



Università  
Ca' Foscari  
Venezia

Corso di Laurea magistrale  
in Economia e gestione delle aziende

Tesi di Laurea

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# Born Global: a debate on organizational forms and processes

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**2013 / 2014**



# *Acknowledgements*

I would like to express my gratitude to my supervisor, Professor Andrea Pontiggia, who suggested me how to develop this work, contributed to increase my sense of criticism through his guidance and shared with me his ideas about the issues concerning the theme of this thesis.

I am also grateful to all the people who allowed me to get in touch with the stories of their companies, without whom this work could never have been done: Ms. Cristina Marzola of *illa Italia*, Ms. Silvia Mion of *Zooppa*, Ms. Donatella De Lellis and Mr. Carlo Capelli of *Orobianco*.

I would like to thank my student colleagues and friends for sharing their time with me at the University and making these five years something unique and memorable. I am especially grateful to Matteo and Mauro who made our lessons funny and stimulating.

Lastly, but most importantly, I wish to thank my parents, Gabriella and Roberto, my brother Matteo and my girlfriend Claudia. They supported me, helped me, encouraged me and loved me.



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# *Introduction*

The aim of this work is to analyze the phenomenon of Born Global (BG) firms: companies that pursue a fast international expansion. The BG concept heavily challenges the so-called “stage-models” of internationalization, according to which a company should first succeed in its home market and, only at a later stage, undertake a slow and evolutionary international expansion starting from culturally proximate countries. Due to the innumerable changes that occurred in the business environment in recent years, such as the advancement of the Internet-based tools and the acceleration of the globalization process, the step-by-step internationalization models started to be criticized. Many authors recognized that companies could expand on a worldwide basis shortly after their establishment, thus not necessarily conquering their home market first. As a matter of fact, a fast internationalization process enables companies to take advantage of new business opportunities, targeting millions of new consumers around the world and exploiting the growth of new countries, such as India, China and Brazil, which were not even considered some years ago. Therefore, as barriers to internationalization started to reduce in a considerable manner, many entrepreneurs began to consider the possibility to target foreign countries from inception, boosting in an incredible manner the expansion of their companies on a worldwide basis.

Moving from this general introduction, this work investigates on the characteristics of Italian BG firms located in the North of Italy through a multiple case-study exploratory approach. More specifically, the work is composed of three parts.

The first chapter focuses on the analysis of the main “stage” models of internationalization: the Product Life Cycle Theory, the Uppsala and Innovation-related models of internationalization, the EPRG framework, the transnational enterprise and the OLI model. After that, the little validity of the cited internationalization models for modern companies is discussed and the various definitions of fast internationalizing companies are analyzed. At the end of the chapter, on the basis of the analysis done, the differences between the old internationalization models and the BG concept are outlined and a possible definition of BG firm is provided.

In the second chapter, starting from the existing literature, the factors characterizing BG companies are examined according to the following taxonomy: entrepreneur’s

characteristics, business strategy, marketing strategy, human resource organization, access to financial resources and network coordination of activities. This taxonomy, even if with its own limitations, allows having a holistic view of the BG firm, since it takes into consideration the main strategic aspects related to an organization. At the end of each paragraph, a proposition about each aspect taken into consideration for the analysis is provided.

In the third chapter, three BG firms located in the North of Italy are studied in order to test the validity of the propositions made in the second chapter and investigate how firms of this geographical area can exploit international opportunities very early in their existence. The companies taken into consideration for the analysis (*illa Italia*, *Zooppa* and *Orobianco*) are located in the Veneto and Lombardy Regions and have all the prerequisites to be defined BG firms.

Finally, according to the investigation done through the case studies analyzed, the various traits of Italian BG firms are summarized and the implications for companies located in the North of Italy willing to operate on a worldwide basis from inception are outlined. In this final section, the aspects related to the success of the BG firm that are not stressed in the existing literature are emphasized, the competitive factors enabling a fast international expansion are summarized and the possible role of BGs in future industrial policies is described.



# ***Chapter 1 – The Born Global Concept***

The Born Global phenomenon has been discovered and studied since the early 1990s in the field of international entrepreneurship. Anyway, due to the increasing globalization and advances in technology of the recent years, this theme reveals to be of crucial importance for new firms to understand and exploit the opportunities of today's business environment.

## **1.1 Internationalization processes: a review**

In order to understand the Born Global concept in its entirety, it is necessary to go back to the mid to late 1970s when the principal concepts on the firm's internationalization processes have been developed. In this period the so-called "Stage models" of internationalization represented the main theories. It is possible to identify two main stage approaches (Baronchelli and Cassia, 2008): the Product Life Cycle Theory (Vernon, 1966, 1979) and the Uppsala Internationalization Model (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne 1977, 1990, 2003, 2006; Vahlne and Johanson, 2013). Parallel to these models, Andersen (1993) identified the Innovation-Related Internationalization Models as another way of describing the firm's internationalization process. In addition, the EPRG framework (Perlmutter, 1969) offers a set of international orientations based on the different cognitive orientations of management and Bartlett and Ghoshal (1987a) propose the transnational enterprise as model to deal with the complexity of the international competitive environment. Finally, the OLI (Ownership, Localization, Internalization) model (Dunning, 1977, 1988, 2001) seeks to explain the theory of Foreign Direct Investment (FDI).

### **1.1.1 Stage models**

In general terms, the authors of the stage models of internationalization argue that an organization follows a slow and gradual path towards international operations: at the beginning the firm focuses exclusively on selling its products or services in its home market and only at a later stage foreign operations are taken into account. This process was valid thirty years ago but it can not be applied to firms operating in recent years. Indeed, in the period in which these models were developed (1970s), organizations were

usual to exploit the potentials offered by their home markets, whereas foreign markets were perceived to be a threat to avoid rather than an opportunity to grow. On the opposite, modern firms operating in today's globalized and interconnected world must necessarily think and act globally from inception.

In the following paragraphs, the "stage models" are analyzed and the reasons why they do not properly explain the internationalization path of up-to-date firms are discussed.

#### **1.1.1.1 Product Life Cycle Theory**

According to the Product Life Cycle Theory (PLCT) proposed by Vernon, a firm expands the operations beyond its national borders following the development of the product life cycle (Vernon, 1966). More specifically, Vernon identifies three stages of internationalization for firms based in the United States.

In the first stage, or *introduction phase*, the new product is manufactured in the home market and exported to other countries. In the second stage, or *maturity phase*, a certain degree of standardization occurs and some demand for the product begins to appear in other advanced countries. At this point it may be necessary to establish new production plants in those countries in order to satisfy the growing demand for the product. In the third phase, or *standardization phase*, the high volumes and low uncertainty levels suggest to locate the production in less developed countries in order to exploit the low costs of labor.

Therefore, according to the PLCT, the firm's internationalization process overlaps with the path of the product life cycle: the firm initially grows in its home country, at a later stage establishes its subsidiaries in foreign countries in which there is a market for the product and finally, when the company reaches a certain degree of development, production is shifted in less-developed countries in order to take advantage of labor, financial or other country-specific factors.

In a later work, Vernon questions the assumptions of his past theory and states that "the leading MNCs have now developed global networks of subsidiaries; the US market is no longer unique among national markets either in size or factor cost configuration" (Vernon, 1979).

He recognizes that, since companies around the world started to scan the worldwide market through a network of established foreign subsidiaries and differences among

countries began to reduce or even disappear, firms are not anymore compelled to carry on their innovation activities in the home market. However, the PLCT remains still valid for small firms, which have not the possibility to examine the international environment through their established subsidiaries, and for firms whose subsidiaries are located in developing countries that are still assimilating previous innovations (Vernon, 1979).

Therefore, a developed worldwide network of subsidiaries in developed countries would allow the company to faster exploit opportunities in foreign markets, thus sourcing innovation in foreign countries and not necessarily in its home nation.

#### **1.1.1.2 Uppsala model of internationalization**

Another type of stage model, and maybe the most important one, is represented by the Uppsala Internationalization Model. Based on a study on Swedish firms, Johanson and Vahlne (1977) argue that “the internationalization process of the firm focuses on the development of the individual firm, and particularly on its gradual acquisition, integration, and use of knowledge about foreign markets and operations, and on its successively increasing commitment to foreign markets. The basic assumptions of the model are that lack of knowledge is an important obstacle to the development of international operations and that the necessary knowledge can be acquired mainly through operations abroad” (Johanson and Vahlne, 1977). According to the model, the “enterprise gradually increases its international involvement” (Johanson and Vahlne, 1990). The most important factor that inhibits the firm from going international from inception is the psychic distance between the home and the other foreign countries, which refers to differences in language, education, business practices, culture, and industrial development (Johanson and Wiedersheim-Paul, 1975). This model emphasizes that a firm starts to internationalize from the markets that are perceived to have a smaller psychic distance in comparison to the home country. Once the firm has built the necessary market knowledge through experiential learning in similar nations, it can expand its operations also to more distant (in terms of psychic distance) countries. Therefore, according to the Uppsala model, experiential learning and psychic distance leading to uncertainty reduce the speed of internationalization. Accordingly, the company follows a slow, gradual and incremental path towards international operations.

In particular, an organization follows what the authors of the Uppsala model call “establishment chain” in order to expand overseas: at the beginning, there are no regular export activities and the firm operates just in its domestic country; after that, the company makes some international sales through some sales representatives that try to sell and promote the products abroad; at a later stage, the firm creates its sales subsidiaries; finally, the firm establishes its manufacturing subsidiary and produces directly in the foreign country (Johanson and Wiedersheim-Paul, 1975). It is important to underline that a step-by-step process is followed: the firm proceeds to the next step only if the previous one is successfully completed. Hence, a slow and regular expansion would allow the company to accumulate experience, thus enabling the development of better products, finer organizational structures and an increase in the overall firm’s competitiveness overseas.

In the following years the authors refined the model in order to adapt it to the changes in the business environment and to cope with the many critiques that it attracted. They introduced in their model the concept of network, as a tool to combine the experiential-learning commitment interplay as the driving mechanism for the internationalization process (Johanson and Vahlne 2003). In particular, “when a focal firm and another firm are mutually committed to future business with each other, they have a basis not only for learning about and from each other, but also for creating new knowledge through interaction. In this way, they develop opportunities for new business” (Johanson and Vahlne, 2006). In this case the authors recognize that a gradual international development is not the only way for a company to acquire new knowledge. As a matter of fact, it is possible to learn from other firms by interacting and establishing partnership relationships with them. In addition, “if the partner firm also is committed to other relationships, the focal firm becomes indirectly linked to a wider network of interconnected firms, who are committed to each other and, to some extent, have a shared knowledge capital. In this way, the relationship provides a bridge into a new knowledge world and the opportunities created in the relationship have a wider significance than just business with the partner firm” (Johanson and Vahlne, 2006). In this perspective, a firm can access a wider knowledge base in comparison to the one accessible only thanks to the partner organization.

Therefore, in their first work the proponents of the Uppsala internationalization model

stress the importance of gradually acquiring experiential knowledge, a necessary mean to reduce uncertainty in foreign markets. Anyway, the same authors later recognize that it is possible for an organization to gain such knowledge thanks to the creation of a worldwide network, thus enabling the interdependence and transfer of organizational capabilities and routines.

#### **1.1.1.3 Innovation-related internationalization models**

Similarly to the Uppsala Model of internationalization, the innovation-related internationalization models conceive the firm's internationalization as a regular, step-by-step procedure. According to the innovation-related internationalization models identified by Andersen (1993), at the beginning the management team does not recognize the opportunities represented from the foreign markets and the firm sells its products or services only in the home market. As time goes by, the firm starts to explore the market outside the home country in order to satisfy the increasing demand. At this stage, the company's management recognizes the possibility to grow through exports and starts looking for information about foreign markets. In the next phase, the company exports its products or services in culturally closer countries, thus beginning its progressive internationalization path. In this way, following a step-by-step process, the firm realizes overseas opportunities and its management team explores the opportunity to export to psychologically distant countries, decides to allocate limited resources between domestic and foreign markets and accepts export activities (Andersen, 1993). Generally speaking, the innovation-related internationalization models focus on the "learning sequence in connection with adopting an innovation. In other words, the internationalization decision is considered as an innovation for the firm" (Andersen, 1993).

#### **1.1.1.4 Limitations**

The so-called "stage" models of internationalization entail a gradual path towards international sales and operations: the firm slowly expands worldwide, going first to those countries with similar languages, cultures, currency and political systems. Anyway these models, even if fully explanatory of the internationalization process from a theoretical standpoint, were developed decades ago (1970s, 1980s) when the business

environment was seldom characterized by disruptive changes. On the opposite, up-to-date firms have to cope with uncertainty almost on a daily basis: uncertainty caused by rapid changes in technology, uncertainty related to the growing globalization and, last but not least, uncertainty concerning the political scenario. Operating in such environment, it seems to be difficult for companies to predict a gradual and linear development towards international sales and operations, since international opportunities may rise without any premonition.

### **1.1.2 The EPRG framework and the transnational enterprise**

Perlmutter (1969) develops another model that seeks to explain the firm's internationalization process: the EPRG framework. The model allows understanding the firm's involvement and commitment in the international scenario and analyzing its orientation towards resources, people and values in the foreign country. In addition, the "cultural" variable plays a very important role in the framework (Decastri, 1993).

It is possible to identify three kinds of firms in relation to the model proposed by Perlmutter (1969): the *ethnocentric firm*, the *polycentric firm* and the *geocentric firm*.

- The *ethnocentric firm* is characterized by the presence of home-country managers in key overseas units, a highly centralized organizational structure and is permeated by a strong, unique value system that is exported to overseas branches. In this case, the company focuses first on its home-country market, whereas the foreign business plays a marginal role. Consistent with the theory proposed by the Uppsala model, the ethnocentric firm expands first to culturally proximate markets and only at a later stage seeks to exploit opportunities in distant markets.
- The *polycentric firm* is characterized by the presence of host-country managers in overseas units, thus allowing the company to better cope with the complexity of the foreign culture. Moreover, the organizational structure is less centralized in comparison to the *ethnocentric firm*. Since local top managers have a great autonomy in managing resources, evaluating opportunities and taking important strategic decisions, the firm's competitiveness isn't anymore based only on the home market, but also on the ability to effectively handle foreign local environmental factors. A particular form of polycentrism is the *regiocentrism*,

which conceives a certain geographic area characterized by common history, traditions and values as a unique cultural environment.

- The *geocentric firm* is characterized by the presence of home-country, host-country and third-country managers in overseas units. In this case the firm has a global approach and the world is perceived to be a big, boundary-less competitive arena. Overseas units are part of a close system that aims to achieve global targets: on the one hand, they must implement strategies in a coordinated and global perspective; on the other hand, they must react to competitive pressures of the local market in which they operate. Therefore local managers must simultaneously achieve local and global objectives.

The framework proposed by Perlmutter can be interpreted also as an evolutionary path. The sequence ethnocentrism – polycentrism – regiocentrism – geocentrism can be associated with consecutive phases of evolution towards international operations. Any entrepreneurial activity follows a gradual international development: from a national basis towards the international arena. The various phases can not be identified in an univocal manner, since the firm's development and consequent transition to the next phase are usually the result of incremental changes (Decastri, 1993).

Twenty years later, Bartlett and Ghoshal (1987a) go a step beyond the geocentric model proposed by Perlmutter in 1969. After having analyzed nine multinational corporations coming from three different industries (branded packaged goods industry, consumer electronics industry, communication switching industry), they identify three kinds of industries and thereafter develop the concept of *transnational enterprise*.

Firstly, they identify the *global industry* (the case of the consumer electronics industry). It is characterized by falling transportation and communication costs, relatively low tariffs and protectionist barriers and homogenization of national markets. Firms competing in this industry must be highly efficient in order to be competitive.

Secondly, they identify the *multinational industry* (the case of the branded packaged goods industry). It is characterized by national differences in consumer needs and preferences. Firms competing in this industry must respond to the needs of each local market and localize their operations in order to be competitive.

Thirdly, they identify the *international industry* (the communication switching industry). It is characterized by the sequential diffusion of innovation that is developed

in the home market. Firms competing in this industry must be able to effectively transfer knowledge to other countries in order to be competitive.

Until that moment, on the basis of the industry in which the company worked, it was sufficient for a company to be efficient, respond to the various needs of different nations or be able to transfer knowledge in different countries in order to succeed and gain market share. Anyway, due to the changes in the business environment that began to take place in the late 1980s, such as the increasing fragmentation of production and the preference for customized goods, it became fundamental for companies around the world to use and interpret information and knowledge on a global basis. In this context, the new global company is defined as *transnational enterprise*. The transnational enterprise must simultaneously integrate the key competitive drivers of the previous identified industries: global efficiency, national responsiveness and worldwide learning (Bartlett and Ghoshal, 1987a). It is therefore necessary for a company to develop multidimensional capabilities to play its game in the changing international scenario. Indeed a company that operates on a worldwide basis has to constantly deal with different situations in various markets. In order to be competitive in this condition, a firm must transcend national borders and exploit the opportunities that arise from each context. From an organizational standpoint, the transnational enterprise is characterized by the following factors (Decastri, 1993):

- It is organized in an integrated network, in which specialized, geographically distributed units coordinate through flexible mechanisms driven by mutual arrangements;
- Role and responsibilities of the various units are not fixed, but are differentiated and can vary throughout time;
- It is permeated by a shared and common vision of top management;
- It has multiple innovation and learning processes, which occur both at a central and peripheral level;
- It acts as a double network, establishing contacts and relationships not only inside, but also outside the firm's boundaries.

Hence, beyond the structural aspects, whose efficient organization is fundamental for a company to succeed in international markets, the firm's top management plays a central role. Indeed, the most difficult task is to "create a matrix in the mind of managers"

(Bartlett and Ghoshal, 1987b). In this way, managers should be able to develop a flexible approach and consider problems from both a local and global point of view. Ergo, a company's ability to develop transnational organizational capability and management mentality are the key factor that separates the winners from the mere survivors in the emerging international environment (Bartlett and Ghoshal, 1987b).

#### **1.1.2.1 Limitations**

The frameworks proposed by Perlmutter (1969) and later by Bartlett and Ghoshal (1987a) enable to identify and systematize new strategic postures and organizational structures. Anyway, as in the case of the previously cited "stage models", such frameworks arose some years ago, thus having a limited usefulness for modern companies. In fact, a set of changes in the international competitive scenario and in management routines occurred between the time at which these models appeared and today. In addition, a set of limitations render difficult to make use of that kind of frames nowadays.

Firstly, the concept of transnational enterprise proposed by Bartlett and Ghoshal is based on a research focusing only on multinational corporations. Because of this, it is difficult to apply such model to a plenty of modern small- and medium-sized organizations that are characterized by different features.

