EXPLORATION OF BORN GLOBALS/ INTERNATIONAL NEW VENTURES: SOME EVIDENCE FROM THE AUSTRALIAN WINE INDUSTRY

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ABSTRACT: Over the past decade some researchers have criticized the 'stage' models of internationalisation for failing to explain adequately the early internationalisation of certain firms which have been referred to as born globals. However, other researchers have, in turn, identified a number of limitations in the born global studies and have argued that their findings do not refute the evolutionary stage models of internationalisation. This paper explores the phenomenon of born globalness within the Australian wine industry. The findings support the view that the development of born globals does not negate the validity of the stage theories of internationalisation.

1. INTRODUCTION

Since the 1970's, many researchers have examined the internationalisation process of firms in terms of export market development. Two similar schools of thought emerged in the literature to explain this internationalisation process; one is the "Uppsala internationalization model" (U-model) and the other is the "Innovation related internationalization model" (I-model). Both of these models view internationalisation as a sequential incremental process with a varying number of stages (Andersen, 1993).

In recent years, some researchers have criticized the stage models for being of limited value (Madsen and Servais, 1997). This criticism is centered on a number of recent studies that have identified the conventional internationalisation 'stage' theories as not adequately explaining the internationalisation process of certain firms – especially small firms in the high technology fields (McDougall and Oviatt, 1994; Bell, 1995; Knight and Cavusgil, 1996). However, other researchers have identified a number of limitations in the born global studies (Argyrous, 1993, 2000) and have highlighted the fact that the born global phenomenon does accord with evolutionary theories (Madsen and Servais, 1997).

At present, there is no single acceptable underlying theory of export behaviour. However, many researchers such as Johanson and Wiedershiem-Paul

(1975), Johanson and Vahlne (1977), Cavusgil (1980) and Czinkota (1982) have conceptualised the internationalisation of the firm as an incremental process, and that firms at a similar stage of development in their internationalisation exhibit similar characteristics in their export orientation. Other studies by Reid (1981) and the earlier work by Simmonds and Smith (1968), Lee and Brasch (1978) and Bilkey and Tesar (1977) relied on the application of Rogers (1962) theory of innovation diffusion to explain the export behaviour of firms. Several researchers empirically tested some of these models and found evidence that internationalisation is an incremental process (Rao and Nidu, 1992; Hakam, Lau and Kong, 1993; and Calof and Viviers, 1995).

The current study is designed to contribute to the literature in a number of ways. It reviews the empirical evidence reported in the literature, with an emphasis on Australian studies, and makes an empirical assessment to ascertain if the born global phenomenon extends to a successful regional industry primarily composed of small to medium sized enterprises (SMEs) – Australian wineries. An attempt is also made to gauge if the concept of born globals accords with evolutionary (stage) theories. The paper concludes by highlighting some of the limitations of the study and suggesting directions for future research.

2. OVERVIEW OF RESEARCH

Various terms have been used to describe firms that internationalize rapidly. These include: Global Start-ups, International New Ventures (Oviatt and McDougall, 1994) and Born Globals (AMC/McKinsey, 1993; Knight and Cavusgil, 1996 and Madsen and Servais, 1997). This study will adopt the latter term, 'born globals', as it is becoming prevalent in the literature. There is no consensus within the literature as to what constitutes a born global firm. According to Rennie (1993), beginning exports (on average) within two years of the firms establishment is considered born global. Knight and Cavusgil (1996) defined born globals as firms that reached foreign sales of at least twenty five percent within three years of establishment. However, starting international operations within six years of establishment seems to be emerging as the favoured definition. This definition has been adopted for this study (see Sharder, 2001: p 50 for a fuller discussion).

Researchers from around the world have identified a number of high technology firms that have internationalised rapidly. These include Logitech, a producer of aids for personal computers based in Switzerland (Jolly *et al.*, 1992) and Cochlear, an Australian company producing implants for the deaf and deriving more than 95 per cent of its income from exports (Rennie, 1993). The Department of Foreign Affairs and Trade (1997) identified a number of firms that have internationalized using the Internet. Yahoo is another company that was 'born' global, relying on the Internet (Hill, 2001).

Bell (1995) conducted a comparative study into the export behavior and internationalisation of small computer software firms in Finland, Ireland and Norway. The findings of this study challenged many of the underlying assumptions of conventional internationalisation 'stage' theories (namely the incremental sequential process), leading to the conclusion by the researcher that such theories do not adequately reflect the internationalisation process among small computer software firms. Bell argues that the 'network approach' better explains the behaviour of these firms. (See also Coviello and McAuley (1999) for an overview of recent empirical research and theories on internationalisation.)

