetty et al. (2003) investigated the development of knowledge intensive products through networks. Others (Rasmussen, Madsen and Evangelista, 2001; Andersson et al., 2003) examined the role of entrepreneur in the developing network relationship. The tentative conceptual model guiding the research leads to four research questions.

RQ 1: *What is the specific role of born global firm owner/managers in the development of networking capability in the born global firm?* **RQ 2:** *How does the networking capability enable the born global firm to identify and exploit market opportunities and rapidly internationalise?* **RQ 3:** *How does networking capability facilitate the development of knowledge intensive products?* **RQ 4:** *How does networking capability facilitate firm international market performance?*

Method

The need to examine generative mechanisms and processes of networking capability justifies the use of case study method (Eisenhardt, 1989; Yin, 1994). Multiple case research design is adopted, a more robust design than a single case study (Yin, 1994). In-depth interviews were conducted and documentary evidence collected jointly by two researchers supporting triangulation (Jick, 1979). Eisenhardt (1989) and Yin (1994) emphasise the importance of having case study research process grounded in the theoretical literature. Collection of data was guided by a tentative conceptual model and research questions, and a case study protocol was used to guide the data collection process in order to enhance the reliability of the research (Yin, 1994). The sampling strategy follows literal replication technique and theoretical replication logic as suggested by Yin (1989). The key principle underlying the selection of cases was relevance rather than representativeness (Stake, 1994; Perry, 2001). Consistent with the four to ten cases suggested by Eisenhardt (1989), six exemplar 'born global' firms were selected for study. The operational definition of 'born global' was the firm (a) had started exporting within the first three years of operation, and (b) had at least 25 percent of sales income derived from exporting (Knight & Cavusgil, 1996). The analysis used processes adapted from Creswell (2003) and Yin (1994), with the matrix technique used to promote pattern matching and effective categorisation of data (Miles & Huberman, 1994).

Findings

RQ1: *What is the specific role of born global firm owner/managers in the development of networking capability in the born global firm?* The analysis suggests that networking capability of the sampled firms has evolved over a long period of time and the process has been path dependent. The path dependence can be explained using the distinction between fundamental and secondary networks. The fundamental networks are those which were inherited by the firm at the time of inception and helped the born global owner/managers to identify and exploit initial global market opportunities. The founder of BINT, exporting dairy-based mixtures to Japan, started developing networks when he was the export manager in a leading Victorian dairy cooperative. The COO of CM (machine vision systems and software applications) identifies: *we were fortunate, with CM, we already had established relationships with Volvo and a number of the other car companies and so on. So we hit the ground running.* The CEO of ASCA, providing industrial air-conditioning and refrigeration solutions, developed his networks through his employment in the industry in Denmark. Secondary networks are those which the owner/managers built in its growth process in efforts to exploit market opportunities and respond to market competition. Secondary network development reflects clear-cut path dependent process. The networks ASCA developed after entering the market are driven by the competitive pressures which have forced them to pursue non-price competition. The

CEO states it is critical to keep developing technical networks: *I present papers at international technical seminars and conferences ... you get inquiries...*

RQ 2: *How does the networking capability enable the born global firm to identify and exploit market opportunities and rapidly internationalise?* Networking capability has a substantial relationship to market opportunity exploitation. CM's COO identified the finding and developing of the initial distributor in a targeted market: *One of the early distributors that we partnered with in the US was actually a couple of ex-Austrade consultants (we already knew) who set up their own technology distribution company in the United States. They were based in Detroit, of course Detroit is a hot bed of motor activity and so from that, you know, existing relationship we were able to expand into a distribution relationship.* The networks developed during prior employment, particularly the international market exposure gained whilst holding senior management positions, enable identification of global market opportunities. For example, the international exposure gained by the founder of BINT enabled him to identify a latent and viable market opportunity for processed dairy food in the Japanese market. In a slightly different manner, the CEO of DFOX from the very beginning identified network members allowing internationalisation. *Well, the man is somebody I go into business with, I'm going to sell my products to you if you are the man. I want you to market in your area because you know best how to do that. I don't know how to do that. I will supply you and back you that you will protect my product because you have the exclusivity to our product.* The critical importance of "the man" was evident when the company secured several high value contracts with the US National Guard, Navy, and Air Force which are some of the company's biggest customers in the US. The network relationship has also enabled the company to secure a multi-million dollar contracts with New York hospitals.