Furthermore, in recent years the international competitive scenario has changed its configuration. Countries that thirty years ago were not considered to be interesting to make business are now in their development phase and are expected to grow on a steady base, like for instance the BRICS countries.

#### **1.1.3 The OLI model**

In the same period in which the Swedish authors are developing the Uppsala model, John Dunning proposes the "OLI" (Ownership, Localization, Internalization) or "eclectic" model of foreign direct investment. The OLI model distinguishes between ownership, localization and internalization advantages (Dunning, 1977, 1988). Ownership advantages are internal to enterprises and concern the ownership or the capability to coordinate a set of assets. Location advantages refer to where a company should establish its production, after having taken into account the different and various

country-specific advantages. Market internalization advantages are related to the decision of a firm to internalize market imperfections or establish agreements with other ventures. This model is based on the transaction cost theory, meaning that a firm internalizes those operations that would require a higher cost in the open market (Dunning, 1977).

#### **1.1.3.1 Limitations**

The model has been criticized for many reasons: it is only a shopping list of variables without predictive value, the three variables are not independent one another, it offers a static approach in which there is no role for strategy, it is a purely micro-economic phenomenon (Dunning, 2001). Beyond these critiques, when discussing the OLI model in comparison to the Uppsala model, Vahlne and Johanson (2013) argue that “it is no wonder that the assumptions, on which the eclectic paradigm is built, primarily aim at explaining the functioning and structure of the wider economic system and not the organization and activities of the individual firm” (Vahlne and Johanson, 2013).

Ownership advantages are less important for firms operating in today’s business environment in comparison to firms operating thirty years ago. The increasing fragmentation and geographical dispersion of economic activities of past years contributed to the development of particular activities in certain areas of the world. Since this process led to the development of specific knowledge in given places, it can be more convenient for modern organizations to look for secondary activities outside the firm boundaries while at the same time focusing on the internal development of the tasks in which the organization excels at.

Furthermore, “unless the enterprise has a privileged relationship with local government, or some other such difficult-to-replicate host-country advantage” (Al-Aali and Teece, 2014), location advantages can not be considered as a source of sustainable competitive advantage, because they can be easily exploited from other rival companies.

Finally, internalization advantages may be necessary at the beginning because the firm must have some ownership advantages to survive. As the firm grows, internalization can be substituted with other contractual modes in a network configuration. In this way the firm can cope with the future while, at the same time, saving capital and reduce the level of uncertainty.

Therefore, the assumptions upon which the eclectic paradigm is based do not perfectly fit with the current economic conditions and “internalization theory has lost its *raison d’être* as an explanation to the existence of the MNE. Its correct status is that it explains the phenomenon of FDI” (Vahlne and Johanson, 2013).

#### **1.1.4 Critiques**

The internationalization processes that have been developed between the 1970s and 1980s are unlikely relevant for modern companies. The increasing globalization of markets combined with advancement in technologies completely revolutionized international business conditions. In particular, the following factors upset the way in which firms were usual to run their business and rendered fast internationalization processes feasible:

- *Advances in information and communication technologies.* The arrival and growth of Internet and social media tools enabled organizations to establish new and faster distribution channels, develop unique and original advertising campaigns, strengthen and fasten the relationships with customers, lower communication costs and carry on market researches in a cheaper and easier manner.
- *Technological developments.* Great improvements in product technologies implied a reduction in the product life cycle and faster product obsolescence. In this situation, product innovation plays a fundamental role since it is necessary to act faster and better than competitors. In order to reach this objective, firms look for partners and seek for global collaborations very early in their life, not necessarily following an incremental internationalization path.
- *Lower financial barriers.* Even if this factor has more effects for the European continent, it is worth to be cited. The introduction of the Euro as a unique European currency has reduced financial barriers for European companies to export their products. Since it has contributed to level the playing field, companies began to compete on the basis of their distinct capabilities and could not anymore rely on the depreciation of the country-specific currency. In this perspective, the Euro acted as a driver for faster internationalization processes of European firms.

- *Ease to access market knowledge.* Advocates of the stage models, and in particular of the Uppsala theory, argue that the main reason why firms follow an incremental path towards international operations is the lack of foreign markets knowledge. However in today's business environment it is easier for firms to obtain such information. As a matter of fact, modern firms can access such knowledge through the Internet or acquire it by relying on consulting firms. The first option is cheap and allows having only a superficial snapshot on foreign market conditions, whereas the second one is a more expensive but represents an effective alternative. Of course, not all firms can afford to depend on consulting firms, especially in the earlier stages of their existence. If this is the case, the company can try to establish partnerships with foreign firms operating in the reference foreign market.
- *International mindset of people.* "To be global one must first think globally" (Oviatt and McDougall, 1995). One of the main constraints to fast internationalization process in the models analyzed is the unwillingness of top management to expand on a worldwide basis. This factor represents a soft, intangible but at the same time insuperable obstacle to rapid internationalization. On the opposite, managers operating in today's globalized world are more prone to go global from inception, either because of their previous international experience, either because they recognize the necessity to develop on a global basis.

Ergo, from the analysis conducted above, companies that follow a slow internationalization process will be unlikely successful and will not considerably grow in today's competitive scenario.

In the following paragraphs, the definitions of firms that internationalize from the earlier moments of their existence, labeled "Born Globals", are examined and discussed.

## **1.2 Born Global firms**

A few years after their introduction, the “stage models” of internationalization are criticized. Hedlund and Kneverland, after a study about Swedish firms operating in Japan, argue that “entry and growth strategies in foreign markets are changing toward more direct and rapid entry modes than those implied by theories of gradual and slow internationalization processes” (Hedlund and Kneverland, 1985). In the same period, other authors recognize that firms can effectively compete in the global scenario by “leapfrogging” some of the internationalization stages (Jolly et al, 1992; Cavusgil, 1994; Bell, 1995). In particular, Bell (1995) carries on a research on the internationalization process of small software firms. He discovers that such firms do not establish on a worldwide basis following the gradual and evolutionary stage model proposed by Johanson and Vahlne (1977). On the opposite, “there is strong evidence that the process is influenced by domestic and foreign client followership, the targeting of niche markets and industry-specific considerations, rather than by the psychological or geographic proximity of export markets” (Bell, 1995).

In the following paragraphs, the various definitions of fast internationalizing firms are analyzed and, at the end of this chapter, a possible definition of “Born Global” firm is advanced.

### **1.2.1 Definitions**

#### **1.2.1.1 The first Born Global definition**

The term “Born global” (BG) appears for the first time in 1993, when Rennie carries on a research on Australian firms. He distinguishes between two types of exporting companies. On the one hand he identifies the “domestic based firms”, characterized by a focus on the home market and whose first export is at 27 years, counting for 20% of their total sales. On the other hand, he discovers the “born global firms”, which begin to export two years after the foundation and achieve 76% of their sales through exports (Rennie, 1993). The last category of companies can compete in the global scenario thanks to their innovative technologies and product design, thus creating superior quality and customer value. Contrarily to “domestic based firms”, “born global firms” do not perceive foreign markets as a supplement to the domestic one, but they “view the world as their marketplace from the outset” (Cavusgil, 1994). According to Cavusgil

(1994), the emergence of “born global firms” reveals two important phenomena: “small is beautiful” and “gradual internationalization is dead”. The appearance of market niches, the advances in communications technology and the flexibility and adaptability of smaller firms are all factors that make a faster internationalization process feasible. As a matter of fact, such changes facilitate companies to access worldwide knowledge and establish business partnerships with overseas counterparts. In this way it is possible for firms to skip some internationalization stages, directly “leapfrogging” to the foreign markets (Cavusgil, 1994). Ergo, according to the findings on Australian firms, companies around the world should seriously consider the possibility to undertake a fast internationalization process, which is not necessarily gradual and predictable. This is possible due to the rapid changes in environmental conditions and the capability of companies to handle such changes in an effective and proactive way, thus exploiting business opportunities on a worldwide basis.

#### **1.2.1.2 International New Ventures**

In the same period, Oviatt and McDougall (1994) develop a framework to describe the various types of firms that are international from inception. These authors argue that also companies that have limited resources can be competitive in the international arena. Such companies are called “international new ventures” (INVs). An INV is a “business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries” (Oviatt and McDougall, 1994). In addition, they identify three types of INVs: “New International Market Makers”, whose main activity consists in “moving goods from nations where they are to nations where they are demanded”; “Geographically Focused Start-ups”, which are specialized in serving the “needs of a particular region of the world through the use of foreign resources”; “Global start-ups”, which derive “significant competitive advantage from the extensive coordination among multiple organizational activities, the locations of which are geographically unlimited” (Oviatt and McDougall, 1994). The definition of INV proposed by the authors does not focus only on time of foreign market entry, which is defined with the terms “from inception” and is not precisely specified, but also on the “use of resources and the sale of outputs” in more than one country. Therefore, this definition adds a very important factor to the concept of fast

internationalizing firms developed by Rennie. This factor, which is identified also by Jolly et al. (1992), refers to the “use of resources” in multiple countries, whereas the previous definition proposed by Rennie focuses exclusively on the age of internationalization and the percentage of sales through exports. The need to use assets in other countries derives from the lack of resources that new organizations have to cope with. Ergo, this perspective highlights a very important question in the firm’s internationalization process, which is referred to the capability of a specific company to create value through the control of crucial assets in different countries around the world in an efficient and effective manner.

The next year, Oviatt and McDougall extended their work and labeled “global start-ups” those firms that are international from inception. Successful “global start-ups” can survive and growth thanks to seven characteristics (Oviatt and McDougall, 1995): a global vision from inception, managers or founders with prior international experience, a strong worldwide business network that derives from the entrepreneur’s prior international background, the exploitation of a pre-emptive technology or marketing strategy, the presence of a unique intangible asset, a close link between product or service extensions and a worldwide coordination of the company.

In this case, the authors identify another very important element that characterizes fast internationalizing firms: the manager’s prior international experience. This factor is perceived to be fundamental in the development of the company on a worldwide basis, since the contacts that the entrepreneur has established during his past work or study activities in foreign countries are the basis in the establishment of business relationships for the “global start-up”.

### **1.2.1.3 Born Global: other definitions**

Next, on the basis of prior research and relying heavily on the work of Rennie (1993), Knight and Cavusgil (1996) state that small, technology oriented-companies are those ones that “operate in international markets from the earliest days of their establishment” (Knight and Cavusgil, 1996). According to Knight and Cavusgil (1996), such firms export at least 25% of total production within two years of establishment. In addition, the authors suggest that a proactive entrepreneurial behavior and a major advance in processes or technology are the basis for the emergence of most BGs. This contribution,

even if heavily based on the previous literature, is relevant since identifies a different minimum foreign sales ratio in comparison to the previous work of Rennie (1993). In a later work, the same authors define BGs as “business organizations that, from or near their founding, seek superior international business performance from the application of knowledge-based resources to the sale of outputs in multiple countries” (Knight and Cavusgil, 2004). These small and flexible firms usually emerge in countries with small domestic markets, have limited access to human, material and financial resources and enter foreign markets after three years or less from establishment (Knight and Cavusgil, 2004). In their second contribution, Knight and Cavusgil identify a different time of entry for BGs, adding also that such companies are forced to operate on a worldwide basis to overcome the irrelevant home-country market. Furthermore, Knight (2000) develops a model in which identifies the factors enabling a SME to internationalize, thus dealing with the turbulence of globalization. These factors are: entrepreneurial orientation, referring to a proactive behavior towards the external environment leading to product/process innovativeness; globalization response, concerning the ability to change rapidly the firm’s strategies to face the challenges posed by globalization; internationalization preparation, regarding the commitment to enter the foreign market and adapt accordingly the product and marketing strategies; acquiring new technologies, thus fostering innovation, in order to be ready to enter foreign markets (Knight, 2000). Madsen and Servais (1997) argue that the rise of BGs is not only the result of new market conditions and technological developments in production, transportation and communication, but also of “more elaborate capabilities of people” (Madsen and Servais, 1997). An entrepreneur with a strong international experience, combined with a high-quality product targeting a niche market represented critical elements for the success of BGs. In addition, the lack of resources can be filled up through a network in which BGs “rely on supplementary competences sourced from other firms” (Madsen and Servais, 1997). In this case the authors stress the importance of a strong, global entrepreneurial vision. Looking at the foreign markets as an opportunity rather than as a threat, posits the organization in a favorable position towards the establishment of a worldwide network of business cooperation.

More recently, on the basis of their research on New Zealand firms, Chetty and Campbell-Hunt (2004) provide another definition of BGs. According to their study,

“born global firms have virtually no domestic market or only a small one before they start to internationalize”, begin “to internationalize within two years of inception” and “80% of their sales are in global markets” (Chetty and Campbell-Hunt, 2004). In addition, the authors stress the importance of other two factors. First, the founder’s prior international experience is perceived as a useful way to exploit a worldwide network of suppliers, customers and distributors deriving from the founder’s previous work. Second, a technological product aiming at serving the needs of few customers allows the company to achieve a good position in the specific market-niche (Chetty and Campbell-Hunt, 2004). According to this definition, it is possible to identify a new ratio of foreign sales in global markets. This discrepancy in comparison to previous studies may derive from the fact that the various researches were carried on in different countries. Therefore, the country-specific characteristics may have influenced the specific ratio. By the way, despite this cited ratio, the founder’s previous international experience and the specific focus on niche markets are redundant features that were emphasized also in previous studies on early internationalizing companies.

Gabrielsson and Kirpalani (2004) define the BGs to include in their study as those firms that “from their inception pursue a vision of becoming global and often globalize rapidly without any preceding long term domestic or internationalization period” and “have either unique technology and/or superior design or innovative product/service, or know-how, systems or other highly specialized competence” (Gabriellson and Kirpalani, 2004). Moreover, Luostarinen and Gabrielsson (2004) argue that BGs do not appear only in high-tech sectors, but more generally in five areas: high-tech businesses, high-design businesses, high-service businesses, high-know-how businesses and high-system businesses. In addition, they argue that, to be truly BG, a company should sell at least 50% of its products outside the domestic continent and its strategic vision should be global from inception (Luostarinen and Gabrielsson, 2004).

Finally, Evangelista (2005), after carrying on a research on Australian companies, argues that the BG firm, or international new venture, is characterized by the following attributes: competitiveness in foreign markets is reached through experience, unique product features, lower price or better technical service; location disadvantages of originating in isolated countries can be solved through new technologies and the establishment of overseas branches; the founder has a previous international experience

and a strong entrepreneurial, risk-seeking attitude. In addition, these companies originate in countries that have small domestic markets for the product and an advanced electronic technology is a key product characteristic (Evangelista, 2005).

#### **1.2.1.4 Innate exporters**

Ganitsky (1989) distinguishes between “innate exporters” and “adoptive exporters”. The first category comprises those firms that are characterized by a high level of flexibility and a pronounced international vision of top management. The weaknesses of these companies consist in their inexperience in the international landscape and in their limited access to resources (Ganitsky, 1989). The solution to these two shortcomings can be identified in the establishment of a worldwide network through strategic partnerships and alliances, a concept that it is heavily stressed in the international entrepreneurship literature.

#### **1.2.1.5 High-technology start-ups**

In 1992 Jolly et al. investigate how firms can leapfrog some of the internationalization stages and compete globally in an effective manner. These companies are called “high-technology start-ups” and are characterized by the following combination of policies (Jolly et al., 1992): a global vision from the start, a high-quality and innovative product, a standardized product with early success in lead markets, a broad and rapid market access through partnerships, a selective and functionally specialized investment abroad, the rapid development of new products and the creation of a specialized international network. Hence, the elements identified by Jolly et al. (1992) entail that a strong global vision and the ability to coordinate a set of worldwide-dispersed activities are fundamental conditions for high-technology start-ups to become successful global players.

#### **1.2.1.6 International entrepreneurs**

In 1999 Jones, after having studied the internationalization behavior of 196 small high-technology firms, identifies five types of companies: the “domestic firms”, the “reluctant developers/export specialists”, the “conventional developers”, the “rapid developers” and the “international entrepreneurs”. For the purpose of this work, it is

interesting to focus on what the author labels “international entrepreneurs”, since the characteristics of this kind of organizations are very similar to the features highlighted before for BG companies. “International entrepreneurs” consist of young and small high-technology firms that carry on a range of cross-border activities from inception. All the company’s value chain aspects are involved internationally and it establishes “both inward and outward trade activities within its first year, together with technical consultancy and a technology sharing agreement. Within a further three years, the firm had made some investment in overseas production, contract-in R&D, and license-out technology and had established its own sales representatives or branches overseas” (Jones, 1999). In this case the author suggests that the firm’s internationalization process can occur shortly after the firm’s inception and is a very broad phenomenon that includes the development of a worldwide system of relationships and is driven by a clear and strong global strategy.

#### **1.2.1.7 Instant internationals**

In the same year in which Jones proposes the concept of “international entrepreneurs”, McAuley studies the internationalization path of small Scottish arts and crafts businesses. In this case the author tags such companies “instant internationals”. The key influences on the “instant internationals” are related to product features (good design, quality, price, delivery, brand image), personal and psychological features (business attitude, personality, fearless), cognitive features (networks, access to know how, focus on customers, business skills) and industry features (sectorial influences, global market). It is possible to operate and compete in the global economy even for the smallest companies thanks to the right combination of product, personal and psychological, industry, and cognitive skills (McAuley, 1999). Beyond the traditional characteristics of early internationalizing firms such as a global vision and the access to resources through a network structure, McAuley asserts that fast internationalization can occur not only in high-technology sectors, but also in crafts-based industries. Also Evers (2010) argues that small firms can internationalize in a fast manner even if they do not operate in high-technology sectors. As a matter of fact, she proves that new ventures of the Irish aquaculture industry can rapidly develop and expand their operations on a worldwide basis. Anyway in this case, beyond the product knowledge

and the informal network established through the founder's prior international experience, the fast global development is driven by the necessity for the studied companies to survive, since there is no or little home market for their products (Evers, 2010). Therefore, according to McAuley (1999) and Evers (2010), a quick internationalization process is feasible also for organizations that do not operate in high-technology sectors. However, for such firms the cited process is much more difficult than for high-technologies companies because, if the latter have an intrinsic competitive advantage given by their specific know-how, the former internationalize on the basis of favorable conjunctions in the business environment which lead to an increase in the demand for the product. Such situation is not optimistic for the low-technology firm, because in today's turbulent and instable global competitive scenario disruptive changes can unexpectedly change the industry conditions, thus forcing the firm to quickly reorganize its strategy. Technology-based companies would be able to handle such issues better than companies operating in low-tech sectors. The former could easier prompt innovation and leverage on their unique knowledge, whereas the latter would have more difficulties to cope with industry shifts due to their less specialized know-how. Hence, for companies operating in low-tech sectors, it is necessary to possess a specific, unique knowledge in order to effectively pursue a fast internationalization path, thus exploiting such knowledge to deal with industry changes that may suddenly undermine the organization's competitive advantage.