Knight and Cavusgil (1996) conducted a number of case studies in Australia to develop profiles of some emerging exporters. They found a new breed of exporting companies that do not match the profiles of traditional exporters. An example they cite is ANCA, a manufacturer of CNC tool grinders and controls, which exports 85 percent of its products. An interesting point to note is that the company started to export within five years of its foundation in 1985. The company attributed its success to its leading edge technology, unique product and international vision, backed up by resource commitment. Another company cited by the researchers was QPSX, a manufacturing firm which started to export within two years of its establishment. Exports comprised 50 percent of the company's $18 million annual sales.

AMC/McKinsey (1993) examined exports by manufacturers in the areas of emerging high value-added and/or elaborately transformed manufactures. The study found a trend for firms to be born global. The study also found that successful exporters are generally firms where top management has a desire and commitment to export, as well as companies which compete on value (mainly quality, technology and product design) and those with a strong customer orientation.

Based on their own research and that of AMC/McKinsey (1993), Knight and Cavusgil (1996) concluded that small firms have inherent advantages in terms of quick response time, flexibility and adaptability, all of which facilitate their international efforts. They also concluded that "gradual internationalisation is dead", at least for value-added exporters, and that rapid internationalisation is feasible and even desirable. In certain instances, firms 'leapfrog' into internationalisation rather than move cautiously through a series of incremental steps, as suggested by the 'stage' theories (Welch and Luostarinen, 1988).

It appears from the above discussion that a number of 'small' high technology firms do not follow the incremental sequential approach to internationalisation. Do these results spell the end of the 'stage' theories? Is it possible to conclude that internationalisation is not an evolutionary process? The answers appear to lie in the fact that in the above studies, the length of time taken for the firm to go international is used as the basic measure. However, no mention is made of the length of the learning process by management. Evidence points to the fact that many managers, who start up companies, already have a good knowledge of international markets based on experience gained elsewhere, and are interested in international markets from the beginning of the new firm. A similar view was expressed by Welch and Luostarinen (1988) more than a decade ago. They provided the example of two Australian companies:

… an Australian company with four years experience in a small Australian city (Toowoomba) considered its first 'export' move as an attempt to penetrate a large Australian city 130km away (Brisbane). By contrast a Sydney company was exporting within three months of beginning operations and to 52 countries in three years. (Welch and Luostarinen, 1988, p. 48).

The researchers explained the difference in the behaviour of the two companies based on the managers (owners) of the companies. The Toowoomba-based company had a manager who had limited experience beyond the local area, while the Sydney-based firm was run by a migrant to Australia with over 20 years of international and industry experience. Almost a decade later, Madsen and Servais (1997) conducted a review of born global studies and highlighted the need to consider management characteristics:

In the case of born globals we may assume that background of the decision-maker (founder) has a large influence on the internationalzsation path followed. …Education, experience form living abroad, experience form internationally oriented jobs…decreases the psychic distance to specific product markets. (Madsen and Servais 1997, p. 567)

Argyrous (1993, p. 119) highlights some methodological shortcomings in the AMC/McKinsey (1993) study mentioned above. He found that out of the 39 born global firms in the AMC/McKinsey report, there were instances of double counting whereby both the parent and subsidiary were included in the list of born globals. Secondly, a number of firms developed within a large firm before emerging as an independent operation. In other instances the AMC/McKinsey study seems to have chosen the date of the last change in ownership as the date for the establishment of the company. As an example, Argyrous (1993) cites the case of Multistack International, which started producing refrigeration units in 1985, before being bought out by Careslan in 1990. If the earlier establishment date is considered, it took the company seven years to develop 50 percent in export sales, rather than two as reported by AMC/McKinsey. Another important finding by Argyrous (1993) is that the ability to export by these born global firms is often based on establishing contacts (networking) with larger firms.

One of the companies examined by Knight and Cavusgil (1996), QPSX, also highlights the need to conduct in-depth studies before conclusions can be drawn regarding born global firms. QPSX was established by two academics from the University of Western Australia who received a grant from Telecom to build a communication equipment prototype. Once the project was complete, the academics entered into partnership with Telecom which enabled their equipment to gain acceptance as the North American and European standards. However, QPSX was unable to meet worldwide demand and entered into a licensing arrangement with leading communications manufacturers to produce the product under license. It is clear that the company benefited from the opportunities it gained by networking with larger players in the industry (Argyrous, 1993) and is not typical of the firms described by writers critical of gradual internationalization.

