

**International Marketing Strategy of SMEs:
A Comparison of Born-global vs Non Born-global Firms in Australia**

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Summary

Extant literature on international marketing and international business largely focus on exporting firms and large established multinational firms. In another discipline – entrepreneurship, there is a good coverage of *different* aspects of new ventures in the literature, such as global start-up, organizational and entrepreneurial characteristics. The emergence of small, high value-added exporters is not unique to the Australian economy, nor are they confined to few industries. Size of the organisation is becoming less and less important in the globalisation phenomenon in today's digital economy.

The emergence of these born-global firms has challenged the traditional internationalization theory and arisen many questions. For example, how do they go about the internationalisation process? What are their firm's characteristics? And do these characteristics differentiate the born-global SMEs from their counterparts? This paper attempts to elicit the differences between the born-global and non born-global firms in terms of their international marketing strategy.

This paper examines the differences between the born-global and non born-global SMEs in Australia. Mail survey was used to collect data from SMEs involved in international activities. The findings reveal that the born-global firms are different from their counterparts in terms of their international promotional and distribution strategies and managerial commitment. However, there is no difference found between born-global and non born-global firms in terms of differential advantages of product and costs. Managerial implications are also presented.

INTRODUCTION

Today's environment is going through revolutionary changes as never before. Globalisation is evident in every sector of the societal environment from education to healthcare to book-selling industry, due to increasing availability of global capital and advances in transportation and information technology. The importance of the contribution of small and medium sized enterprises (SMEs) to a nation's economy is undeniable, and it has become much more significant as more SMEs start involving in global activities and do their part in improving the balance of payments of a country. As the borderless world becomes smaller and smaller, all firms have to think globally.

A significant proportion of SMEs has taken on a fast track in internationalisation. A study on Internationalised SMEs (ISMES) in Australia [1] found that about 4500 ISMEs are generating about \$6.5 billion Australian dollars a year in international turnover. Out of these 4500 ISMEs, 500 could be considered fully global in that they have extensive international activities in at least two major global regions [1, p. 9]. It was reported that about 80% of the recent breed of emerging exporters in Australia are SMEs and 20-25% of them internationalise at a very early age [2]. The emergence of small, high value-added exporters is not unique to the Australian economy, nor are they confined to few industries [3]. Size of the organisation is becoming less and less important in the globalisation phenomenon in today's digital economy [4].

There is a dearth of literature on the born-global phenomenon in international business and international marketing, even though this phenomenon has been in existence since the 17th century. Extant literature on in these disciplines largely focus on exporting firms and large established multinational firms. In another discipline – entrepreneurship, there is a good coverage of *different* aspects of new ventures in the literature, such as global start-ups, organizational and entrepreneurial characteristics [5]. However, there is still a gap in integrating the international aspects into the new ventures and this is evident from a call for papers on born-global companies in Journal of International Marketing.

The emergence of these born-global firms has challenged the traditional internationalization theory [3] and many questions have remained unanswered. For example, how do they go about the internationalisation process?

What are their firm's characteristics? And do these characteristics differentiate the born-global from their counterparts? This paper attempts to elicit the differences between the born-global and non born-global firms in terms of their international marketing strategy.

LITERATURE REVIEW

Internationalisation

A firm's decision to go international represents a strategic decision because it reflects a major change in the scope and the character of its product-market and organisation-environment relationships [6]. The term internationalisation is defined as '*the process of increasing involvement in international operations*' [7, p. 36]. Calof [8, p. 116] defined internationalisation as '*the process of adapting firms' operations (strategy, structure, resources, etc.) to international environments.*' The latter definition is very strategic in nature as it brings in environment into perspective. Most of the literature in international marketing concentrates on exporting as the main form of internationalisation. According to Farhung [9, p. 178], all research that deals with the firm's decision to go abroad, its choice of country/product markets, selection of entry modes, and finally substitution of methods of operation within the markets, would be of relevance to the topic of internationalisation.

Empirical researchers have in the past found that large, mature multinational enterprises (MNEs) and small exporters go through distinct stages in the development of their international business. They begin perhaps with an unsolicited order, process sometimes through exporting, sometimes through joint venture(s) and occasionally advance to the establishment of a wholly owned globally integrated enterprise category [10, 11]. This staged development of firm internationalisation is described as an incremental, risk averse and reluctant adjustment to changes in a firm or its environment [12, 13].