#### **1.2.1.8 Born international SMEs**

Kundu and Katz (2003) use another label to describe quick internationalizing firms. They call such organizations "born international SMEs" and argue that owner characteristics play a fundamental role in the firm export performance. In particular, they state that "the firm's exchanges or performance outside its home country (i.e. across the organizational and national boundary), is a reflection of the owner/entrepreneur's intention to be international within the first year of operations and his or her informational resources that make such efforts succeed" (Kundu and Katz, 2003). Indeed in their study the authors recognize the importance of the owner's commitment towards internationalization as the fundamental resource to drive the firm's rapid expansion in the international scenario.

#### **1.2.1.9 Micromultinationals**

In 2003, Dimitratos et al. discover a new type of internationalizing firm that is different from large multinationals and other types of small organizations such as “global small firms” and “international new ventures”. This firm is called “micromultinational” and is defined as “a small- and medium-sized firm that controls and manages value-added activities through constellation and investment modes in more than one country. Unlike the large firm multinational, the micromultinational is likely to: not necessarily own value-added activities abroad, engage in higher degrees of constellation formations, possess a higher extent of value-added activities abroad represented by ‘knowledge intensive assets’” (Dimitratos et al, 2003). Therefore, even if the authors tend to consider the micromultinational definition as a separate concept to the one of “INV” developed by Oviatt and McDougall (1994), the definition offered sounds clearly familiar with the ones referring to the BG concept, including the “INV” concept. As a matter of fact, the exploitation of value-added activities on a worldwide basis directly connects to the network organizational form, a theory that is considered to be a mainstream in the BG literature.

#### **1.2.1.10 Early internationalizing firms**

In 2005a Rialp et al. develop a conceptual framework that seeks to explain the internationalization path of small enterprises, which they call “early internationalizing firms”. The model emphasizes three key features: first, the great importance of a company’s intangible resource base in the creation of the firm’s capability to establish on an international basis; second, the international capability of the organization is perceived as an invisible strategic asset that derives from the mix of intangible resources which are not rooted in home-based path dependencies; third, the external environment, in terms of sector and interconnected home and international networks, plays a critical role in shaping the firm-specific international capability (Rialp et al, 2005 a). Ergo, this explanatory resource-based model of internationalization stresses the importance of resources, knowledge, network and learning in the growth and development of fast internationalizing organizations.

### **1.2.1.11 Gazelles**

Recently, Parker et al. (2010) recognize the importance for firms to modify their strategies in order to cope with the changes of the external environment. The authors define “gazelles” those firms which “grow exceptionally fast and which have become large in a relatively short space of time”. “Gazelles” are small- or medium-sized firms with a number of employees that can vary from 20 to 500. They differ from “Mice”, which have less than 20 employees and “Elephants”, which have more than 500 employees (Acts and Mueller, 2008). Therefore, due to their size and their fast international expansion, the concept of “Gazelles” recalls the one of BGs.

### **1.2.2 The Born Global concept: a possible definition**

As it is possible to recognize from the various definitions that have been analyzed, the phenomenon of fast internationalizing firms has been defined in different ways, leading to the lack of a clear and univocal boundary for the theme. According to Bader and Mazzarol (2009), the definitions of Oviatt and McDougall (1994), Knight and Cavusgil (1996) and Rennie (1993) have been the mostly used in the research papers investigating on the BG phenomenon. In addition, as the analysis made in this chapter suggests, fast internationalizing companies have been labeled in various manners by different authors. These authors, even if do not use explicitly the BG label, identify some features in the firm’s internationalization process that partially overlap with the features identified by authors that refer to BGs. Such features are highlighted in *Table 1*, which summarizes the various definitions that have been previously examined. Despite the different ratios of foreign sales and different times of entry in foreign markets proposed by diverse authors, it is of general acceptance that BGs exploit international opportunities from inception. Therefore, given this common starting point, it turns out to be of particular importance to determine what the term “global” means. In addition, following the propositions of McAuley (1999) and Evers (2010), who argue that a fast establishment on an international basis is feasible also for companies operating in low-tech sectors, it is necessary to add the term “know-how” to the word “technology”.

Authors	Factors	Time	Min % of foreign sales	Global entrepreneurial vision	Technology	Size	Resources
Rennie (1993) Cavusgil (1994)		2 years	76%	✓	✓	small	-
Oviatt and McDougall (1994) Oviatt et al (1995)		from inception	-	✓	✓	-	✓
Knight and Cavusgil (1996)		2 years	25%	✓	✓	small	-
Knight and Cavusgil (2000)		3 years or less	-	-	-	small	✓
Madsen and Servais (1997)		-	-	✓	✓	small	✓
Chetty and Campbell-Hunt (2004)		2 years	80%	✓	✓	small	✓
Gabriellson and K. (2004) Luostarinen and G. (2004)		from inception	50%	✓	✓	-	-
Evangelista (2005)		-	-	✓	✓	-	-
Ganitsky (1989)		-	-	✓	-	small	-
Jolly (1992)		-	-	✓	✓	-	✓
Jones (1999)		1 year	-	-	✓	small	✓
McAuley (1999)		-	-	✓	-	small	✓
Kundu and Katz (2003)		-	-	✓	✓	small, medium	-
Dimitratos et al (2003)		-	-	-	-	small, medium	✓
Rialp et al (2005)		-	-	-	-	-	✓
Parker et al (2010)		short pace of time	-	-	-	small, medium	-

*Time*: time that elapses between the firm's establishment and the first international activity (every author taken into consideration implies a fast internationalization process; if the time period is not specified in the definition, it is assumed to be shortly after the company's foundation).

*Minimum % of foreign sales*: the percentage of sales in foreign countries that an organization must reach to be considered a BG.

*Global entrepreneurial vision*: the presence of top management with an international vision from inception.

*Technology*: a technology is embedded in the company's products or production processes.

*Size*: it refers to the size of the firm.

*Resources*: the organization uses resources in various countries, thus creating a worldwide network of strategic alliances.

✓: the author takes into account the corresponding factor

-: the author does not take into account the corresponding factor

### *Table 1 – Summary of definitions*

Looking at Table 1, which summarizes the definitions analyzed, it is possible to state that a BG firm is a small- or medium-sized organization which, from inception, achieves a considerable amount of sales in foreign markets, overcomes the lack of resources through the establishment of a worldwide network of alliances, is characterized by a

*global entrepreneurial vision, that often derives from the founder's previous international experience, and is competitive in the international scenario thanks to its superior technology or unique know-how.*

As it is possible to recognize from the definition provided above, a very big effort is necessary for a SME to internationalize from scratch. In particular, the BG firm must “deal with four liabilities: liability of smallness, liability of newness, liability of foreignness and liability of outsidership” (Oyson, 2011).

*Liability of smallness* refers to the size of the firm. As a matter of fact small firms are in a worse position in comparison to large organizations when they plan to enter a foreign market. The small size of a company does not allow it to achieve economies of scale and carefully plan on which activities to invest the limited resources they have at their disposal. Anyway, nowadays companies can exploit new technologies in production processes, such as the 3D printings, to overcome the constraints imposed by the achievement of scale economies, thus investing their scarce resources in key business functions.

*Liability of newness* refers “both to the state of being a young or new firm and to the entering of new markets” (Knight and Cavusgil, 2004). Young firms, when entering a new market, have to necessarily compete against older companies already operating in the given market. Beyond the disadvantages deriving from economies of scale cited before, new entrants face the following barriers when entering a new market: customer switching costs (costs that new customers must sustain when switching a new product: for instance time to learn how to use the new technology), necessity of financial capitals, need to develop an efficient distribution strategy, thus building new relationships with unknown distributors. In addition, yet established firms can leverage on other advantages that do not depend on size, such as the use of an exclusive technology, an established brand identity, the presence in strategic geographical locations, an easier access to input materials and their cumulative experience (Porter, 2008).

*Liability of foreignness* refers to all those extra costs that a new firm entering a foreign market must face in comparison to local companies (Zaheer, 1995). This kind of liability recalls the concept of knowledge about foreign markets proposed by Johanson

and Vahlne (1977) in their Uppsala model of internationalization. Indeed, when the BG organization enters a foreign market must face the different and new cultural habits of people. On the opposite, firms already operating in that market are expert about the cultural peculiarities of the country.

*Liability of outsidership* refers to the fact that a BG is not involved in a network of relationships, which “offer potential for learning and for building trust and commitment, both of which are preconditions for internationalization” (Johanson and Vahlne, 2009).

Therefore it is not easy for a BG to undertake a fast internationalization process, since it has to cope with the liabilities that have been analyzed above.

Furthermore, from the various definitions examined in this chapter, it is not possible to state which foreign countries the BG targets first. In fact, it is possible to state that, since BG organizations see the world as a single and unique market, they can target proximate as well as non-proximate countries, but it is not possible to specify which ones and how many are entered from inception. Finally, even if in some cases the BG concept can be defined as an *ex post* theory deriving from market contingencies, it is of greater acceptance for it to be defined as an *ex ante* phenomenon. Whereas in the first case the firm realizes that it can exploit international opportunities after having started its operations, in the second case the organization knows before its foundation that it must pursue an international development from the beginning. This work will be based on this last perspective and will investigate on the strategies that allow the BG organization to rapidly expand and succeed on a worldwide basis.

### **1.2.3 Differences between internationalization models and BG concept**

After having analyzed the BG concept through the various and different definitions that are available in the existing literature, it is clear that the previous internationalization models such as the stage models, the transnational enterprise model and the eclectic paradigm do not provide a framework to explain properly the phenomenon of firms that pursue a fast internationalization expansion. *Table 2* summarizes the principal characteristics of each framework and highlights that the features of the BG were not taken into account from previous internationalization models.

Firstly, the BG literature focuses on the analysis of small- and medium-sized enterprises (SMEs). On the opposite the other frameworks of internationalization take into

consideration the multinational corporation (MNC) or multinational enterprise (MNE) as their unit of analysis. Such discrepancy represents therefore the first reason why the cited internationalization frames can not be considered at the same level of the BG concept. In addition, BG firms start to operate in the international scenario shortly after their foundation. Contrarily to this, the “stage models” entail a gradual progress towards global activities following the so-called “establishment chain”, in which the authors assume that a company can not skip immediately to the last stages.

Secondly, the truly global vision of the entrepreneur is not taken into consideration from earlier internationalization models. Opposite to the BG theory, the stage models, assuming a slow and linear internationalization process targeting culturally proximate markets (Johanson and Vahlne, 1977), imply a close and static mentality of top managers, worried about the increasing uncertainty of the competitive environment and unwilling to rapidly grasp business opportunities all over the world.

Another difference among the cited internationalization processes and the BG phenomenon is represented by the concept of network. Indeed, SMEs that internationalize at a fast rate are almost forced to establish strategic alliances with foreign companies in order to overcome the lack of resources with which they have to deal. In this perspective, the work of Bartlett and Ghoshal (1987a) has some explanatory value, since the transnational enterprise implies the development of a flexible organizational structure to deal with the dispersion of activities, resources and responsibilities among geographically dispersed units. In addition, the transnational corporation interacts with external actors through cooperation agreements that allow it to achieve a high level of organizational and strategic flexibility (Decastri, 1993). However, even if the concept of network is cited from proponents of transnational enterprise model, it assumes another significance in comparison to its meaning for the BG firm. In the first case it represents a way for the MNC to rapidly access strategic competencies instead of developing them in-house, whereas in the second case the BG is almost forced to connect with other organizations worldwide due to its scarce resources and in order to prompt its international growth. Also proponents of the Uppsala model recognize that this concept is of fundamental importance for the growth of companies on a worldwide basis. Initially they did not take into account this aspect, but introduced it in a revised paper of their model (Johanson and Vahlne, 2003). Given

its importance in the development of a fast internationalization process, this factor will be deeper analyzed and discussed in the next chapter.

Finally, BG firms are competitive thanks to their specific technology or unique know-how that gives them an inherent competitive advantage in comparison to rival organizations. In this perspective, past internationalization models do not take into account, if not marginally, firm-level characteristics and focus almost entirely on the conditions of the external business environment in which companies operate. Indeed the pillar of the Uppsala model is the gradual development to overcome uncertainty and achieve experiential knowledge about foreign markets, the transnational enterprise is based on the simultaneous integration of global efficiency, national responsiveness and worldwide learning and the OLI model's foundation is the transaction cost theory.

<b>Stage models</b>	<b>Transnational enterprise</b>	<b>OLI model</b>	<b>Born Global</b>
Gradual international development: establishment chain	MNC that integrates global efficiency, national responsiveness and worldwide learning	MNE growth is based on ownership, location and internalization advantages	SMEs that internationalize from the first moments of their existence
Experiential knowledge is built starting from culturally proximate countries	Organized through an integrated network of geographically dispersed units	Ownership advantages refer to the firm's unique assets	Top management has a truly global entrepreneurial vision from inception
Psychic distance among countries leads to uncertainty	Ties and relationships among different units are managed through flexible mechanisms	Location advantages refer to where a company decides to run its operations	A worldwide network of alliances allows to overcome the lack of resources
The network concept is introduced only in the revised model	Innovation and learning occur both at a central and peripheral level	Internalization advantages suggest to avoid market imperfections	Competitiveness derives from the firm's specific technology or unique know-how

*Table 2 – Internationalization models and the BG firm*

### **1.3 Conclusion**

In this chapter the various internationalization processes developed in the 1970s and 1980s have been analyzed and discussed and the BG concept has been introduced. From the analysis conducted above it is clear that the traditional models have little applicability for modern firms, since they are conceived for companies operating in a different international competitive environment. As a matter of fact, starting from the 1990s, a change in the global business scenario occurred due to: faster and more efficient international communication and transportation leading to a reduction of transaction costs, growing convergence of customer needs in various and distant countries around the world, easier access to financial resources and increasing international mobility of people (Oviatt and McDougall, 1994). These conditions contributed to prompt international trade and investment, thus fostering the birth of BG organizations. Starting from the middle 1990s studies about BG firms proliferated and the concept definitively boomed in 2000s. Starting from this period, researches on BGs were carried on in different countries around the world: Sweden (Andersson and Wictor, 2003), Poland (Kraśnicka and Głód, 2003), Canada (McNaughton, 2003), Spain (Rialp et al, 2005 b), United Kingdom (Kudina et al, 2008), Vietnam (Thai and Chong, 2008), Brazil (Boehe, 2009; Dib et al, 2010), China (Zhang and Dai, 2009), India (Varma, 2010), Israeli (Almor, 2013) just to name a few. Previous internationalization models, and especially the Uppsala model, have been challenged and the authors focusing on BGs have questioned their validity. In this perspective, Moen and Servais (2002) carried on a research on Norway, Denmark and French firms in order to investigate in their internationalization process. Their study found that firms that started to export less than two years after their establishment outperformed those ones that began to export several years after their foundation. Hence, this research highlights once more that gradual internationalization can not be considered anymore an effective strategy for new companies to compete on a global basis. It is clear that studying BG organizations is increasingly important in order to understand how to manage the internationalization process of SMEs, taking into consideration not only their organizational forms, but also the societal aspects underpinning such companies (Rasmussen and Madsen, 2002).

On the basis of the analysis carried on in this chapter, a BG firm is characterized by the

following characteristics:

- Small or medium size;
- International expansion from inception: the maximum time that elapses between the firm's establishment and its first international operation identified in this work is the one provided by Knight and Cavusgil (2000) and corresponds to 3 years;
- A considerable amount of sales in foreign countries: the minimum % of sales in foreign countries identified in this work is the one of Knight and Cavusgil (1996) and corresponds to 25% of total sales;
- Creation of a worldwide network of alliances with foreign companies in order to access complementary resources in a rapid manner;
- The founder has an international mindset, often deriving from his previous international work or study experience;
- The capability of the organization to foster innovation by leveraging on its superior technology or unique know-how.

Another important element that has been outlined in this chapter is that BG organizations have to face four challenges when pursuing fast internationalization: liability of smallness, liability of foreignness, liability of newness and liability of outsidership. Therefore, according to these findings, BG firms face high risks because they have to succeed in a challenging and dynamic business environment.

Despite these unquestionable weaknesses that these small, fast internationalizing firms must face and overcome in order to succeed in the global market, they are more and more considered to represent a growing and important phenomenon in the international entrepreneurship literature. As a matter of fact, by undertaking a fast international development, BG companies can exploit all the opportunities of today's global business scenario. In the next chapter the factors that enable a BG organization to defeat the cited liabilities and to exploit global opportunities from inception are examined in depth.

## ***Chapter 2 – Factors characterizing Born Global firms***

From the analysis carried out in Chapter 1, it is clear that BG firms must face many difficulties in order to expand their operations on a worldwide basis. As a matter of fact, a company should offer a recognized good or service and leverage on its brand identity, rely on solid financial means, make use of knowledge about international markets and be dependent on reliable and tested organizational configurations and routines in order to succeed in the international scenario (Oviatt and McDougall, 1995): all characteristics that are impossible to build from scratch. As outlined in the previous chapter, despite these rational considerations the business environment was affected by disruptive changes starting from the new millennium. Such changes contributed to radically modify the way in which companies pursue their internationalization process. It is therefore of particular interest to understand how organizations can aspire to undertake a fast process towards international operations despite their little dimension and scarce resources, thus struggling against the power of older, yet established multinational corporations operating in the global market. In this chapter, the different characteristics of BG companies are studied on the basis of existing literature. Firstly, the role and characteristics of top managers is discussed, focusing particularly on their entrepreneurial and proactive behavior. Secondly, the strategy making process is considered. Thirdly, the way through which a BG firm can set up its marketing strategy is taken into account. After that, the human resource organization using the RBV approach and the financial aspect of the BG firm are taken into consideration. Last but not least, it will be examined how a BG can organize its activities on a global basis through a network of alliances, taking into consideration both the benefits and the downsides of such relationships.

Therefore, the following elements of the BG organization are further considered and analyzed:

- Entrepreneur's characteristics;
- Business strategy;

- Marketing strategy;
- Human resources organization;
- Access to financial resources;
- Network coordination of activities.