RQ 3: *How does networking capability facilitate the development of knowledge intensive products?* All the cases support the view that the knowledge gained through the networks is a prerequisite for the development of cutting edge, knowledge intensive products. Firstly, networks enable the founder to acquire technological knowledge to develop knowledge intensive products. The role of networks in the technological knowledge acquisition was discussed earlier. Secondly, networks enable the firm to generate ideas for product development and improve customer service. Based on the knowledge gathered from the European market, the CEO of ASCA observed the emerging strong worldwide concern against the use of synthetic refrigerants in air-conditioning and refrigeration systems: *Staying very close to the market is very important to us. The moment I sit in this office stay in this office all the time I don't get any new ideas, I don't see what's happening. I don't see the problems out there.* Similarly CPAK, which develops electric fence energisers and accessories, see the importance of frequently meeting with farm owners for product performance feedback: *Recently with our distributor we visited several farms and saw first hand the problems that the farmers were having - whether they were problems or issues with our products or with their use of our products. Either way we gain an understanding of the sorts of issues people are having with our products. So that can lead to ideas for us on how we can develop our products, change our products, modify our product.. to make it more user-friendly or to make it better in performance.*

RQ 4: *How does networking capability facilitate firm international market performance?* All the cases suggest that the absence of networks has hindered their subsequent market expansion efforts. Although BINT sees greater market potential in the fast growing China market they will not pursue these opportunities until they build proper networks in China: *In China we have much less networking ability right now but we will need to develop that there and we are in the middle of doing that to establish who we could work with in terms of partnership. In that case it would be a joint venture. But I guess we can't do it with our size. We certainly cannot do it without an alliances or a network.* Although network relationships have enabled the sampled firms to rapidly internationalise they find that the existing network can sometimes hinder subsequent market expansion efforts. This is particularly the case for BINT, which heavily depends on a large industrial buyer in the Japanese market. *... I guess the network itself is a unique one. It would be very hard for the competitors to duplicate ..but it is also limiting. I suppose to get a greater reach, the network ..become more generic. I don't know that is right or not yet. The ideal case would be if the Mitsubishi, BINT, Murray Goulburn network could... reach the whole market. That would be the ideal case. I haven't fully thought this through. Maybe the network limits the company.* CM's COO emphasised the continuing importance of networking in international market performance. *If you asked me could we do anything better in our business - I think even though we do have great relationships and good networks we probably don't work them as hard as we could ... the first thing we have to do is to make sure that at least once a quarter we get at least one or all of our senior staff on the road meeting with partners and customers, attending events.*

Conclusions and Future Research Directions

The overall research problem which guided this study was: *What is the role of networking capability in the rapid internationalisation processes of 'born globals'?* Networking capability can be seen as the ability to communicate, learn and translate information into knowledge for profitable use, so as to gain and sustain competitive advantage (Pihkala, Varamaki & Vesalainen, 1999). The findings of the study suggest that the networking capability plays a central role in the rapid internationalisation of born global firms, in developing knowledge intensive products and in international market performance. The findings suggest that the evolution of networking capability is path dependent conforming to the dynamic capability view of competitive strategy. The findings also suggest that the networking capability is built and nurtured by entrepreneurial owner/managers through fundamental and secondary networks. Future research should focus on the linkages in fundamental and secondary networks and the effect of network rigidity on market performance. Overall the findings of the study contribute to international marketing theory and practice and by identifying the importance of networking capabilities in small 'born global' firms have important future research implications at the boundary of international marketing and international business.

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