According to the stage theory proponents such as Johanson and Vahlne [12], the gradual nature of the firm's internationalisation process is attributed mainly due to lack of market information in international operations and lack of experiential knowledge by the firm. Consequently, there is an uncertainty associated with the incremental marketing which is reduced through the increase in interaction and integration with the market environment – steps such as increases in communication with customers, establishment of new service activities. Therefore, the existence

of uncertainty, which is inversely related with availability of information and experiential knowledge about foreign operations, could be an important determinant of incremental international decisions.

International from inception, some small firms break the traditional expectations [5, 14] that a business must enter the international market in an incremental fashion, becoming global only as it grows wiser, as proposed by the conventional stage theory proponents such as Johanson and Vahlne [12, 13]. Cavusgil [3] also explains that small enterprises can quickly internationalise because of several reasons such as development of niche markets, changes in process technology, advances in communication technology, and inherent advantages of small enterprises such as quicker time and flexibility. In the contemporary business world, today's realities call for leapfrogging and rapid internationalisation because the means of internationalisation such as knowledge, tools, and facilitating institutions have all become readily accessible to all firms.

Born-global firms

Global thinking is not an option any more as it used to be [15]. Some firms internationalise their operations from as early as two years of age [2]. These firms are called by different terms such as born international [16], global start-ups [17], international new ventures [5, 18], infant multinationals [19], innate exporters [20], born-global [2] and global start-up [21]. These firms follow a fast track internationalisation process [22]. These trailblazing corporations have their foot on the global accelerator, and they try to break the national boundaries and turn them to their advantage [23]. The number of small and medium sized enterprises becoming mini transnational corporations is increasing and account for two-thirds of the total mini transnationals [24]. The OECD's [25] report also supports this view.

As long as the debate on globalisation and internationalisation continues, there will hardly be any consensus on the definition of a born-global firm. A born-global firm is defined by McKinsey & Co. [2, p. 9] as '*one which views the world as their marketplace from the outset; they do not see foreign markets as useful adjuncts to the domestic market*'. This definition is mainly based on the attitude of management and is difficult to operationalise.

For the purpose of this study, we have built in two different aspects, speed of entry and performance of the firm into the definition of born-global firms. Hence, born-global firms are defined as *firms which internationalise their operations within the first three years of their first commercial sale and which derive at least 10% of the total sales from their international activities*. In the McKinsey's Report [2], it was found that the average age of the born-global firms was two years when they commenced international activities. However, the sample included in their study were large and medium firms more than small ones. As SMEs usually take relatively longer period to internationalise, a three-year period is considered to be appropriate.

The rise of the born-global firms has imposed many challenges to traditional theories of internationalisation processes. Existing theories in international business, proposed in different times, explain the process of internationalisation differently. These theories include product cycle theory [26], oligopolistic theory [27], monopolistic advantage theory [28], internalisation theory [29], Uppsala school's stage theory [12], eclectic paradigm [30] and the network theory [31]. All these theories seem to be based on the assumption that firms become international long after they have been formed, and therefore, they relate to large, mature firms rather than to SMEs which can go international almost from inception [5]. No single theory adequately explains the born-global phenomenon.

Firm Characteristics

One of the main themes in conducting research in the area of international business has been the search for a firm's competitive advantage in international markets. A myriad of factors associated with these competitive advantages have been identified over the past three decades, including international marketing strategy, firm's resources, entry modes, key decision-maker's characteristics [32-35].

Specifically, key assets and skills of a firm constitute its sources of sustainable competitive advantage [36]. Researchers have identified firm-specific factors such as:

- *differential firm advantages* [10, 32, 37-42],

- *resource allocations* [43],
- *management of export operations* [39, 41, 44-46],
- *excess production capacity* [40, 46, 47],
- *firm size* [37, 48-50],
- *history and previous extra-regional expansion* [51],
- *multiculturalism* [21];
- *strategic alliances* [52];
- *technological sophistication/intensity* [19, 53],
- *customer orientation* [32],
- *market research information* [54].

Several studies have explored the determinants of international business performance for new ventures. The success of international new ventures seems to depend on a number of factors. They cover:

- the possession of a unique product developed through the application of technology and product design [2]
- the possession of international vision from inception, an innovative product or service marketed through a strong network, a tightly managed organisation focused on international sales growth [55],
- significant commitment of resources [55], strategic alliances [5, 56], and
- an internationally experienced management team [57].