The above listed elements that constitute the taxonomy derive from the study on the literature analyzed in the first chapter. Since any univocal and systemic taxonomy concerning the research on BGs exists and all the cited aspects are widely, but at the same time confusingly, discussed by authors focusing on the phenomenon of BGs, in this chapter each listed element is singularly and clearly examined to provide a theoretical framework upon which to base the research on BG firms and to furnish a set of guidelines for entrepreneurs willing to establish of a BG.

This taxonomy has its own limitations: it must be considered that companies willing to expand on a worldwide basis must take into account also other aspects related to the internationalization process, such as legal regulations across different countries, peculiar administrative rules and country-specific governmental policies. Despite these limitations, the taxonomy used has its own advantages. Firstly, the aspects listed above have been chosen because they allow to understand how a BG firm can cope with, and hopefully overcome, the four kinds of liabilities (smallness, newness, foreignness, outsidership) cited by Oyson (2011). Secondly, they are the elements strictly related to the strategic and managerial aspects that an entrepreneur must take into consideration when establishing a BG firm: where to position the company in the international competitive arena and how to manage the organizational resources in order to rapidly and effectively reach foreign markets. Therefore, the taxonomy used in this work considers the most characterizing strategic features concerning the BG firm.

## **2.1 Entrepreneur's characteristics**

The first factor that enables BG organizations to undertake a fast internationalization process is the global mindset of top management. This characteristic of managers is widely stressed in the international entrepreneurship literature and represents the basis for the firm's rapid international expansion. Small- and medium-sized organizations are engaged in international activities thanks to the perception of young CEOs about dynamic and fast-changing environment (Andersson et al, 2004). In addition, "founders of INVs are more alert to the possibilities of combining resources from different national markets because of the competencies that they have developed from their earlier activities" (McDougall et al, 1994). With this statements the authors identify three fundamental characteristics of the entrepreneur: young age, alertness towards global opportunities and a prior experience in the international scenario. Young entrepreneurs are more likely to consider international business opportunities because of their open mentality and low or no dependence on old, yet established mental routines. Alertness refers to the ability of these entrepreneurs to recognize undiscovered business opportunities before others identify them. This perception of new opportunities before others is strictly related to the entrepreneur's prior international experience (McDougall et al, 1994; Bloodgood et al, 1996). In respect to this, if entrepreneurs have a past start-up experience in the domestic market, they will be less prone to take into consideration international chances in future; if entrepreneurs have a past start-up experience in international, foreign markets, they will be more inclined to develop their business internationally in future (Evald et al, 2011). As a matter of fact, a young manager with a past international background, whether in terms of work experience or study experience, is supposed to be an open-minded and quick-thinking person, who can leverage on his knowledge and personal contacts. However, the founder's alertness about international opportunities is not enough for an organization to succeed in the global market. The recognition of undiscovered business opportunities must be supported by a proactive and risk-taking attitude (Freeman and Cavusgil, 2007). Therefore, the entrepreneur's commitment and intention in put into practice the discovered international business opportunities through different strategies are fundamental for the company's fast internationalization (Andersson, 2000).

On the basis of the cited elements, the global attitude and risky inclination of the

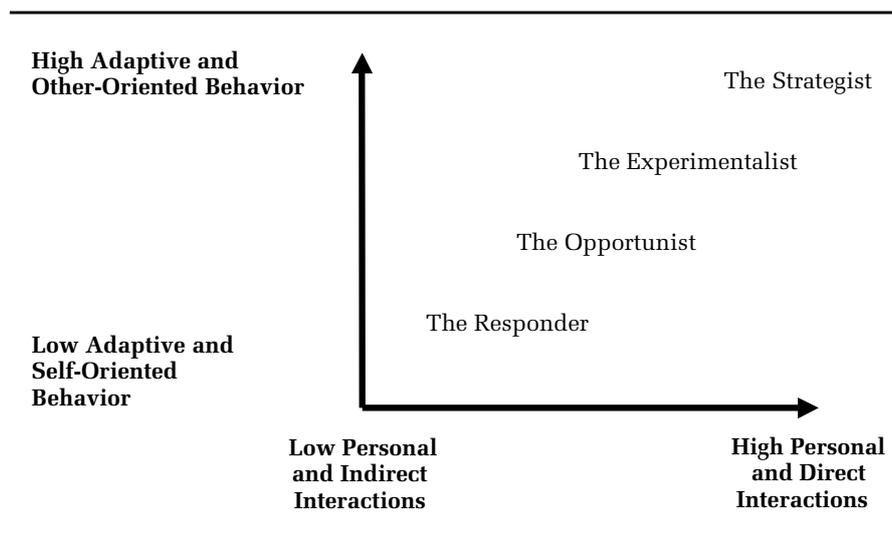
entrepreneur looking for the exploitation of business opportunities beyond national boundaries perfectly fits with the international entrepreneurship framework. In fact, “international entrepreneurship is a combination of innovative, proactive, and risk-seeking behavior that crosses national borders and is intended to create value in organizations” (McDougall and Oviatt, 2000). This definition was later modified and international entrepreneurship was defined as the “discovery, enactment, evaluation, and exploitation of opportunities – across national borders – to create future goods or services” (Oviatt and McDougall, 2005). Looking at these definitions, it is possible to link the characteristics of the BG entrepreneur inside the framework provided by the international entrepreneurship literature. Ergo, fast internationalization of BG organizations is prompted by the entrepreneurs’ propensity to think on a global basis and their ability to take advantage of international undiscovered opportunities.

A very important feature deriving from the cited characteristics of BG entrepreneurs that is worth to be mentioned refers to their willingness to pursue a fast international development. In this way the BG founder can overcome the constraints that would derive from the establishment of the organization in the domestic market (McDougall and Oviatt, 2000). In fact, firms that establish on a worldwide basis from inception are more likely to succeed in the international scenario. This derives due to the difficulty for companies that begin their operations exclusively on a domestic basis to change their mentality and organizational processes (Sharma and Blomstermo, 2003). This concept is found also in Autio et al (2000). In fact, it is argued that “the earlier in their development that firms ventured into international competition and the greater their knowledge intensity, the more rapidly they grew internationally, [...] as firms get older, they develop learning impediments that hamper their ability to successfully grow in new environments and that the relative flexibility of newer firms allows them to rapidly learn the competencies necessary to pursue continued growth in foreign markets” (Autio et al, 2000). If the strategic intentions can be modified with a sustainable effort, the firm’s organizational capability is much more resistant to important changes. Hence, the company’s administrative heritage, which consists in the set of firm’s organizational capabilities and is shaped by a number of factors (home country and social system, internationalization history of the firm, leader’s direction) can be, at the same time, one of the company’s greatest assets and also one of its most significant liabilities (Bartlett

and Goshal, 1987b). According to these arguments, the ability of an old organization to carry on its activities on a worldwide basis depends on its capability to effectively face the challenges coming from the external environment, while at the same time considering its consolidated organizational capabilities. On the opposite, a new firm avoids to face the hard and challenging task to modify its administrative heritage if decides to exploit international opportunities from scratch.

### 2.1.1 Four typologies of BG managers

Freeman and Cavusgil (2007) identify four types of entrepreneurial approaches for managers of fast internationalizing BG companies. These four typologies of BG managerial attitudes are represented in *Figure 1*.



Source: Freeman and Cavusgil (2007)

*Figure 1: Entrepreneurial attitudes of BG managers*

The framework proposed by Freeman and Cavusgil (2007) is based on two main dimensions regarding the BG manager: personal interactions (x-axis) and manager's behavior (y-axis). On the basis of these parameters, four typologies of entrepreneurial attitudinal states are determined: the responder, the opportunist, the experimentalist and the strategist.

All the four entrepreneurial approaches developed by Freeman and Cavusgil (2007) entail an international development of the firm. Anyway, as it is possible to recognize in

Figure 1, the *Strategist* represents the most advanced attitudinal stadium. In order to offer a holistic view of the various attitudinal approaches, the characteristics of the *Responder*, the *Opportunist*, the *Experimentalist* and the *Strategist* are listed. After that, the attitudinal approach that fits with the peculiarities of the BG entrepreneur identified in the previous paragraph is discussed.

- The *Responder* is aware about international opportunities but, since the domestic market is profitable, does not actively take into account the possibility to expand beyond the country-of-origin borders. Network alliances are built upon distant, person-centered relationships. If foreign opportunities may arise, the company targets culturally proximate markets through export activities.
- The *Opportunist* is committed towards international market opportunities but does not establish consistent interactions with customers and suppliers. The firm has little knowledge about foreign markets and seeks to acquire it through a network of personal ties. Psychically close markets are targeted first and the focus is on short-term results.
- The *Experimentalist* perceives the home-market as too small and wants to proactively pursue an international expansion. Network relationships are built throughout time and are based on trust. Customers are spread in different markets all over the world and foreign countries are entered through multiple entry modes.
- The *Strategist* adopts an innovative, dynamic and risk taking behavior and looks at international opportunities in a proactive manner. The network is established on a worldwide basis and is made up of strategic alliances based on trust, reciprocity and adaptability among different partners. Foreign market opportunities, also in psychically distant countries, are immediately targeted and international markets are entered not only through joint ventures or inward and outward activities, but also through joint manufacturing.

Looking at the different characteristics of the four attitudinal states developed by Freeman and Cavusgil (2007), it is possible to recognize that the typology that more closely corresponds to the characteristics proposed by previous authors and by the international entrepreneurship literature is the *Strategist*. This statement is supported by two factors. Firstly, the innovative and risk-taking behavior of the strategist is consistent

with the definition of international entrepreneurship proposed by McDougall and Oviatt (2000). On the opposite, the other attitudinal states are characterized by a poor commitment towards the organization's international expansion. Secondly, the strategist pursues international opportunities from inception also in culturally distant markets, establishing manufacturing alliances in those different countries. This is in contrast with the concepts proposed by the advocates of the Uppsala model, according to which the firm had to target first those countries characterized by low "psychic distance", following a step-by-step process based on the "establishment chain" theory (Johanson and Vahlne, 1977). From this point of view, the strategist perspective is consistent with the one proposed by authors of the BG concept. On the opposite, the responder, the opportunist and the experimentalist are less prone to target countries with different cultural aspects in comparison to the domestic one and choose more secure and less risky modes of entry.

Therefore, on the basis of the analysis conducted in this paragraph and integrating the aspects of international entrepreneurship with the attitudinal state of the *Strategist*, the characteristics of the BG entrepreneur are:

- Global mindset;
- Young age;
- Alertness towards international opportunities;
- Prior international experience, either in terms of work or study;
- Innovative, proactive and risk taking attitude;
- Commitment towards a fast internationalization process.

On the basis of these elements, the following definition of *BG entrepreneur* is proposed.

*The BG entrepreneur is an open-minded, usually young person who is aware that new business opportunities arise from and can be exploited in the international scenario. They have a global mindset, which often derives from previous international experience, either in terms of work or study, and are characterized by an innovative, proactive and risk taking attitude, which boosts the fast international development of the firm.*

## 2.2 Business strategy

The strategy formation process of a BG firm is represented by the configuration-holistic approach, according to which the company initially follows an emergent and entrepreneurial strategy and turns to more carefully planned strategies at later stages of growth (Rialp et al, 2010). As argued in Chapter 1, BGs must avoid the fierce competition of multinational corporations operating in the global market. However, the BG firm is not prevented to operate in larger markets where MNCs are the leaders. In this situation the BG should not compete against the larger companies, because it would be difficult for it to succeed. As a matter of fact MNCs operating in big markets developed throughout time their own customer base, acquired the necessary market knowledge, established their distribution channels, can leverage on a strong brand identity and gain access to a broad set of financial resources. Because of these reasons, it is unlikely for a BG to compete against these large MNCs. On the opposite, BGs should play a co-opetitive game with them (Vapola et al, 2008). Leveraging on their specific technology or unique know-how, BGs could act as a source of innovation for the MNC. They could, for instance, supply innovative elements, resell the bigger firm's products through a new and original distribution plan, thus providing complementary innovative solutions for the other established companies on the basis of their interior and unique knowledge base (Vapola et al, 2008). Vapola et al. (2008) call such framework based on open innovation the *battleship strategy*. Therefore, according to this model, the BG firm does not compete against the MNC in a zero-sum game, but seeks to cooperate with it in a positive sum game and, theoretically, both companies should benefit from such practice. On the one side, the MNC can exploit specific skills and competences that are not easily available in the market. This allows the MNC to combine its innovative ideas (internal innovation) with the novelties brought by the BG (external innovation), thus enormously increasing the possibilities to identify new needs and create new products or services to launch in the global market. Hence, such collaboration allows the MNC to acquire new competencies and potentially enlarge its offerings, thus expanding the operations also in new markets. On the other side, the BG firm can exploit the resources and the previously mentioned advantages of the MNC (customer base, strong brand, distribution channels) in order to commercialize its superior technology or unique know-how, thus enlarging its operations also in larger

markets dominated by big corporations. In addition to this, Sarasvathy et al. (2014) argue that the characteristics of the effectuation theory should be integrated within the international entrepreneurship approach. Companies should use the concepts of the effectuation theory in order to establish a network of alliances and cope with the uncertainty of foreign markets and their limited resources. In particular, such companies should start from the means they have, focus on the loss they could afford rather than on the possible revenues, should not be closed to debates but seek to dialogue with other parties in order to improve, have an open-minded approach in order to exploit opportunities that may unexpectedly arise and maintain a proactive behavior in order to deal with unexpected events and favorably shape them (Sarasvathy et al, 2014).

Therefore, the elements of the effectuation approach proposed by Sarasvathy et al. (2014) contribute to enlarge the strategic framework that BG firms should follow. Firstly, BGs have access to limited resources and must necessarily start from the means they have and only then determine the possible goals to be achieved. Secondly, it is possible for a BG not to immediately succeed in the international scenario. It is therefore fundamental to consider the affordable loss, because it could be necessary to suddenly restart from a different foreign market. Thirdly, BGs must dialogue with other parties, thus creating a worldwide network of partnerships in order to overcome their lack of resources and succeed in the worldwide market. Finally, since it is quite impossible to predict the future, the BG firm must maintain a proactive attitude towards new business possibilities. By applying the effectuation principles to the BG organization, it is possible for BG entrepreneurs to better cope with the uncertainty of today's business environment.

On the basis of the analysis above, the business strategy of a BG is outlined as follows.

*The BG firm adopts an entrepreneurial strategy in its earlier phases, whereas carefully plans its decisions during growth phases. Due to its scarce resources, it does not directly compete against MNCs but seeks to cooperate with them, thus exploiting their better and more developed structures in order to expand on a worldwide basis. Finally, it adopts the principles of the effectuation theory, undertaking an internationalization process based on control and not on prediction.*

## **2.3 Marketing strategy**

Small- or medium-sized companies do not usually deploy a lot of importance to their marketing activities because of their limited resources. Anyway, a well-developed marketing strategy is one of the most important conditions for a company to be successful (Knight, 2000). In general terms, BGs use a more standardized marketing strategy if compared to the one used by companies that follow a traditional, step-by-step internationalization process (Gabrielsson et al, 2012). In order to understand how BG companies can effectively develop their marketing plan, the POM\$ICA (which stands for product, operation, market, pricing, intermediate, customer and advertising) framework (Luostarinen and Gabrielsson, 2006) is used.

### **2.3.1 Product**

BG companies offer niche products, thus targeting niche markets where competition is very weak (Luostarinen and Gabrielsson, 2006; Moen and Servais, 2002; Madsen and Servais, 1997; Hennart, 2014). In addition, they offer high-quality products (Hodgkinson, 2008), introducing a new technology in the market they serve (Luostarinen and Gabrielsson, 2006). BG organizations often target niche, low-competitive markets in order to avoid the direct competition of larger, and yet established multinational corporations. As a matter of fact, such bigger companies operate in large markets where they can reap the benefits of serving a broad customer base with their usually standardized products. Furthermore, customers can easily replace these mass products, since a lot of substitutes are available in the market. On the opposite, BG firms offer modular (Luostarinen and Gabrielsson, 2006) or distinctive (Hennart, 2014) products in order to satisfy the specific needs of niche customers. In this case the BG organization is threatened by no or few competitors in comparison to the ones that it would encounter in serving larger market segments. Finally, it is worth to be mentioned that the product peculiarities are not necessarily given by a new or specific technology. In fact, as shown when the BG concept has been examined, BG organizations may arise also in low-technology industries, such as in the Scottish arts and craft sector (McAuley, 1999) and the Irish aquaculture industry (Evers, 2010). These cases confirm that the added value of the product offered by the BG firm can derive also from specific know-how: craftsmanship, as in the case of Scottish

companies, or specific skills in a particular industry, such as in the Irish case. In addition, this specific know-how to leverage in order to expand in the global market could reside in a firm's specific capability in design or other high value added activities such as distribution or retailing.

### **2.3.2 Operations**

As for operation strategies, BG organizations do not usually follow the internationalization process proposed by the "establishment chain", but are highly committed towards foreign operations from inception (Ahlbrecht and Eckert, 2013). In addition, BG companies do not usually invest directly in foreign countries, but seek to establish cooperative operation modes, especially in their earlier phases (Luostarinen and Gabrielsson, 2006). In this way it is possible for them to create a network of relationships that enables to overcome the lack of resources. Given the particular importance of the network development, this concept is deeply analyzed later on in this chapter.

### **2.3.3 Market**

The "market" variable refers to which foreign markets the BG firm decides to enter in the earlier stages of its existence. As outlined in the previous chapter, these organizations follow a faster internationalization process in comparison to other firms. According to the findings of the previous analysis, the BG company does not follow a linear international development path and aims to enter also culturally distant countries from inception. When entering different foreign countries, the BG organization must consider the peculiarities of each market. In particular, marketing capabilities are more important for companies operating in developed rather than emerging markets (Zhou et al, 2012). This derives from the fact that companies, in case of business-to-business (B2B) sectors, or customers, in case of business-to-customer (B2C) sectors, in developed countries are usually, but not necessarily, more competent than in emerging ones. In B2B sector, a lot of highly qualified and competitive suppliers are yet available in the market, thus forcing the BG to invest in marketing activities in order to promote its products or services. In B2C sector, customers are more skilled and require more advanced and complicated products or services in comparison to those of emerging

countries, thus obligating the BG to carefully adapt its marketing mix in order to satisfy different and complex demands.

### **2.3.4 Pricing**

Even if sometimes below-cost pricing is used to procure the first transactions with customers, BG companies usually determine their pricing strategy across markets on the basis of the idea of customer value added<sup>1</sup> (Luostarinen and Gabrielsson, 2006). Since this aspect is not widely examined in depth in literature of BGs, it is worth to be analyzed in the case studies that follow later on.