3. THE SAMPLING FRAMEWORK

The Australian wine industry was selected as the sampling framework for the study for three main reasons. Firstly, the industry appears to exhibit the phenomenon of rapid internationalisation. Over the past decade, it has experienced unprecedented growth in exports (ABS, 1999). Overseas demand for Australian wines appears to be continuing to grow at a time when there is an over-supply of wine in the world (Lages, 1999). In order to meet this demand there has been rapid planting of vines and the establishment of many wineries.

Secondly, given that this industry operates in a fairly homogeneous environment, the impact of the vast array of usually uncontrollable external variables can be minimised (Amine and Cavusgil, 1986). This allows for a better understanding of the divergent export behaviour of similar firms based on more firm-specific and/or managerially-related factors (Cavusgil and Nevin, 1981).

Thirdly, there is a need for research into the behaviour of born globals in low technology industries, such as wineries. Given the focus of research on high-technology industries the different characteristics of these low-technology industries will contribute to our overall understanding of the born global phenomenon (Zahra, Ireland and Hitt, 2000).

4. RESEARCH ISSUES

From the review of the literature it is possible to identify a number of research issues. However, in this exploratory study these will be limited to the following:

- the phenomenon of born global firms within the Australian wine industry;
- the factors associated with firms being born global; and
- the challenges this poses to traditional ‘stage’ theories and the incremental sequential approach to internationalisation.

4. METHODOLOGY

The population for this study included all the wineries in Australia, (ANZIC code 2183) estimated at around 853 in 1996. The survey instrument was a questionnaire. The content, design and structure of the questionnaire was based on an item analysis of theoretical and empirical research published over the previous four decades (see Wickramasekera, 2001 for details). The questionnaire was tested and, after some modifications, was administered by post.

The questionnaires were targeted at the Marketing Manager of each winery (the key informant), who was asked to complete it personally or direct it to the person regarded as being responsible for the firm’s decision whether or not to export. In total 292 completed responses were received. A further 186 non-exporters were removed for this study, leaving 106 valid responses for the final analysis.

Mail surveys have been criticised for possible non-response bias. In this study, methods proposed by Armstrong and Overton (1977) were used to test for sample bias. To back up the data from the survey, semi-structured interviews were conducted with managers of wineries identified as born globals. For logistical reasons, these interviews were primarily confined to the eastern states of Australia, with the bulk of the interviews taking place in 2001 and 2002. Unfortunately, at the time some of the interviews were to take place, there was unseasonal rain and storms leading to the cancellation of appointments by the interviewer or the interviewee. Due to this, some of the interviews were conducted over the phone using the Telstra teleconferencing facility. These interviews were recorded on a compact disk and later transcribed.

Several firms had to be dropped from the study, as they did not fit the criteria for a born global/international new venture. Others were found to be subsidiaries and exporting was handled by the parent company. One winery was a born global, but had de-internationalised. In all, six wineries were examined in detail.

5. FINDINGS AND DISCUSSION

5.1 Length of Time in the Wine Industry

The survey showed that most of the wineries had been in the industry for a relatively short time, though about nine percent commenced operations over a century ago. Almost eleven per cent had commenced operations within the previous five years, 36.4 percent had operated for ten years or less (25.7 percent from five to ten years) and, over 70 percent had been in operation for less than twenty years. There is a strong correlation between the expansion in the wine industry and the development of export markets, evidenced by the rapid expansion in export sales during this period. In the survey, 93.6 percent of the exporters indicated that they commenced exporting within the past twenty years, with almost 50 percent indicating that they had started within the past five years.

5.2 Is there a Trend for Australian Wineries to be Born Global?

In the above discussion on born globals, it was established that firms that start exporting within six years of their inception are considered to fall into this category. Thus, only the firms that were exporting, numbering 106 wineries, were included in this analysis. It was found that 21 could be classified as being born global which amounts to almost 20 per cent of the exporting firms in the study sample. This percentage appears to be higher than the 2-4 percent reported by other studies for industries in general (UNCTAD, 1993; OECD, 1997). However, these figures must be viewed with caution as no attempt was made in the preliminary survey to examine if the wineries were subsidiaries of other firms or had undergone a change of name. Many of the born global firms are wineries which have been operating since the mid to late 1980s. At the other end of the spectrum, about 6 percent of the firms took more than 100 years to start exporting.