In the case of born-global SMEs, the firm characteristics that may have more influence on the internationalisation process are their unique advantages [3] in terms of their product(s), technology used, composition of their management team (multiculturalism, knowledge base), customer orientation.

Having discussed the differential advantages of the firm, it is important to have an appropriate marketing strategy to capitalise on these advantages [33]. According to Thorelli [33], '*marketing strategy is the approach, or the stance, that the firm adopts in order to cope in the market structure*'. Marketing strategy involves all aspects of the conventional marketing plan, including product, promotion, pricing and distribution [32].

For SMEs, management characteristics is another important factor that determine the strategy and business performance in general [58], and international business performance in particular. Therefore, it is also included in this study.

For this preliminary analysis, the international marketing strategy, geographical location and management characteristics in terms of commitment and networking ability are considered. Collectively, we consider three aspects as key dimensions under firm characteristics. Specifically, under international marketing strategy, the four Ps of marketing are considered in line with Cavusgil and Zou [32]. Management commitment in terms of resources and time and networking are also considered in addition to the geographical location of the business.

RESEARCH HYPOTHESES

Studies on international new ventures [5, 17, 18, 59, 60] and born-global firms [61] have identified that product is often unique and technologically sophisticated and that in fact, quickens the process of internationalisation in addition to other factors [e.g. 32]. Therefore, we have the first hypothesis:

H1 There is a significant difference in the product differential advantage between the born-global and non born-global firms.

In international business literature, most firms are reported to have gone for international activities because of economies of scale. This may be true for large organisations. For most SMEs, however, it may be expected that born-global may go for the differentiation strategy instead of cost leadership strategy. Cost advantage may not be a significant factor differentiating the born-global firms from their counterparts. Hence we have the following hypothesis:

H2 There is no significant difference in pricing strategy between the born-global and non born-global firms.

If a firm's product differential advantage is a necessary condition for going international, its promotional and distribution strategies may be the catalyst for its international involvement. These strategies could distinguish the born-global from their counterparts. If born-global firms can manage to operate in international markets whilst they

are very young in age and small in size, then it is very likely that they have better promotion and distribution methods to reach out to their customers. Thus, the following two hypotheses are proposed:

H3 The promotional strategy of born-global firms are different from the non born-global firms.

H4 Born-global have more distribution channels than the non born-global firms.

In terms of commitment, born-global firms may have to be more committed than their counterparts as they commence their internationalisation in a much quicker manner than their counterparts. In non born-global firms (traditional type of exporters), international business may only be a part of the whole business as against the born-global firms for whom it is a major activity. Allocation and commitment of financial resources may be higher in the case of born-global firms. Therefore, we propose:

H5 Born-global firms commit more financial resources in international activities than the non born-global firms.

H6 Management of born-global firms spends more time in international activities than that of the non born-global firms.

As stated by [31], networking is very important for internationalisation. For born-global firms, it may be more important than the non born-global firms as they do not have the necessary experiential knowledge and market information as advocated by stages theory proponents [12]. They may have to use their networking ability to capitalise on the differential advantages of the firm.

H7 Born-global firms are involved in networking in greater degree than the non born-global firms.

Location has been covered in greater detail with regard to cost minimisation and quicker delivery of service. However, in the international marketing and business literature, it is only discussed with reference to the foreign production strategy. Location advantage was considered by Cavusgil and Zou [62] as a firm characteristic in export marketing literature relating to small businesses. Because both types of the firms in this study are exporting, we propose:

H8 There is no difference in location advantage between the born-global and the non born-global firms.

RESEARCH METHOD

A questionnaire was developed based on previous research that had examined the internationalisation process and factors that influence international business performance. As part of a larger study, 17 questions were included in the questionnaire regarding a firm's marketing strategies and managerial characteristics. These questions were developed based on previous studies [32, 63]. Broadly, these questions cover three areas: marketing strategy (four Ps), managerial characteristics (commitment and networking), and the firm's physical location.

The respondents were chosen from a database purchased from Dun and Bradstreet. The following three criteria were used to choose the sample (1) the number of employees were less than 200; (2) a firm was established in 1990 or after, and (3) a firm involved in international activities excluding importing and trading. A search of the database found 1,280 such firms and the entire sample was used for the survey.