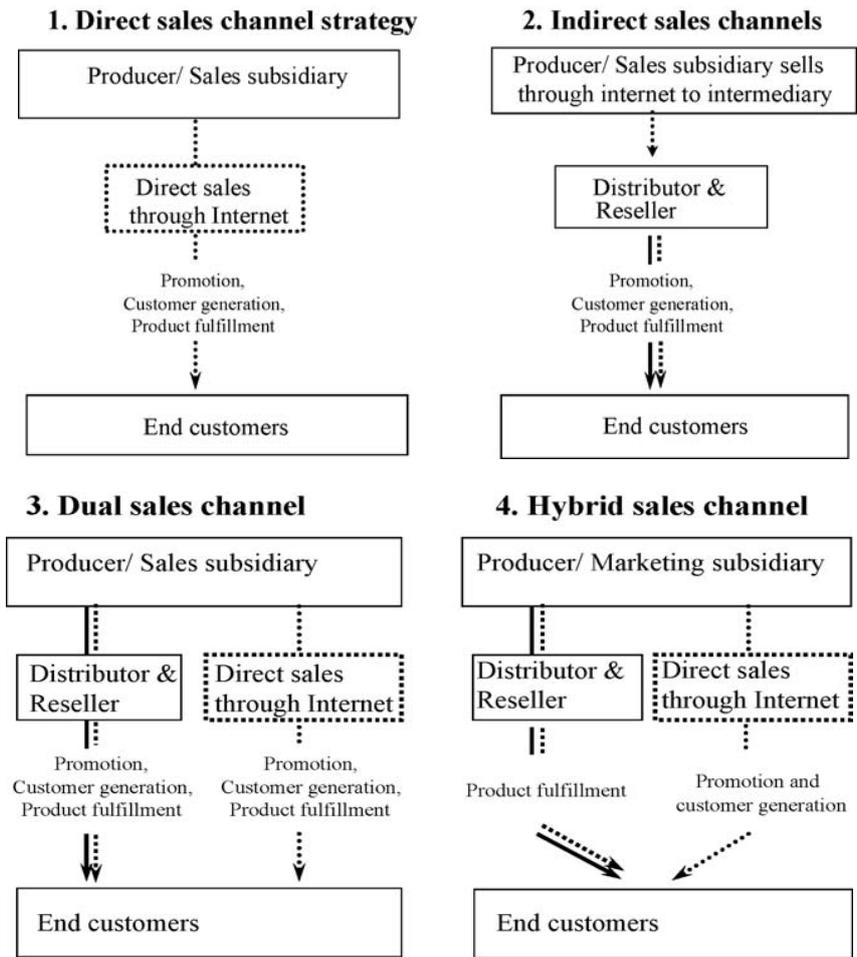
### **2.3.5 Intermediate**

Intermediate refers to the series of intermediate steps through which an organization's products or services transit before their appearance in the final market. The development of an efficient and effective distribution channel structure is fundamental for BG firms. Such companies can not rely on long and dispersive distribution channels, since their profits would suffer a lot from all the transactions that would occur. Parallel to this, it must be considered that the scarcity of resources prevents the BG from developing its own distribution channels. In order to solve this crucial aspect, BGs can leverage on the growth of the Internet and integrate it in its distribution strategy in order to avoid traditional distribution channels. Gabrielsson and Gabrielson (2011) identify four sales channels strategies made possible through the Internet: the *Direct sales channel*, the *Indirect sales channel*, the *Dual sales channel* and the *Hybrid sales channel*.

As it is possible to recognize in *Figure 2*, such distribution channels enable the BG to promote or handle its products and increase the customer base in an alternative manner. Therefore, the role of the Internet is not that of substituting traditional channels, but to integrate them in order to allow the BG firm to avoid unnecessary and expensive transitions.

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<sup>1</sup> It refers to the price that customers are willing to pay for a certain good offered by a certain company, believing that it gratifies them more than others.



(Use of Internet shown with dotted line)

Source: Gabriellsson and Gabriellsson (2011)

Figure 2 – Internet-based sales channels

Anyway, Internet-based sales channels do not entirely explain how BGs can effectively develop their distribution strategy because of the following reasons: they are more frequent in B2C than in B2B markets and not all products, for instance system products, can be easily promoted and sold through the Internet (Gabriellsson and Gabriellsson, 2011). Therefore, since single traditional sales channels are not effective for the BG company (Luostarinen and Gabriellsson, 2006) and the Internet-based sales channels can not be considered as a universal alternative to such channels, this topic is further investigated in the next part of this work.

### **2.3.6 Customer**

BG firms sell their products to internationally dispersed customers (Hennart, 2014) and target both B2B and B2C markets. However, they are more likely to operate in B2B sectors, since a lower marketing effort, and consequently a lower amount of resources, is necessary in comparison to B2C sectors (Luostarinen and Gabrielsson, 2006). As a matter of fact, when a company operates in B2C sectors, it must take into consideration that it is necessary to teach the customers about the product features. In addition, in B2C sector the product can attract the attention of buyers not only through its technical characteristic but, in many cases, by leveraging on the emotional aspects of potential customers. In this last case, the role of advertising is fundamental. On the opposite, in B2B sector customers are more interested about the technical characteristics of the product or service that they will purchase because the quality of a purchased product could reflect, for example, in the final product made by the purchasing firm.

Finally, customers, beyond purchasing the company's products, can play an active role for the organization. In fact the BG company should involve potential customers before starting its business. In this way a process of co-learning occurs, in which the organization grows and leverages on open innovation to develop (Mets and Kelly, 2011). In this case the current and potential customers play a proactive role for the BG firm, bringing new ideas to the company and shrinking the time necessary to develop new products (Lustarinen and Gabrielsson, 2006).

### **2.3.7 Advertising**

BG companies usually adopt low-cost means of communication, exploiting the growth of the Internet-based tools (Hennart, 2014; Bell and Loane, 2010). In addition to enable BGs to launch innovative and attractive advertising campaigns, the Internet allows them to understand how to develop such campaigns. In fact, it permits companies to acquire knowledge about foreign countries, thus carrying on low-cost market researches and reducing barriers to internationalization (Loane, 2005). Moreover, it is important to keep in mind that a low-cost advertising strategy does not prevent the BG company to build an internationally recognized brand (Altshuler and Tarnovskaya, 2010). BGs operating in B2C sectors should aim to develop a globally standardized brand in order to exploit it on a worldwide basis, whereas BGs operating in B2B sectors should make

use of more than one brand when serving the needs of different market segments (Gabrielsson, 2005).

*Table 3* summarizes the marketing strategy of the BG organization on the basis of the POM\$ICA framework.

<b>Variables</b>	<b>Characteristics</b>
Product (P)	<ul style="list-style-type: none"> <li>• Niche products</li> <li>• Based on a superior technology or specific know-how</li> </ul>
Operation (O)	<ul style="list-style-type: none"> <li>• No foreign direct investment</li> <li>• Cooperation modes of entry in foreign markets</li> </ul>
Market (M)	<ul style="list-style-type: none"> <li>• Also culturally distant countries are entered from inception</li> <li>• Marketing capabilities are more important when entering developed countries</li> </ul>
Price (\$)	<ul style="list-style-type: none"> <li>• Based on the concept of customer value added</li> </ul>
Intermediate (I)	<ul style="list-style-type: none"> <li>• Internet-based sales-channels integrate traditional distribution channels</li> <li>• Multiple sales channels are used</li> </ul>
Customer (C)	<ul style="list-style-type: none"> <li>• Both B2B and B2C customers</li> <li>• Internationally dispersed customers</li> </ul>
Advertising (A)	<ul style="list-style-type: none"> <li>• Low-cost advertising campaigns</li> <li>• Use of Internet for advertising</li> </ul>

*Table 3 – Marketing strategy of the BG firm*

Therefore, on the basis of the analysis carried on in this paragraph, it is possible to sum up the marketing strategy of a BG organization as follows.

*The BG firm leverages on its superior technology or specific know-how in order to offer niche products to internationally dispersed customers, targeting either B2B or B2C (or in some cases both) sectors. Such products are distributed in foreign markets through*

*multiple Internet-based and/or traditional sales channels. Promotion is established on low-cost, Internet-based advertising campaigns and the pricing strategy is based on the concept of customer value added. Finally, because of their limited resources, BGs do not directly invest in foreign countries but prefer cooperation modes of entry.*

## **2.4 Human resources organization**

Since the BG organization operates in the global market, it is necessary for it to pay particular attention on how it can manage its human resources in order to expand internationally. Basing on the Resource Based View (RBV) approach, the role of the human capital inside the BG organization is examined. The RBV framework developed by Wernerfelt (1984) suggests that an organization must not consider only the external analysis or strategic forces, but also get in touch with the resources it has. According to such model, the best strategy focuses on those resources that can make the difference. In order to make the difference, the resources inside the company must be inimitable from competitors and not available in the market. In addition, the firm should be able to keep them inside, thus rendering the specific, inimitable knowledge available for the future. Following the RBV perspective, human capital represents a set of resources inside the organization. Therefore, it is necessary for a BG firm to leverage on its human resources in order to increase its competitiveness in the global scenario. As argued before, BG organizations leverage on their specific knowledge in order to succeed in international markets. As a consequence, they should prefer to hire young people and develop their skills inside the organization, offering them the possibility to learn something that is very specific in the organization as well as career opportunities. In this case, it is better to use clan approach, according to which people give to the organization their experience, energy, passion and receive not only money, but also values and a sense of identity with the company (Ouchi, 1980). As a consequence, people are not driven by personal interests but are involved in the organization. This approach should be taken into consideration if tasks are complex, as in the case of BGs. Furthermore reciprocal trust is fundamental in clan approach, because a tight cooperation is needed. It is important to consider that trust can also reduce the costs of control and the probability of cheating. Therefore, since the BG organization needs specific skills for a long period in order to build a long lasting competitive advantage, the clan approach should be

taken into consideration in managing human resources according to the RBV perspective.

Another aspect to be considered is that, since the “internationalization process of BGs is a matter of learning through networks” (Sharma and Blomstermo, 2003), they must develop efficient information transfer systems in order to ensure the transfer of knowledge among the various companies that compose the system. In this perspective, the BG firm should align people, processes and systems with its partner organizations through the development of common rules and should especially consider the cultural distances of foreign markets in which it operates (Morris et al, 2009). In addition, as the BG grows, it is necessary to understand how to manage geographically dispersed employees. In respect to this issue, technological advances of today render very easy to communicate on a regular basis with employees across the world. As a matter of fact it is possible to exploit low costs communication tools, such as teleconferencing or conversing through Skype. In this way a discussion can occur as if it was running in the company’s headquarter.

Furthermore, it could be necessary for it to increase the control over operations throughout time, thus relying on different kinds of international managers in order to carry on overseas operations. In this case, the company can rely on parent country nationals (managers coming from the same country of the BG), host country nationals (managers coming from the foreign country in which the subsidiary operates), or third country nationals (managers coming from any country, thus recruited in the international scenario). In the first case it is possible to achieve a high degree of integration and identification with the politics of the home country. However, at the same time foreign people could not easily accept to be subordinated to foreign persons. In the second case it is possible to gain great knowledge about the foreign market, whereas at the same time not to have a high degree of control over foreign operations. In the last case it is possible to increase the cross-cultural outlook of the organization, thus enlarging the company’s set of capabilities (Decastri, 1993).

Finally, it must be considered that, given their nature of knowledge-intensive companies, BGs need proficient and skillful employees that are not easy to recruit. In fact, given that BGs tend not to be very famous on the labor market in comparison to other companies, for instance multinational corporations, certain human resource

practices and strategies should be developed in order to identify and reach also the external qualified labor pool (Eurofound, 2012).

To conclude, the human resource organization of BGs can be summarized as follows.

*The BG firm hires young people, who can learn something specific inside the company that render them unique and inimitable in the external labor market. Relationships among employees are regulated through clan mechanisms, where trust plays a fundamental role. Finally, BGs face a lot of troubles in the recruiting phase, due to the difficulty to attract proficient and skillful employees in comparison to bigger and well-known organizations.*

## **2.5 Access to financial resources**

As outlined previously in this work, BG organizations do not have a huge amount of financial resources, especially in their earlier phases. However, several studies demonstrated that these companies expand very rapidly and succeed in the global market. Therefore, it is worth to be analyzed how they can achieve a high degree of success even if their financial resources are not abundant. As a matter of fact, the lack of financial resources forces the BG company to invest only in certain activities, whereas overlooking or relying on partner firms for carrying on other operations. In addition, certain activities could be performed exclusively in order to meet the minimum requirements of survival (for instance: low or no investment in advertising, after sale assistance, or brand image). In order to overcome such deficiency, BGs can decide to be dependent on external companies, thus accepting all the advantages as well as the downsides of the network organizational structure, or ask for financial loans. The first possibility should be the most feasible for the BG firm, since the second one exposes the company to higher financial risks. In regard to this, when the recent financial crisis occurred, it became more and more difficult and risky for a company to obtain money from banks, because of the higher interest rates as well as the higher guarantees requested from financial institutes. Furthermore, BGs can unlikely rely on traditional sources of financial resources because they usually operate in innovative, thus riskier, sectors and due to their low possibility to offer big guarantees to financial

institutions because of their very limited amount of tangible assets. As a consequence, they must look for other ways through which access financial resources. In regard to this, “the role of public offerings (IPOs), business angels and domestic venture capital is also acknowledged among important external financial resources for born globals” (Eurofound, 2012). In particular, the role of venture capital is worth to be examined. In fact, if on the one side venture capitalists invest financial means in order to make feasible certain strategies, on the other side they transfer their specific knowledge to the organization in order to foster its fast international development (Fernhaber and McDougall, 2009). Therefore venture capitalists are very important agents for the growth and development of BG organizations, since they offer to such companies both tangible and intangible resources. In addition, the firm’s absorptive capacity, intended as the ability of an organization to assimilate and use new knowledge coming from outside (Cohen and Levinthal, 1990), plays a crucial role for the BG firm, since the specific knowledge transferred from venture capitalists has to be quickly understood and internalized. Therefore, due to the increasing complexity of the international business environment in which BG firms operate, the higher is the company’s absorptive capacity, the better is for the firm in order to rapidly grow in the global market. Furthermore, the reputation of venture capitalists that invest in and transfer knowledge to the BG firm is a factor worth to be considered, since more distinguished and respectable venture capitalists can count on more trustworthy contact partners in foreign countries, thus positively influencing the internationalization process of the BG organization (Fernhaber and McDougall, 2009). Another aspect to be taken into consideration is that people who invest in BG firms are different if compared to other investors (Moen et al, 2008). According to Moen et al. (2008), BG investors: take into account a huge number of projects, have a background as managers in big companies, have developed a global network of contacts with entrepreneurs and other investors, are more prone to take into consideration an IPO, involving other investors or companies as exit strategies for their investments. Therefore BG investors are internationally experienced people who can leverage on their network of worldwide alliances in order to prompt the internationalization process of the organization in which they invest. Hence, it is possible to conclude that BGs can gain a lot of benefits that go beyond the pure financial aspect. Firstly, venture capitalists allow a BG firm to gain access to new

and specific market knowledge, thus fostering its international growth and development. Secondly, the business contacts that the investors developed during their previous experience contribute to render the BG's internationalization process easier and faster. Finally, these international business contacts are useful also from a financial point of view for the BG, since new and distant investors could be involved for financing the project of the BG firm.

On the basis of the analysis carried on in this paragraph, the financial aspects related to the BG organization can be summarized as follows.

*The BG firm does not usually rely on traditional financial institutes in order to fund its operations because it can not offer the required guarantees and is normally involved in innovative, thus riskier, operations. On the opposite, external funding derives mainly from domestic and international venture capitalists that make available also their market knowledge as well as their business contacts in order to facilitate the BG's international development.*

## **2.6 Network coordination of activities**

The small- or medium-sized BG firms can not rely on substantial tangible and intangible resources. Even if they lack in international knowledge, they are not prevented to expand on a worldwide basis (Freeman et al, 2012). On the opposite, despite their resource scarcity, they follow a very fast internationalization process thanks to the establishment of collaborative alliances and strategic partnerships with other firms around the world (Freeman et al, 2006). In fact, the ability of the BGs to interact with other organizations, thus developing a network of alliances, enables them to internationalize and achieve a high level of international performance (Torkkeli et al, 2012).

### **2.6.1 Network development**

Strategic alliances and partnerships are built mainly thanks to managers' personal contacts in foreign markets (Freeman et al, 2006). Such contacts can be both formal and informal (Coviello and Munro, 1995) and usually derive from managers' prior

international experience. According to Decastri (1993), an alliance results in a trustworthy relationship between partners and two parameters are relevant in such relationship: time and cooperative intention. Time is intended in two ways: time necessary to establish the alliance and time, in terms of managerial effort, addressed to sustain the alliance. Cooperative intention is intended as the mental and organizational predisposition to maintain a positive attitude towards the partner. Therefore, mutual trust and commitment are fundamental in the development of the network and the fact that the two parties already know each other is a positive aspect. In fact, in this way the relationship can be stronger and the probability that one party adopts an opportunist behavior is lower if compared to a relationship in which the two parties don't know each other. In addition, it is possible to build the network if managers do not perceive foreign markets as hostile environments (Torkkeli et al, 2012) and if they are highly committed in establishing the operations on a worldwide basis (Freeman et al, 2006). Furthermore, the way the BG communicates with other partner firms plays an important role in the development of mutual commitment, trust and cooperation (Kuhlmeier and Knight, 2010). As argued above, since trust and commitment are factors that play a crucial role in a relationship between firms, if the BG is able to communicate in a way that enhances the trust and mutual commitment levels, the relationship between partner companies will consequently strengthen. From this point of view social networks, intended as informal relationships, contribute to reinforce business relationships and can, in some cases, lead a company to enter a new market without necessarily going through the business network, thus exploiting internationalization opportunities (Vasilchenko and Morris, 2011). Finally, it is not necessary for an organization to establish an alliance with a local partner when planning to enter a given market. It is rather sufficient to look for partners that are expert and familiar with the problems of the local country, have yet developed operative infrastructures necessary to start a new business, or are recognized as fundamental parts of the local economic system (Decastri, 1993). This is of particular importance, since it means that a company can enter a foreign market without necessarily cooperating with firms geographically located in that country, but with firms having the capabilities to operate in the given market, thus enlarging the possibilities for a BG to build its network structure.