5.3 What are Some of the Factors Associated with Born Globalness?

The findings indicated three major reasons for acceleration of the internationalization process within the wine industry.

The first reason is the demand for Australian wine overseas. According to respondents there is a *"ready market for Australian wines"*, given the *"quality"* and *"reputation of the industry"* and the recognition given to some of the wine producing regions in Australia. According to one respondent, it was easier to sell in the overseas market because overseas buyers look for Australian wines, whereas Australian customers need to be aware of the name (brand name). In fact, one of the wineries faced difficulties in the German market because their name was German.

Secondly, respondents identified the taxation regime in Australia as an impediment to domestic market expansion and as a reason for tapping into export markets:

> *Small wineries can not sustain WET (Wine Equalization Tax) tax and survive.*
>
> *Advantage of exporting: "No WET/GST."*
>
> *Domestic tax schedule is inhibitive.*
>
> *Australian wine sales are now taxed at the highest level of any producing nation in the world. The Government now yields 10 times the amount of tax on a $20 bottle of wine distributed and sold in the Australian retail market, than the winery yields in profit. This directly undermines the competitiveness of our wineries through taking money in tax that would otherwise support market expansion. [Export marketing is a] fairly obvious way to direct yourself with the taxes …when you should be able to get the same price for a bottle of wine on the US market as you can here … there is a distinct advantage. On a $20 bottle of wine we see about $15, so it is fairly substantial.*

Thirdly, the respondents identified the importance of *"building relationships"* and *"access to contacts"* as an important driver in achieving rapid internationalization.

> *…it was easy for us to get the contact details because (my husband) went direct to relatives in Germany and asked for information…on importers that were good. He did all the work for us over there, that was the reason we went there, (Germany) first.*
>
> *Already had good knowledge of Japan and USA. Also have strong contacts in the above.*

In addition to the above key factors, the sample of exporters was segmented into born global firms and non-born global firms. A number of management attributes were assessed to ascertain if there were significant differences between the two groups.

The survey findings showed that a significantly high proportion of managers in the born global firms had previously worked for a company that had exported or imported goods. One of the interviewed wineries identified as being a born global was owned and managed by a person who worked for a leading Australian winery prior to setting up his own business. Another winery owner first gained his experience working for Komatsu, a Japanese trading house, and then went into the 'rag trade' importing garments. *"I was very familiar with import documentation - bills of lading, bills of exchange …, (exporting) was just the reverse of that."* Where other managerial attributes were concerned, there was no significant difference between the managers in the born global firms and the non- born global firms. In both groups more than 50 percent of managers indicated that they had "*completed tertiary education*", "*worked overseas previously*" and "*received training in export matters.*" The results are presented in Table 1.

Table 1. Management Attributes.

	MeanValues		
	Born Globals	**Non-born Globals**	**S**
Completed tertiary education	81%	74%	NS
Worked overseas previously	62%	62%	NS
Received training in export matters	52%	57%	NS
Previously worked for a company that exported	62%	37%	S
Fluency in a foreign language(s)	19%	23%	NS

S - Significant at the 90% confidence level; NS - Not significant.

Respondents were also asked to indicate the first overseas markets they had entered, their most recent overseas market and the number of overseas markets they serviced.

It was found that the first market that most Australian wineries enter is the United Kingdom. Around 60 percent took this approach. This was also found to be the case in Dwyer's (1992) study. A similar situation was highlighted for South African firms by Calof and Viviers (1995) where the managers of exporting firms, who came mainly from a Caucasian background, tended to export to their country of origin.

The survey findings were supported by the findings from the interviews. One of the born global wineries interviewed, situated in a premium wine-growing region of South Australia, was owned by two brothers who were born in Australia but had overseas work experience, were tertiary educated and had received training in exporting. The first export market for their winery was the United States followed by the United Kingdom.

Another winery was owned and operated by a husband and wife team. The wife was born in Australia, but had gained overseas work experience. The husband was born in Germany, tertiary educated and had worked overseas previously. The first export market for their winery was Germany, a psychologically close country to the owner. Similar findings were made for the other wineries with the UK, the USA or New Zealand cited as the first overseas market. New Zealand was targeted when the winery had a limited quantity to export.

Among the markets most recently entered by the firms surveyed, there were more Asian countries listed (China, Singapore and Malaysia), though other European countries such as Germany and Sweden were prominent as well. These results indicate that Australian wineries tend to target ‘psychologically’ close markets initially and, as they develop their international experience, they tend to target markets that are more ‘psychologically’ distant. These results are consistent with international studies (Johanson and Vahlne, 1977).