The questionnaire was pre-tested among five academic staff members who are working in the area of international business. As a result of the pre-test, some minor changes were made to the questionnaire. The revised questionnaire was then mailed to all the firms in the sample. A total of 154 questionnaires were returned because of incorrect address or the person addressed has left the business. A total of 141 questionnaires have been returned, resulting in 117 useable ones. A follow-up telephone call is under way. The response rate was 12.5 per cent, which is typical in studying SMEs.

The profile of the respondents is shown in Table 1. It can be seen from the Table 1 that more than 90% of the respondents were CEOs or managing directors (MD) or owner/managers and a majority of the respondents (64.1%) have completed tertiary education. About 78 per cent of the subjects are aged more than 40 years.

Table 1 The Profile of the Respondents

Position	%	Education	%	Age (Years)	%
CEO/MD/Owner-Manager	90.3	University degree	64.1	25-30	1.7
Functional manager	9.7	TAFE/Diploma	17.5	31-40	20.0
		Trade person	8.8	41-50	48.7
		Secondary education	9.6	51-60	24.3
				60+	5.2

With regard to the type of market targeted, a half of the respondents indicated their customers were from the industrial market, nearly one third (30.5%) of the firms stated that they targeted at consumer market. About one fifth (19.5%) of the firms reported that they focused on other markets, such as government. In addition, 63.4 per cent of the firms are from manufacturing sector, and the remaining from services industries. Based on our definition of born global, 67 percent of the responded firms can be regarded as born-global.

FINDINGS AND DISCUSSION

Do born-global firms differ from non born-global firms in marketing strategy, managerial characteristics, and geographic location? To compare and contrast the born-global firms with the non born-global in the 17 items measuring their marketing strategies, a MANOVA analysis was conducted to control the problem of inflating type I error [64]. The result of the MANOVA analysis, with their means and standard deviations, is presented in Table 2.

Does marketing strategy differ between born-global and non born-global firms?

Differential product advantage. The marketing strategies include product, price, promotion, and place. They are represented by the first 10 variables in Table 2. The product dimension is measured by first six variables. The MANOVA results show that there is no statistically significant differences between born-global and non born-global firms. Therefore, the hypothesis 1 relating to product differential advantage is not supported.

Table 2 Comparison of Firm Characteristics of Born-global vs Non Born-global Firms

Marketing strategy, management characteristics, and location	Born-global		Non born-global		p-value
	Mean	SD	Mean	SD	
Your product(s) is/are unique	3.79	1.22	3.71	1.23	ns
The protection of your proprietary technology/product is high	3.01	1.46	3.23	1.44	ns
The customization of your products is high	3.89	1.13	4.03	1.12	ns
Your product(s) is/are technologically sophisticated	3.74	1.20	3.47	1.28	ns
Perceived quality of your product(s) is high	4.50	0.61	4.60	0.55	ns
Your firm introduces new products very frequently	3.23	1.15	3.06	1.33	ns
The price of your product(s) is very competitive	3.88	0.99	4.00	1.00	ns
Your product has advantages of low cost	2.83	1.34	2.63	1.40	ns
Your emphasis on uniqueness of promotion strategy is very high	3.75	1.00	3.11	1.21	0.003
Your firm focuses on more than one distribution channel (including direct selling)	3.74	1.24	2.80	1.30	0.000
Your commitment of financial resources to international activities is very high	3.17	1.36	2.63	1.42	0.036
Management in your firm spends a lot of time on international activities	3.51	1.32	2.26	1.09	0.000
Your service and support for your customers are of higher standard	4.25	0.84	4.49	0.66	ns
The physical location of your firm is more advantageous than your competitors	2.52	1.35	2.63	1.33	ns
Your firm has strong links with other similar firms overseas	2.66	1.34	2.14	1.09	0.032
Your firm has strong links with your customers	4.14	0.83	4.23	0.77	ns
Your firm has strong links with your suppliers	3.90	1.07	3.85	1.02	ns

Note: a) Hotelling's $T^2 = 0.651$ $F=3.254$ $p = 0.000$

b) All items were measured on 5-point Likert scale with 1 being Strongly Disagree and 5 being Strongly Agree.