### **2.6.2 A way to acquire market knowledge**

According to the Uppsala model of internationalization (Johanson and Vahlne, 1977), one of the main reasons why firms can not expand rapidly on a worldwide basis is represented by the lack of knowledge about foreign markets. Furthermore, such knowledge can be acquired only through a gradual, step-by-step internationalization process, which begins from culturally proximate markets. This perspective is completely revolutionized with the introduction of the concept of network, since partnership relationships allow companies to acquire market knowledge, thus making possible a fast international development (Freeman et al, 2010). As a matter of fact, BG organizations lack in “knowledge about the quality, quantity, and consistency of the local supply required to meet exacting overseas orders; knowledge about the processing, handling, and monitoring of the product along the supply chain to foreign markets; and knowledge about the changing requirements of key foreign customers” (Freeman et al, 2006). Thanks to the establishment of partnerships with other companies all over the world, BGs can easily access such knowledge base. In fact, foreign counterparts allow the BG to understand the peculiarities of the local supply, how to organize the distribution strategy in order to reach rapidly and effectively overseas markets and, more generally, how to effectively plan the marketing strategy in order to succeed in the international scenario. This process of knowledge acquisition is extremely important for a BG, since it allows the development of organizational capabilities that, through the reproduction of routines, permeate the culture of the firm, thus leading to a unique configuration of resources (Knight and Cavusgil, 2004). Furthermore, the earlier that a company decides to internationalize, the faster it will acquire new knowledge, since it is not constrained by old organizational routines and can fully exploit the “learning advantage of newness” (Autio et al, 2000), consistently with the previously mentioned constraints imposed by the company’s “administrative heritage”.

### **2.6.3 Limitations of networks**

It is clear that the development of strategic alliances and partnerships is of crucial importance for the BG, since it can gain access to a broad knowledge base that would be otherwise very difficult, if not impossible, to reach quickly. In addition, the network organizational form allows BG companies to focus on some activities, while at the same

time expanding on a worldwide basis despite the scarcity of tangible and intangible resources. However, such organizational structure has not only positive effects but presents also some threats.

The first disadvantage of the network structure is that the BG firm loses control over some operations in order to enter foreign markets (Coviello and Munro, 1995). As a matter of fact, relying on other companies allows the BG to approach the foreign market, but at the same time not to have full control on how overseas partners will carry on their activities. Due to their limited resources, BG organizations can not establish captive relationships with foreign firms but, as argued before, such relationships are based primarily on mutual trust and commitment. From this point of view, different is the situation for the MNC. In fact, MNCs usually expand their network and establish their activities in other locations in order to exploit the low costs of labor and gain operational flexibility (Fisch and Zschoche, 2012). Even if MNCs seek to establish captive relationships with overseas firms, according to which the foreign company totally commits to satisfying the demands of the MNC, control over operations inevitably tends to decrease. Therefore, BGs and MNCs seek to establish a network of worldwide alliances for different reasons: the former need to source on the global market in order to enter new markets and acquire new knowledge, thus making possible their rapid expansion on a worldwide basis; the latter look outside the national boundaries mainly with the purpose of accessing specific advantages of foreign countries, such as lower costs of labor or easily gain access to specific material inputs. It is important to emphasize that, in both cases, the process of heavily relying on other companies can have some negative implications for the organization. In particular, if a company outsources too much, it could lose very important capabilities that contribute to the firm's ability to innovate (Zirpoli and Becker, 2011). Therefore, when deciding to depend on worldwide-dispersed organizations, a company should maintain at the local level those activities in which it excels at (Chiarvesio, Di Maria and Micelli, 2010). Ergo, the BG organization is forced to establish business alliances with overseas partners, since they allow rapidly entering foreign markets and acquiring new market knowledge. Anyway, such alliances must be carefully planned because they could represent a double-edged sword for the BG. The BG should in fact keep inside the firm's boundaries its core activities, intended as those ones that it can perform better

than the others and which contribute to foster the company's innovation, whereas outsourcing those tasks that are better performed by other companies. In this way, the BG will not lose control over the most important operations, while at the same time reaping the benefits coming from cross-border linkages.

Secondly, hybrid structures, such as the network, are effective in the firms' earlier stages but do not provide a stable basis for long-term success in international markets (Aspelund and Moen, 2012). This factor is linked to the previously mentioned concept of control over operations. In its earlier phases, the BG company is compelled to be dependent on other foreign firms which facilitate its otherwise impossible fast international development. As the BG acquires market knowledge and develops new organizational capabilities, it starts growing. At this point foreign partners may represent a limit for the growth of the BG, since they could limit its expansion. For instance, if a critique partner company suddenly disappears from the market or its commitment in serving the BG diminishes without any warning, the BG firm finds itself in a tight spot and has to find another skilled partner within a short period of time. In such a situation, it would be necessary to build mutual trust and commitment with a new foreign company from scratch, entailing a time-consuming and costly process. On the opposite, if the BG would be able to integrate those activities that are fundamental for succeed in international markets, whereas relying on other firms for secondary, non-core activities, it would be possible for it to cope with market uncertainties in an easier and more effective manner. Therefore, in order to grow in the global market, the BG firm should rely on the network organizational form during its earlier phases, whereas trying to increase the control over operations in the long run (Aspelund and Moen, 2012).

Hence, international alliances enable an organization to: reduce the entry costs in a new market because costs are shared with international partners, reduce the time of entry in a new market since no or less infrastructures are necessary, rapidly understand the local needs and demands, develop an institutional identity which is accepted from the host country, overcome cultural obstacles with the local country and access local tangible and intangible resources. However, at the same time the following challenges must be take into consideration: how to integrate with foreign/ local partners, manage equilibrium between global and local demands, integrate employees from different

cultures, manage the flow of information from the local branch to the central structure, bring into question the organization boundaries, revise the labor modalities and experiment new behavioral models (Decastri, 1993).

On the basis of the analysis carried on above, the network concept for a BG can be defined as follows.

*The BG firm builds strategic alliances with overseas partners in order to gain market knowledge and rapidly enter new markets despite its scarce access to tangible and intangible resources. Such alliances are based on mutual trust and commitment between partner companies. In order to avoid lose of control over innovation-related operations, the BG firm should outsource its non-core, less relevant activities, whereas maintaining in-house its core, value-added ones. Finally, if the network structure proves to be a useful way for a BG firm to quickly expand internationally in its earlier phases, it does not allow the company to grow in a substantial manner: the BG firm should increase its control over operations in order to successfully grow in the global scenario in the long-run.*

## 2.7 Conclusion

In this chapter the main characteristics of the BG firm have been examined. The elements that have been taken into account in the analysis are: the entrepreneurial behavior of top management, the business and marketing strategy of the organization, its human resources organization, its access to financial resources and its coordination of internationally dispersed activities through a network of strategic alliances. Despite the fact that BG firms are not big and lack in tangible and intangible resources, the particular combination of the characteristics described above allows them to rapidly enter the international scenario dominated by multinational corporations.

According to the analysis made in this chapter, the following factors characterize the BG organization:

- Entrepreneurs willing to expand the operations of their company on a worldwide basis, having a risk-seeking behavior and using their past international experience and global mindset as levers for pursuing a fast expansion in foreign markets;
- An effectuation strategy making process, in which the entrepreneur starts from the available resources, is aware of the possibility not to immediately succeed on a global basis (and thus plans the affordable loss), and is directed at cooperate with, instead of fight against, multinational corporations;
- A marketing strategy based on a product serving the needs of a specific market niche, where communication is performed mainly through the Internet and distribution activities combine the use of traditional and web-based distribution channels;
- As for human resources management, relationships among employees are based on clan mechanisms and the main difficulty for the company resides in the recruiting phase;
- The lack of financial resources is solved mainly thanks to the participation of venture capitalists: they play a crucial role not only in funding, but also in transferring their specific knowledge and business contacts to the company;
- Complementary assets are not directly acquired through financial investments, but thanks to strategic alliances in different countries, thus establishing an

international network of business relationships with other companies. The risk associated with this process is that of outsourcing to other organizations also the most important, value-added activities. In this case the ability of a company to foster innovation would drastically decrease, thus inhibiting the firm to have full control on those activities that are crucial for remaining competitive in an industry over time.

The analysis that follows in the next chapter has the purpose to understand if this theoretical framework can effectively explain the fast internationalization process of BGs.

# *Chapter 3 – Case studies*

## **3.1 Methodology**

In this chapter, the characteristics of the BG firm are analyzed and discussed through an exploratory investigation on three BGs located in the Northern Italy, and more precisely in the Veneto and Lombardy regions.

The following research questions, deriving from the investigation about BGs made in the second chapter of this work on the basis of existing literature, have been taken into consideration for the empirical analysis:

- Do the entrepreneur's characteristics and mindset influence the international development of a BG?
- What kind of relationship exists between a BG and MNCs?
- Which is the marketing strategy of a BG (in terms of product characteristics, distribution channels and advertising campaigns)?
- How are human resources managed inside a BG?
- How is it possible to gain access to financial resources in the earliest times of operations?
- Is the network structure mandatory for a BG? Which are the advantages or disadvantages of such structure?

The companies taken into consideration for the analysis respect the following quantitative characteristics related to the definition of the BG firm proposed in the first chapter of this work: foreign markets have been taken into consideration within 3 years after the company's foundation (this is the maximum time between the firm's establishment and the first international activity of a BG identified in this work) and foreign turnover is at least 25% of total turnover (this is the minimum percentage of foreign sales of a BG identified in this work). According to such requirements, the companies identified for the analysis are: *illa Italia*, *Zooppa* and *Orobianco*.

Data have been collected through face-to-face interviews, e-mail interviews, company documents and websites. Interviews have been made with the Entrepreneur, in the case

of *illa Italia*, with the Italian Sales Manager of the company, in the case of *Zooppa*, and with the Commercial Director and the responsible for the Press Office of the company, in the case of *Orobianco*.

### 3.2 Case study #1: illa Italia

The first company that has been taken into consideration for the analysis is *illa Italia*, a firm located in Asolo inside the incubator “Fondazione la Fornace dell’Innovazione”.



Source: [www.illa-italia.it](http://www.illa-italia.it)

Figure 3 – *illa Italia* logo

#### 3.2.1 The company

*illa Italia* is a sole trader company, which was founded in March 2013 by Cristina Marzola. From November 2013 the firm is located inside the incubator “Fondazione la Fornace dell’Innovazione” in Asolo because Cristina took part and won the project “Ristart 2013, riattiviamo il territorio”. From that moment *illa Italia* started to operate and grow inside the incubator situated in Asolo.

The company operates in the fashion industry and focuses on the design and trade of high-quality handbags and clutches for women. The products are designed internally by Cristina and produced outside the company by specialized craftsmen located near Vicenza that make use of excellent raw materials. Once the products are made, *illa Italia* sells them to luxury boutiques in Italy and in the United States.

The company can be considered a truly BG, since the first sale in a foreign country occurred shortly after Christmas 2013, that is less than nine months after the firm’s establishment. The first sale outside the Italian boundaries was in the United States of America and occurred through to an e-mail sent to a boutique. In that period *illa Italia* had not any website in order to communicate the products’ characteristics. Therefore, the first foreign sale occurred almost by chance, since the company was established from a very little period and could not even rely on its own website as a source of

reliability for the foreign counterpart. Currently the company sells its products in Italy and in the United States of America and the percentage of foreign sales represents about 50% of total sales. Anyway this percentage will grow in the next years since Cristina is planning to enter the Japanese market, thus prompting the international development of the firm. Even if it would be easier to sell in Italy from a logistic and administrative point of view because of lower transportation costs and no custom duties, foreign countries offer higher possibilities in terms of product perception, a great and growing consensus for the “Made in Italy” label, a broader customer base and a higher buyer spending power. As a matter of fact a lot of Italian citizens are still facing the effects of the economic crisis that took place some years ago. In such situation, it is more difficult for a company like *illa Italia* to sell its high-quality products within the Italian boundaries. On the opposite, there are foreign countries characterized by a better economic situation. People living in those countries can afford to buy more expensive goods. Therefore, there are two main reasons why Cristina aims to sell her products in the global market rather than exclusively in Italy: a great acceptance of the “Made in Italy” label around the world and higher spending possibilities for foreign customers in comparison to Italian ones.

### **3.2.2 Entrepreneur**

Cristina is a woman who has a great passion for fashion and interior design. She attended the high school for scientific studies and continued her studies at the University of Architecture in Venice. During the academic studies she nurtured her interest for the fashion industry and started to design her own handbags for personal hobby. In this period, she spent three months in San Francisco, California, as an au pair. That phase was useful for her, since she had the possibility to understand how foreign people perceive Italian lifestyle. Shortly after her graduation in Architecture, she went to Ireland in order to learn the English language. During the four months spent in Ireland, she had the opportunity to meet and establish friendship relationships with Japanese people. This experience allowed her to recognize the high cultural level of Japanese citizens and their strong interest towards the “Made in Italy” brand. Cristina was so attracted from the Japanese culture to create a collection of handbags made with Japanese textiles. Once back in Italy, she worked for a certain period for a company

involved in the interior design industry. After that, she changed completely sector and worked in the real estate office of a construction company, in order to exploit the possibility to have an open-ended contract. Due to the economic crisis occurred all over the world in the past years, the construction company failed. Shortly after this unlucky event, Cristina took part to a Web Marketing course in Treviso. During this course, she recognized the possibility for small companies to exploit web tools in order to promote the products in an innovative and low-cost manner. Hence, driven by a huge amount of enthusiasm, she thought it was the right moment to do what she really wanted, but she never had courage to do in the past. Hence, she decided to design her line of luxury handbags and take part to the project “Ristart 2013, riattiviamo il territorio”.

### 3.2.3 Marketing strategy

#### 3.2.3.1 Products

The products offered by *illa Italia* (Figure 4) are high-quality handbags and clutches.



They are available in limited edition, are realized thanks to the cooperation with local artists and designers and represent the history and culture of the Veneto Region. Each single product is combined with a story regarding the cultural background in which it is produced. In this way an intangible value is added to the product and each object acquires a fundamental emotional surplus.

Currently the product portfolio consists of three

Source: [www.facebook.com/illa.italia](http://www.facebook.com/illa.italia)

Figure 4 - Company's products

lines of handbags and

clutches: “laser”, “Venezia” and “telaio”.

The “laser” collection (Figure 5) was created through collaboration among *illa Italia*, Manuel Pablo Pace, an artist who lives in Bassano del Grappa, and a master craftsman from Vicenza who is expert about innovative laser technologies for leather.



Source: [www.facebook.com/illa.italia](http://www.facebook.com/illa.italia)

Figure 5 - “laser” collection



Source: [www.facebook.com/illa.italia](http://www.facebook.com/illa.italia)

Figure 6 - "Venezia" collection

The "Venezia" collection (Figure 6) is inspired to the well-known Italian city. It is made with materials provided by a very famous Venetian firm and is available in two patterns, one of which represents the Palazzo Ducale in Venice.

Finally, the "telaio" collection (Figure 7) is the result of the cooperation with Renata Bonfanti Art Studio<sup>2</sup>.



Source: [www.facebook.com/illa.italia](http://www.facebook.com/illa.italia)

Figure 7 - "telaio" collection

The handbags and clutches offered by *illa Italia* are niche products, characterized by an original design and a great territoriality. In this way it is possible to offer exclusive goods without competing against multinational corporations that are present in the industry. As a matter of fact, it would be impossible for *illa Italia* to play a competitive game based on price, since it can not



Source: [www.facebook.com/illa.italia](http://www.facebook.com/illa.italia)

Figure 8 - Example of product packaging

achieve a very high amount of sales within a certain period of time. As a consequence, the exclusivity, which is intrinsic to the products offered by Cristina, allows her to establish higher prices in comparison to the ones that characterize standardized goods.

A very important aspect that allows Cristina to offer exclusive products consists in her ability to tell the story about the unique handbag or clutch. Each product is linked with the story of the artisans and master craftsmen of the Veneto Region with which Cristina collaborates. This story is part of the product value, in the sense that it represents the intangible, emotional part of the good. Finally, Cristina pays attention also to the product packaging (Figure 8), trying to maintain the exclusivity also in that particular aspect related to the product characteristics.

<sup>2</sup> Information about *illa Italia*'s products: [www.illa-italia.it](http://www.illa-italia.it).

### **3.2.3.2 Price**

Since the products offered by *illa Italia* are unique and made by master craftsmen using high-quality raw materials, their prices can not be compared to the ones of a company that offers standardized handbags or clutches and makes high volumes of sales. More specifically, the high prices of *illa Italia*'s products are justified by the original product design, the use of high-quality raw materials and product packaging, the cooperation with local artists and craftsmen, the low volumes of production and the unique story embedded in each product that stimulate the emotions of the customers. The result is that the final product is conceived and grows inside the local territory of the Veneto Region. Therefore the final customer buys not only the handbag or clutch, but also a piece of culture of the territory in which it has been produced. The combination of all these elements enables the production of small "objet d'art" that are unique and can not be reproduced by anyone else. In this way it is easier for Cristina to establish higher prices, since it is not possible to find anywhere else the handbags and clutches that she offers.

### **3.2.3.3 Distribution channels**

Currently *illa Italia* is active only in the B2B market but aims to directly sell in the B2C market through an e-commerce platform.

As for the B2B market, Cristina seeks to contact concept stores or boutiques with a high identity that sell niche and high quality products. The reason behind this choice lies in the fact that customers who enter these kinds of shops know in advance that they will find a certain type of expensive goods inside. It would not have any sense to sell the unique and particular handbags of *illa Italia* inside shops that sell also standardized and cheaper products. In fact, in this way it would not be possible to highlight the intrinsic value of the products.

As for the B2C market, the firm is planning to use e-commerce platforms in order to reach directly potential customers, thus increasing the potential customer base. Even if initially *illa Italia* will leverage on existing and well-known e-commerce platforms in order to begin to sell the products on-line, Cristina has the purpose to create her own e-commerce platform that will be available inside the company's website. The idea to build a personal e-commerce platform was planned shortly after the firm's

establishment, since the company's website has been created in order to be compatible with an e-commerce shop. The willingness to create a proprietary e-commerce shop derived from the fact that Cristina attended the Web Marketing course before the launch of *illa Italia*.

#### **3.2.3.4 Target customers**

*illa Italia* aims to target the higher, most profitable market segments. This is the result of offering niche and exclusive products made of excellent raw materials. More specifically, the target customer identified by Cristina should be a woman who has the following characteristics:

- is more than 25 years old;
- has a medium to high cultural level;
- has a medium to high income;
- has a strong personality;
- is interested in fashion and art but does not necessarily follow the trend of the moment;
- is always busy;
- loves travelling;
- is a regular consumer;
- loves buying high-quality objects characterized by a high symbolic and aesthetic value that satisfy her need to distinguish and express a strong and unique identity.

From the description provided above it is clear that the products offered by *illa Italia* seek to satisfy the needs and demands of a very particular and relatively small customer market segment.