The survey findings showed that the number of markets serviced ranged from one to 48, with the average being seven. The findings also showed that born global wineries tended to target significantly fewer overseas markets (mean value of six overseas markets) than the non-born global firms (mean value of ten overseas markets). However, the proportion of the output exported by born global firms was greater, being almost 26 percent compared to 20 per cent of the non-born globals. The six firms interviewed exported, on average, 40 per cent of their production.

These findings are consistent with the results of previous studies that examined other industries. They indicate that the acceleration of internationalization is not confined to firms in the high technology sectors, and that born globals are found in other industries such as wine production. They also highlight the importance of the international and industry experience of management (Harveston, Kedia and Davis, 2000) and access to networks (contacts) for rapid internationalization (Welch and Loustarinen, 1988; McGaughey, Welch and Welch, 1997).

In addition, the findings also reflect those in other studies which indicate that the idea of firms being born global needs to be qualified. While some firms are ‘new’ in terms of the time since their establishment as legal entities, they are often much ‘older’ in terms of the length and variety of experience of their owners and/or managers (Argyrous 1993, 2000).

5.4 What are the theoretical and policy implications of the phenomenon of born global firms?

In theoretical terms, born global firms do not appear to present a challenge to the ‘stage’ models when management factors are taken into consideration. In fact they provide support for the stage models, in particular the ‘innovation diffusion’ or I-model (Andersen, 1993) theoretical framework where management is the unit of analysis. In addition, Rogers (1962), whose work formed the basis for many of the ‘stage’ models, highlighted the possibility for the rate of adoption to vary among different adopting units depending on the role of “change agents”. This is clearly illustrated in the findings of this study, where a wide variation in the time taken by firms to start exporting was observed. Similarly, the findings from the surveys and the interviews on the nature of export markets do not appear to challenge the ‘stage’ models of internationalisation.

As in the case of other exporters, the born global wineries move through stages from exporting to psychologically close markets to exporting to more psychologically distant markets. They also move from exporting to a very limited number of markets to a more expanded range of markets. Born global firms have generally been able to accelerate their internationalisation, often through the prior learning, experience, networking and management skills of the management team. These enterprises experience the stages described in the 'stage' models by acquiring exporting skills in different ways to those of traditional exporters and are able to progress through these stages at a faster rate.

There is no direct evidence from the research of the failure of born globals in the wine industry. However, the findings by Argyrous (2000) that many of the born globals identified in the AMC/McKinsey Report did not weather the Asian Crisis well, tends to suggest that rapid internationalisation can lead to potential difficulties when there are economic downturns. One of the main reasons cited by the wineries for rapid internationalization is to obtain greater returns by selling overseas, thus avoiding the VET/GST. If there is a downturn overseas, many born global wineries may suffer because they do not have a sufficient presence in the domestic market to obtain sufficient profits to survive.

In terms of policy implications, for an industry where there is general agreement on the benefits of exporting, the role of business advisory organisations such as regional development boards, may be to suggest that firms develop a greater presence in the domestic market before considering exporting. They could also be advised to begin exporting into 'psychologically' close markets (to the managers), then progressively expanding into 'psychologically' distant markets. It is also important for firms thinking of exporting to be encouraged to begin exporting to a limited number of markets and gradually expand this number. In addition, export promotion agencies can assist by providing information on potential overseas markets. For the wine industry this is done very effectively by the Australian Wine and Brandy Corporation with the publication of the Export Market Grid. In addition, the Department of Foreign Affairs and Trade, through its agency Austrade, provides comprehensive market information on a wide range of countries, as well as technical information on exporting for new exporters. The survey findings and interviews confirm the value of these policies and indicate the importance of drawing attention to the management skills and attributes needed for successful exporting.

6. CONCLUSION

The results of this study indicate that the phenomenon of born global/international new venture enterprises are not confined to high technology firms, but that it extends to regional firms such as wineries. Some of the reasons for Australian wineries being born global are similar to those in other industries, such as prior managerial experience in exporting. On the other hand some very specific reasons for the born globalness within the wine industry were identified and include the Wine Equalisation Tax and the reputation of Australian wines overseas. For other industries these factors will vary and need to be examined. It is also important to note that other environmental factors have had a bearing on the acceleration of the internationalisation process over the past few decades. These factors include trade liberalisation, better communication and the Internet. These factors will need to be examined in future studies. The current research indicates that the phenomenon of born globals does not suggest the demise of the 'stage' models but, in fact, provides additional support for them.

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