At first sight, this may be unexpected and controversial as previous studies have found a positive relationship between sales and product strengths [65]. However, it is worthwhile noting that product characteristics have been compared in this paper only between born-global and non-born global firms who are already operating

internationally. The only difference between them, by definition, lies in their ability to achieve a significant amount of international sales within a short time frame. In addition, both the born global and non born-global firms have a high mean on all the six items on product differential advantage and this explains that firms should have high product differential advantage when they operate in international business environment. It can be expected that difference in product characteristics is more likely to exist between exporting and non-exporting firms.

Price/cost advantage. The next two items (7 & 8) in the Table 2 measure the price dimension in a firm's marketing mix. Both of them are not significant between the born-global and non born-global firms. This finding is consistent with previous ones. Low cost strategy has been found to be weakly associated with international sales. Thus, the finding supports the hypothesis that there is no significant difference between the born-global and non born-global SMEs in terms of the price/cost advantage.

Promotion and distribution strategies. These two aspects in a firm's marketing strategy are represented by variables 9 & 10 in the Table 2. It is interesting to find that both variables are statistically significant at 0.05 level. Hence, both hypotheses 5 and 6 relating the promotion and distribution strategies are supported.

Promotion can strongly influence sales and has been repeatedly reported to have a positive relationship with export sales. Nevertheless, the impact of distribution channels has been inclusive in previous studies, as summarised by [65]. However, we found that the width of distribution channel have contributed to distinguishing the born-global from non born-global firms. This finding provides a new credence to Cavusgil and Zou's study [32], which reported that distribution has the strongest influence on the performance.

Does management characteristics differentiate the BGs from the Non BGs?

The management characteristics were measured in this research by two dimensions: commitment and networking. The commitment of a firm to international business includes financial resources and time. As can be seen from the Table 2, both items are statistically significantly different between two groups of the firms, supporting hypotheses 5 and 6 on the commitment of financial and time resources in international activities. In fact, the

management time spent in international business is one of the most significant variables that separated the born-global from the non born-global firms.

With regard to a firm's degree of networking, including horizontal networking with other similar firms or vertically networking with suppliers and customers, it was found that the only significant difference exists in horizontal networking. The items relating to the firm's links with customers and suppliers scored very high (as can be seen from their mean scores) in both born-global and non born-global SMEs. This may probably be due to the limited resources that these SMEs have or because of the need for experiential knowledge about the local market(s). Hence, hypothesis 7 on networking is only partially supported.

Does the geographic location separate the born-global from non born-global firms?

From the data, it can be observed that there is no statistically significant difference between born-global firms and their counterpart. Therefore, hypothesis 8 is supported. As we have only included SMEs from various parts of Australia, the question of locational advantage does not seem to have any weight on the way firms decide on their international strategies and perform in international business. However, the results may change, if we had concentrated on industries where the comparative advantage of location and transport costs are more important.

CONCLUSIONS AND IMPLICATIONS

This paper focused on identifying the differences between born-global and non born-global SMEs in Australia. It can be concluded first that product and pricing strategies adopted by both born-global and non born-global SMEs seems to be not too significantly different. These can be attributed to fact that both born-global and non born-global in our sample are already in international business operations. It may also suggest that differential product advantages are necessary conditions for firms to go international, but the speed with which a firm internationalises its business may depend on other variables in its international marketing mix.

The second conclusion can be drawn from the findings of this paper is that it is the promotional and distribution strategies in a firm's marketing mix that distinguish the born-global firms from their counterpart. This

reinforces the view that even though both born-global and non born-global firms have similar products, the former has a better promotion and distribution strategy to reach out to the market. Collectively, both conclusions imply that product may be unique in both non born-global and born-global firms, but there must be something more that is needed for a firm to become a an international or global firm at or near inception.

Managerial commitment to international business, both financial and time, separates the born-global from the non born-global firms. This is the third conclusion from this paper. This confirms the view of [5] that the decision to internationalise is more strategic in nature for born-global firms. The implication here is that management needs to allocate more resources to its international business to increase its international sales.

Our hypothesis relating to the difference in networking between the born-global and non born-global is only partially supported. It is worthwhile noting that with all three variables measuring the networking, with customers, suppliers and similar firms overseas, statistically significant difference only exists in horizontal networking. Literature on entrepreneurship has emphasised the impact of management networking ability on a firm's performance, particularly for SMEs. This area needs more research effort in the future. Finally, it can be concluded that physical location does not distinguish the born-global firms from non born-global.

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