#### **3.2.3.5 Advertising and promotion**

In order to promote the products outside the Italian boundaries without having the possibility to invest a huge amount of financial resources, Cristina exploits the web tools.

The first instrument that is used in order to promote the products is the company's website *www.illa-italia.it*. Here it is possible to find the company profile, the various

collections with the products' description and characteristics and the company's contacts. Even if it seems to be obvious that a company should have its own website, it is of particular importance to develop it in an attractive and clear manner since it is the first signal of reliability that the firm has when it seeks to expand and sell the products in foreign countries.

Secondly, the communication strategy is carried on through social networks. At the moment *illa Italia* has its own Facebook page and Instagram profile. In the next future the company will start operating also on Pinterest. If the company website acts mainly as a source of reliability for expanding in new markets, social networks have another role. They are fundamental in the process of customer engagement and can represent a tool to advertise the products to new customers. More specifically, the instruments provided by Facebook and Instagram allow easily showing the products to the friends of existing customers, or more simply followers, thus potentially enlarging the customer base in an exponential manner.

Finally, fashion bloggers are used in order to promote the company's products. These figures are people having a great passion for fashion, who create on-line blogs and suggest the fashion styles of the moment. Since they can influence in a considerable manner the people who follow their blogs, fashion bloggers play a very important role in the promotion of *illa Italia*'s handbags and clutches.

Therefore, thanks to the combination of different web tools such as the company's website and social networks and leveraging on the role of fashion bloggers, *illa Italia* developed its own communication strategy despite the scarce financial resources.

### **3.2.4 Financial resources**

The financial resources that allowed Cristina to start her entrepreneurial activity came from three sources: personal savings, financing through the project "Ristart 2013, riattiviamo il territorio", and a small bank loan.

The main source of financial resources came from the savings that Cristina collected during her past working experiences. Parallel to this, the project "Ristart 2013, riattiviamo il territorio" permitted Cristina to obtain a certain amount of money that was not available in terms of financial resources, but was allocated to pay the office rent where Cristina works. Finally, the bank loan amounts to a very small sum and has been

guaranteed from a regional consortium.

The fact that *illa Italia* operates inside the incubator “Fondazione la Fornace dell’Innovazione” is favorable not only from a financial point of view, since the funding will allow Cristina not to pay the office rent for a certain period, but also for other aspects. In fact, as Cristina started to work inside the incubator her company acquired a huge amount of reliability and widespread popularity, thus making easier the establishment of business contacts with famous and important suppliers of raw materials.

### **3.2.5 Network configuration of activities**

*illa Italia* does not produce the handbags and clutches internally, but exploits a network of local artisan companies that work in the fashion industry from several years and have the specific knowledge to make high quality products.

The product idea and design is realized directly by Cristina, and hence can be considered internal to *illa Italia*. In this phase Cristina usually interacts with other designers and artists operating in different sectors in order to complete the product configuration. For instance, she interacts with a designer operating in the jewelry industry in order to perfectly integrate the jewels application within the textile part of the handbags; or she cooperates with an artist working in the ceramic sector, who created for *illa Italia* a mosaic made of porcelain that will be applied to a clutch. Therefore, Cristina develops the core of the project and then collaborates with other people to fine tune particular components. This phase is very important and takes a quite long time to be completed, since a trial and error process, which occurs due to the interaction among different artists, characterizes it.

After that the design stage has been successfully completed and each artist is satisfied by his work, the prototyping and production phases begin.

Product components are purchased from external local companies, which are suppliers of very big Italian brands operating in the fashion industry. Thereafter local artisans and master craftsmen prototype, produce and package the handbags or clutches. These artisans and master craftsmen are located near Vicenza, an area that is considered to be a very important cluster not only for handbags, but also more generally for the textile industry. As a matter of fact, a great knowledge about this particular industry has

developed in that area throughout years. In addition, beyond the possibility to have access to such specific knowledge base, Cristina can exploit also the spatial proximity of the various companies involved in the supply chain. In this way, the firms can easily interact and make use of such interactions in order to share different ideas, thus creating original, unique and innovative outputs. Hence, Cristina decided to maintain the production in the Veneto Region in order to exploit all the benefits given by “Made in Italy” label and by the spatial proximity among the firms of the supply chain.

Once the products are completed, packaging included, they are sold to boutiques through agents. However, as stated before, the distribution strategy of *illa Italia* is still in its development phase, since Cristina would like to directly sell the products to her customers through an on-line platform.

### **3.2.6 Future development**

The main objectives that Cristina has for the next future are: increase the volume of sales in Italy and in the U.S.A., enter the Japanese market and make possible for customers to directly buy her products on the Internet through existing e-commerce platforms. In addition, she aims to enlarge *illa Italia* through the integration of a person that takes the responsibility of the administrative, logistics and communication tasks, thus allowing her to completely focus on product design. Finally, she will not certainly integrate the production but would be interested in integrating and having a higher control over the prototyping phase of the product development.

*Figure 9* represents the configuration of *illa Italia*'s activities that have been described in this work. The small squares and the other figures do not represent the exact number of designers, suppliers, craftsmen, sales agents or retailers but give a snapshot of how the company organizes its activities. Finally, dotted lines represent the future development of the firm.

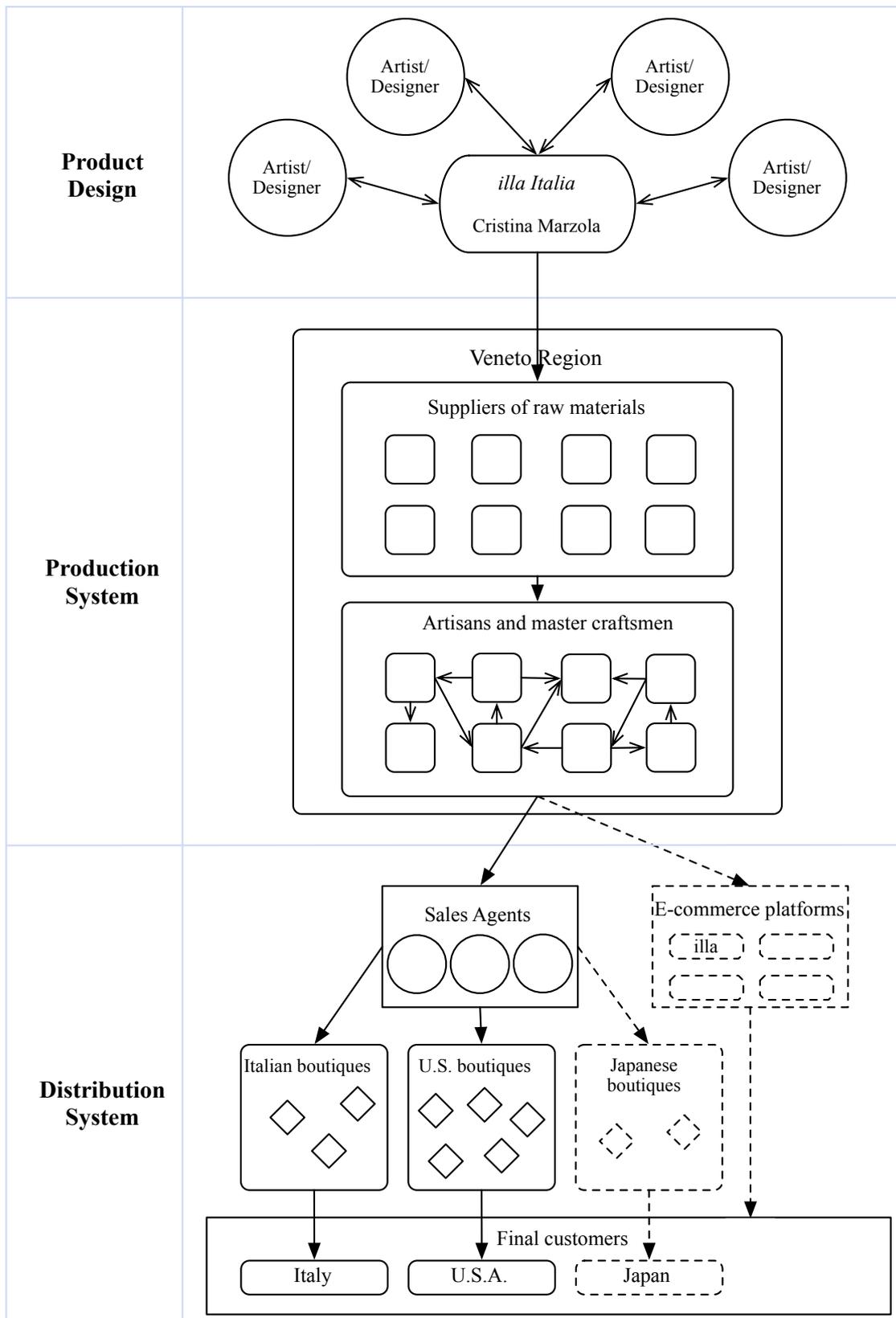


Figure 9 – Production configuration system of illa Italia

### 3.2.7 Discussion

The case study analyzed allows highlighting the characteristics that enable a firm to be a BG and quickly expand on the global market.

The first observation concerns the previous international experience of the entrepreneur. In the second chapter of this work, it has been argued that past international experiences of the entrepreneur, in terms of work or study, would have influenced the international development of the company. In fact, according to the analysis made about entrepreneur's characteristics, previous experiences in foreign countries would allow the entrepreneur to easily interact with foreign counterparts and be more prone to target distant foreign markets from inception (McDougall et al, 1994; Bloodgood et al, 1996).

In respect to this, the analysis about the case study *illa Italia* confirms that the previous experiences in foreign markets of Cristina influenced very much the international expansion of her company. Indeed Cristina spent three months in California and four months in Ireland, where she had the possibility to get in touch with Japanese people. The first experience occurred when Cristina was studying, whereas the second one took place shortly after her graduation in Architecture. In addition to this, it is worth to be mentioned that Cristina has a strong passion for travelling and discovering new and foreign cultures and lifestyles.

The two experiences outside the Italian boundaries did not allow Cristina to establish business contacts, because such experiences occurred when she was very young and in that period she was not absolutely planning to launch its own start-up in the fashion industry. Anyway, they revealed to be very useful for other reasons. First of all, they allowed her to think globally and recognize that a very big world outside the Italian boundaries exists. Secondly, in that period she came in contact with different cultures and understood how foreign people perceived Italy.

Definitely, consistently with the theory proposed by McDougall et al. (1994), previous experiences abroad influenced very much the international expansion of *illa Italia*, since the company now sells its products in the U.S.A. and is planning to enter the Japanese market.

Even if the cited experiences in foreign markets played a very important role in the worldwide development of the company, there are other two intangible factors that are

fundamental for the success of *illa Italia* that do not exist in the existing literature on BGs: the strong passion of Cristina towards the fashion industry and, above all, the strong commitment that allowed her not to give-up in the first, very difficult, period of business operations.

In fact, the first period was very difficult and full of hurdles. One of the main problems consisted in finding suppliers of raw materials who, even if used to operate with large and very famous brands of the fashion industry, were willing to work with her and make low volumes of sales. As she started to operate inside the incubator located in Asolo, the process of establishing business contacts was easier and her company could finally operate in an effective manner.

Hence, the fact that previous experiences of the entrepreneur in foreign markets contribute to influence the international development has been confirmed by the case study analyzed. However it is not enough for a BG to succeed. In fact a lot of problems may arise at the initial stages of operations. In the case of *illa Italia*, it has been fundamental for the Cristina to believe very much in her project. Leveraging on her formidable passion for fashion and design, she was able to overcome the initial obstacles and launch her own start-up in the global market.

Another very important aspect is related to the marketing strategy of the company analyzed. Consistent with the concepts proposed by Luostarinen and Gabriellson (2006), Moen and Servais (2002), Madsen and Servais (1997) and Hennart (2014), *illa Italia* offers niche products and aims to serve the needs of a very small, but very profitable, market segment. As a matter of fact, it would not have any sense for a small company like *illa Italia* to offer standardized or extra-luxury goods. In the first case it would compete against industry giants such as *Zara*, *H&M*, or *United colors of Benetton* and would have not any possibility to survive. In the second case, it would compete against very famous brands such as *Gucci*, *Prada* or *Chanel*. Therefore, after having recognized that the industry was characterized by a fierce competition both in the low-cost product range as well as in the luxury segments, Cristina decided to position its products at another level in comparison to bigger companies, thus avoiding their rivalry. The only way for Cristina to interact with such companies could consist in the design of a particular product line for them. In this way she could exploit the assets

of MNCs in order to expand on a worldwide basis. Anyway, even if it would be consistent with the battleship strategy proposed by Vapola et al. (2008), this is a very difficult and unlikely situation to occur because these companies already have their trustworthy designers all over the world. In addition, this process would entail a drastic change from the existing situation for *illa Italia*.

Consistent with the positioning strategy, the handbags and clutches of the company are not accessible to everyone. In fact, they do not represent a primary good that is fundamental for a person to live. On the opposite, they represent something very particular that can be bought only by women with a good disposable income who can spend money for non-essential goods.

As for the distribution strategy, Cristina is planning to launch its products on the web through existing e-commerce platforms, at the first stage, and through her own e-commerce shop, at a later stage. Even if the products will continue to be sold in traditional boutiques and concept stores, e-commerce platforms will allow the company to skip the intermediate step represented by sales agents, thus increasing the revenues deriving from each sale. In addition, another advantage of web-based sales channels consists in the possibility to reach a broader customer base with a minimum financial effort, since e-commerce platforms can be accessed very easily through the Internet from every part of the world. This distribution strategy fits with the theory proposed by Gabrielsson and Gabrielsson (2011), according to which web and traditional distribution channels are combined together.

Furthermore, consistent with the propositions of Hennart (2014) and Bell and Loane (2010), web-based tools are used in order to promote the company's products. As outlined before, products are promoted through the web site and social networks (Facebook, Instagram and Pinterest). All the communications activities are performed directly from Cristina. This web-based communication strategy allows her to easily and inexpensively promote her handbags and clutches. In addition, promotion and advertising through social networks makes possible to hugely expand the customer base through the social connections of existing customers.

Last but not least, fashion bloggers represent a very important way of advertising the company's products, since they can quickly influence other people about new dressing styles and fashion trends.

Furthermore, consistently with the theory of Fernhaber and McDougall (2009), the incubator “Fondazione la Fornace dell’Innovazione” had a very important role not only for financing the start-up, but also for facilitating the process of establishing new business contacts. In fact, as outlined before, one of the biggest problems consisted in the possibility to establish new relationships with suppliers of raw materials. In this perspective, the incubator enormously increased the visibility of *illa Italia* on the local territory. In addition, it offered administrative, legal and logistics assistance and made available a physical space for Cristina. Finally, it could be useful for the future development of the company, since the environment in which the start-up works is permeated by a frequent exchange of innovative ideas and beliefs due to the presence of other entrepreneurs inside the structure.

Moving to the configuration of the company’s production system, it is clear that the possibility to rely on external firms, which take care of the manufacturing process, represents a crucial aspect related to the production organization of *illa Italia*.

Firstly, the network configuration of activities allows the BG to maintain a high level of flexibility, thus not overloading the company structure with high fixed costs. Of course, as Coviello and Munro (1995) argue, in this way the company loses control over some activities. However, outsourcing production to local firms is the only way for *illa Italia* to operate. In respect to this, Cristina would not take into account the possibility to integrate the production process because of the high investment, and consequent high fixed costs, that it would require. The only thing that could be performed internally, but for sure not in the short term, is the prototyping phase.

Secondly, the choice to commit the production phases to external companies is driven by the fact that a lot of expert artisans and master craftsmen are available in the Veneto Region, and especially in the area near Vicenza. As a result of the industrial development that took place during the 1990s, this area of the Veneto Region is populated by a huge amount of small companies that have a very specific and inimitable knowledge about textile products. Therefore, consistent with the theory of Freeman et al (2010), relying on local companies for the production phase, *illa Italia* can also exploit and have access to a unique knowledge base that is not available anywhere else in the

world. In this way products achieve a higher value, which is expressed through a tale that tells the history of the particular territory in which the items are conceived and manufactured.

Finally, the fact that production is performed exclusively by Italian companies located near Vicenza allows the company to capitalize on all the advantages of the “Made in Italy” label. This is another element that contributes to the uniqueness of *illa Italia*'s products, thus making them impossible to imitate from other firms competing in the fashion industry. Cristina is highly committed in maintaining the production phases as close as possible to Asolo, her workplace. In fact, in addition to exploit the full benefits of high quality and excellent products, she can very easily and quickly interact with suppliers and master craftsmen in order to adjust the product design characteristics on the basis of the requirements imposed by production processes. This trial-and-error process is typical of crafts-based industries, in which learning-by-doing adjustments are possible thanks to the spatial proximity among the various actors involved in the supply chain.

Therefore, the company outsources those activities that entail a high amount of fixed costs and would be very difficult to internalize due to the specific know-how that characterizes them. At the same time, full control is maintained over design activities and, in future, the company aims to have control also on a consistent part of retail activities. This network strategy is coherent with the theory of Chiarvesio, Di Maria and Micelli (2010), since all the value-added activities are performed at the local level. In fact, if *illa Italia*'s products would be manufactured in other places, the unique cultural background that characterizes them would not exist: *illa Italia* is a BG that leverages on unique local assets available in the Veneto Region in order to expand on a worldwide basis.

### 3.3 Case study #2: Zooppa

The second company that has been taken into consideration for the analysis is *Zooppa*. It is a firm located in Roncade inside the venture incubator “H-Farm”.



Source: <http://zooppa.com/en-us>

Figure 10 – Zooppa logo

#### 3.3.1 The company

*Zooppa* was founded in May 2007 inside the venture incubator “H-Farm”. The company operates in the advertising industry and focuses on the creation of creative contents through a community that nowadays counts 250.000 people. At the moment, the firm has about twenty employees if all the company branches are considered: six in Italy, ten in the U.S.A. and two in the Great Britain. In addition, some sales agents work in the French and Dutch markets. The community of users creates various types of contents: videos, graphics, radio spots, banners, images and anything else related to advertising. These user-generated contents are created on the basis of the specific requirements of an external company, which exploits the *Zooppa* platform in order to launch its contest. Once the time available to create the creative content elapses, the company that launches the contest can decide which is the work that better fits with the contest requirements and can use it for its advertising campaigns, against the payment of a certain sum to the user who created it. Therefore, external companies commit *Zooppa* their advertising campaigns and the users registered in the community compete in order to create the best work and win the corresponding price money.

The company can be considered a BG. In fact, its international development began about one year after the establishment. The firm grew in Italy from its foundation in 2007 until the end of 2008. After that, the team recognized that it was necessary to expand on a worldwide basis in order to be more competitive. Therefore, at the end of 2008 the American branch was established in Seattle, inside the American offices of “H-Farm”. The choice to expand on the U.S. market was driven by the possibility to

exploit existing business contacts that were available thanks to the “H-Farm” American headquarter. In addition, the American business environment is characterized by the presence of a high number of start-ups that operate in the digital, new media and advertising industries. Because of all these reasons, *Zooppa*’s headquarter was shifted to Seattle and the Italian division became a branch of the company. The international expansion of the company continued throughout time: in 2009 the company expanded in Brazil, San Paolo and in January 2014 a new branch has been opened in London. The Brazilian offices have been established in order to accomplish a commercial function in a period when the company was running its business in that market. Now, the Brazilian branch does not exist anymore and the Portuguese platform has been closed in 2013 because the company decided to focus on the most profitable and fast-growing markets. In fact, even if the Brazilian market was growing on a considerable manner, in that moment it was better for the company to focus on the European and U.S. markets, without wasting the scarce human and financial resources in too many countries. Anyway, the firm did not completely forget the Brazilian market and its management team does not reject the possibility to go back to that country in the next future. In addition, the London branch will act as a datum point for the expansion of *Zooppa* in the Northern Europe. Furthermore, even if the company was established in Italy, the willingness to expand on the global scenario was clear from the earliest moments of its operations. For instance, the first version of the company’s web site was completely in English. In this way, the users who registered on the platform had the possibility to find an international environment from inception and nobody was prevented to access the community. Therefore, at the first stage of operations, English was the official language of the company. The Italian version of the web site was available starting from August 2007, that is a few months after the firm’s foundation.

Currently, the percentage of foreign turnover on total turnover is about 70%, whereas the percentage of Italian turnover on total turnover is about 30%. The first percentage will probably grow in the future, since the United States represents the main market in which the company runs its operations.

### **3.3.2 Entrepreneur**

The idea to launch the company came from a journalist, which dropped out of the

project very early. Originally the idea was slightly different from what *Zooppa* in this moment is. At the beginning, there was not any business model and the business idea was not so clear. The start-up was based on the idea to render the advertising world much more democratic, thus giving the possibility to everyone to create original advertising campaigns. At the initial stage Riccardo Donadon, the person who founded “H-Farm” together with Maurizio Rossi, believed that a good start-up could grow in the advertising industry and, therefore, contributed to create the business model of the company. Therefore the fact the start-up could rely on the support of the Italian venture incubator was fundamental in the first period of operations. Since 2008, when *Zooppa* started to run its operations also in the United States, the CEO of the company became Wil Merritt. He was immediately attracted from the business idea to create a start-up in the advertising sector and contributed from inception to the creation and development of *Zooppa*. The choice to select him as the CEO of the firm was not casual, but driven by his past background in the advertising business. In fact, before of becoming the CEO of *Zooppa*, Wil made some important working experiences in media and advertising companies: he was the Senior Vice President of Sales and Service at Corbis Corporation, the digital media company owned by Bill Gates, worked for a very long time for Time Warner, Inc., and was the Marketing Director for the Asian edition of Time Magazine based in Hong Kong. In addition, he lived in Europe, Africa and Asia<sup>3</sup>. Therefore, the fact that the company’s CEO had a strong background in the industry in which *Zooppa* operates could bring a lot of advantages to the start-up. Firstly, the company could provide a higher degree of prestige and reliability when new projects and plans were presented to business counterparts. Secondly, the business contacts that he established and developed during his past experiences could represent a way for *Zooppa* to easily expand its business operations. Finally, since Wil was immediately captured from the project, he contributed not only to the development of the company towards the external business environment, but also to its internal organizational growth and improvements.

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<sup>3</sup> Information about Wil Merritt:  
<http://investing.businessweek.com/research/stocks/private/person.asp?personId=20878300&privcapId=34241909>,  
<http://zooppa.com/en-us/corporate/team>, [www.h-farmventures.com/portfolio/zooppa/](http://www.h-farmventures.com/portfolio/zooppa/).

### **3.3.3 Business model**

The first step in *Zooppa*'s business model consists in the creation of the contest. The first contact occurs with an external company having certain requirements, in terms of videos, photos, graphics or anything else related to its advertising campaign. On the basis of the demands of the external company, *Zooppa*'s team prepares a brief, concerning the description of the contest, which is later published on *Zooppa*'s web site. At this point, the users that are registered in the *Zooppa* community have about six to eight weeks to take part to the competition and produce their own creative content. In order to be registered in the community, people do not need to pay anything: it is sufficient to register and log in on the company's website. In this moment, *Zooppa*'s community is composed of about 250.000 users, with an increase of about 1.000 users per week.

In some cases, the contest can be launched also through an ad-hoc site realized for the specific project or a social media application. In particular, the contest is launched through social media, (usually Facebook or Instagram), in order to engage the fans in the creative process: Facebook contests allow *Zooppa*'s fans to share and vote the best works, thus involving them in an incredible manner and Instagram contests enable people to upload their own video, which are then filtered and showed to the client by *Zooppa*.

At this stage of the process, *Zooppa*'s team must check that each single work does not violate the copyright because it would not be possible to give the client something that can not be used due to copyright violations.

Each contest has a price money, which usually varies between €10k and €15k, which goes to the user who wins the contest. The winner is always selected by the company that launches the contest. In this way, the winner of the contest gives the license of the work to the company that commissioned the project on an exclusive basis, against the payment of the price money. In some cases also the community members can express their opinion about which is the best work for a given contest. In this way the company that commissioned the work can gain two main benefits: on the one hand, it is possible to understand which is the favorite work for people; on the other hand, community members can share and comment each work, thus contributing to spread the content on the web. When the community vote is present, a prize money exists for the user who

wins this special competition.

Therefore, *Zooppa* acts as an intermediate company between firms looking for creative contents for their advertising campaigns and people who create original and innovative works for such companies. It is important to highlight that about 65% of community members are professionals, such as small agencies or freelancers working in the advertising sector. Therefore, a lot of contents that are created are very interesting, both in terms of product idea and in terms of product quality.

### **3.3.4 Marketing strategy**

#### **3.3.4.1 Website**

The company's website is the place where the briefs of the various contests are published and where users can register and become part of the community. Therefore, it represents a fundamental tool for the company, since it is the place where *Zooppa* launches the contests and, at the same time, gets in touch with its community members. As stated above, *Zooppa*'s website was available only in English when the company started to operate. Only a few months later, the Italian version was created. During the first years of business activities, the English web site and the Italian web site had exactly the same contents. Nowadays, considering that *Zooppa* has considerably grown, the two platforms do not contain anymore the same information: different contests are available in the Italian and in the English platform. In fact, as the company started to grow in a considerable manner, the necessity to differentiate the contests for each particular market was recognized. Users have a unique password in order to log in and access the community, both if they access *zooppa.it* and if they access *zooppa.com*. In this way, the global dimension of the community is maintained. However, each market has its own contests: American contests for the American market and Italian contests for the Italian market. In addition, on the European and Global platforms users can find contests aimed to serve the international market. This differentiation derives from the fact that various companies need the advertising campaign only for a specific country and not for all countries in which they operate. In addition to this, advertising campaigns usually differ on the basis of the target country. In fact, since advertising campaigns are strictly related to the cultural characteristics of people, they must be localized and adapted to meet the local needs and demands in order to be effective. On

*Zooppa*'s side, the website differentiation allows the firm to achieve a high degree of operational flexibility. In fact, it is possible to launch the contest on the American, Italian, European or Global market on the basis of the customer's needs and requirement.

#### **3.3.4.2 Customers**

Customers of *Zooppa* are companies that need creative contents in terms of photos, graphics, videos, storyboards, advertising campaigns, banners and radio spots. Customers are represented mainly from two categories: companies and media agencies. Companies looking for creative contents through *Zooppa* are usually multinational corporations. In fact, among the firm's clients it is possible to find both Italian and international big companies such as *Braun*, *Diesel*, *Google*, *Microsoft*, *Nike*, *Posteitaliane*, *Pantene* and *Reebok* just to name a few. These big companies can reap a lot of benefits from the cooperation with *Zooppa*. Firstly, they can access the ideas of a huge amount of people with a sustainable effort, thus having the possibility to develop their advertising campaign in an innovative and always different manner. Secondly, they can gain all the benefits of organizational flexibility: it is not necessary for them to have an internal department that focuses exclusively on making advertising contents, since it is possible to easily access user-generated creative and innovative works.

Beyond traditional companies looking for creative works, *Zooppa*'s clients are also agencies working in the communication business. In fact, sometimes agencies have to promote a certain product through a wide range of activities. In this case, the contest on *Zooppa*'s platform has the purpose to find out new contents, spread them throughout the web, thus supporting in this way the launch of a new product or service. Therefore, the work of *Zooppa* perfectly integrates with the needs of communication agencies. In fact, *Zooppa* helps such agencies to find creative contents through its community and then the agency uses the best works that have been produced according to its own needs. In other cases, *Zooppa* cooperated with creative agencies. Such cooperation occurred only with foreign creative agencies located in London and in the United States, because that kind of Italian agencies do not perceive *Zooppa* as an opportunity to exploit, but merely as a pure competitor. In the case of creative agencies, projects are not focused on big advertising campaigns or videos, but concern the corporate identity of a particular

organization, for instance videos or contents to be launched in the social media or in the Youtube platform.

Therefore, *Zooppa* sells advertising campaigns that are realized through creative contests, thus representing a mean to be exploited in the communication strategy of big companies and agencies.

#### **3.3.4.3 Communication tools**

In addition to the company's website, which represents the core of the company's activities, *Zooppa*'s communication is based mainly on social media platforms. The company has its own profiles on Facebook, Twitter, Google+, Pinterest, Vine and Instagram. Since the firm operates in the media advertising industry, the choice to increase its presence on social media platforms was quite obvious. In fact, in this way *Zooppa* can easily get in touch with its community and increase the community members' engagement through social media tools.

#### **3.3.5 Human resources**

In this moment, *Zooppa* has about twenty employees working in its branches around the world. The Italian branch is composed of five employees: two developers, one community manager, one operations manager, and one sales manager. In addition, the company has two interns that usually deal with the operational activities of the firm, such as the communication with the members of the community. The average age of the Italian branch of the company is very low, and corresponds to 29 years old. In respect to this, it must be considered that a lot of employees work for *Zooppa* from the earliest days of the company's existence, which is from 2007. Therefore, the company was composed of young people from the earliest moments of its existence.

The organizational structure of the company is flat and the relationships between the employees and the management team is very informal. During the company meetings, employees have the possibility to tell their own opinion about the project that is discussed. Obviously, the final decision is entitled to the top management team, but derives only after a dense debate with all the people who are part of the company. This concept is reinforced from the fact that *Zooppa* is located inside the venture incubator "H-Farm". This allows the company's employees to meet on a daily basis people who

are interested in the digital and advertising sector. In fact, the venture incubator hosts a lot of start-ups that operate in the digital media sector, thus allowing also people who do not work in the same company to interact and share ideas and beliefs about their businesses.

A particular problem related to human resources for *Zooppa* concerns the recruiting process. In fact, this process is not so easy as it could be in other kinds of organizations. The main difficulty is represented from the fact that *Zooppa* does not usually look for people who have an already clear and well-defined job position. On the opposite, the company looks for people who have a great passion for advertising, are willing to learn something new and can acquire new competencies in a relatively short period of time. However, even if the recruiting process is not so easy, *Zooppa* has the possibility to exploit its position inside the venture incubator. In fact, “H-Farm” often organizes a lot of initiatives and events that allow people to get in touch with the “H-Farm” digital media world. In this way also existing start-ups can more easily find the right people for them.

### **3.3.6 Financial resources**

The financial resources necessary to launch the start-up came entirely from the venture incubator “H-Farm”. In fact, during the first years of operations *Zooppa* needed a significant amount of investments in order to run its business activities on a worldwide basis. Therefore, without the financial contribution of “H-Farm” investors, it would have been much more difficult for the company to expand internationally very fast and succeed in the global scenario. Moreover, “H-Farm” team believes very much in *Zooppa*’s project and, if extraordinary financial resources should be necessary, it is ready to intervene with new investments.

In addition to play a crucial role in the investment phase, “H-Farm” played a key role also in the growth and development of *Zooppa*. In fact, especially during the first years of business activities, it contributed to all the strategic features, such as the creation of a successful business model, as well as to all the operational features, such as the office availability.

Finally, “H-Farm” has fundamental role also in the establishment of business contacts. In fact, the venture incubator located in Roncade attracts a lot of companies that are

willing to know what happens inside the various start-ups that operate inside it. In this way, *Zooppa* does not only look for new business contacts through phone calls or e-mails, but has the possibility to build new commercial relationships when external companies go to visit “H-Farm” headquarter.

Therefore, “H-Farm” contributed not only to the launch of *Zooppa* through the investment of financial resources, but also to its continuous growth and development day by day.

### **3.3.7 Network configuration**

In order to increase its visibility and popularity in the business environment, *Zooppa* established partnership relationships with some Italian and international institutions and foundations that foster people creativity. Among the company’s partners it is possible to find various kinds of organizations, such as art institutes, universities and filmmaking schools that operate on a worldwide basis. These organizations contribute to promote the contests that are launched on *Zooppa*’s website. In this way, people who are involved in these kinds of partner firms have the possibility to get in touch with *Zooppa* and take part to the various contests. Therefore, these partner relationships allow both *Zooppa* and the partner organizations to increase their visibility through the promotion of some initiatives that contribute to enlarge the appeal of making creative works related to advertising. In addition, *Zooppa* created close relationships also with forums and blogs where creative people are used to exchange their ideas and opinions about media and advertising. All these links among companies and institutions providing creative solutions allow *Zooppa* to enlarge its virtual community with members that already have a background in the advertising business and, most importantly, a creative mindset developed thanks to their past experiences, in terms of work or study, in such partner organizations. In this way *Zooppa* can increase the qualitative level of the community, thus having the possibility to offer to its clients high quality, always innovative and original works. The process of enriching the community with specialists and creative people would be much more difficult and slower if the network with the cited organizations would have not existed.

*Figure 11* summarizes the configuration of *Zooppa*’s activities that have been described

in this work. The small squares and the other figures do not represent the exact number of companies, agencies, partner organizations and institutions but give a snapshot of how the company organizes its activities.

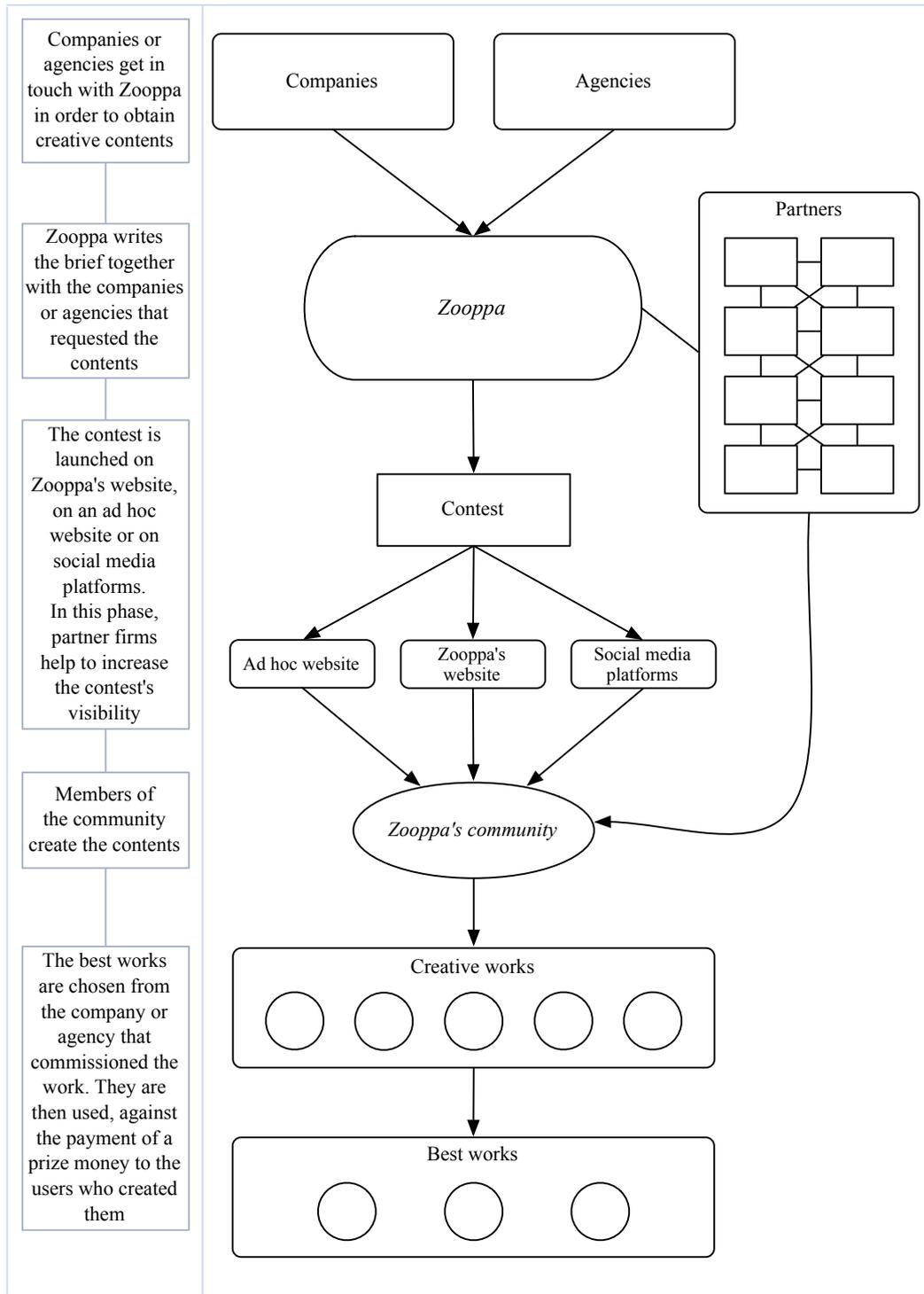


Figure 11 – Configuration of Zooppa's activities

### 3.3.8 Discussion

According to the case study, a lot of considerations regarding the fast international expansion of *Zooppa* can be done.

Firstly, it is important to highlight that the current CEO of the company is not the person who had the idea to create *Zooppa*. In fact, as stated before, the idea to launch the start-up in the advertising industry came from a journalist, who left the project in its earlier phases. Originally, the business idea was not clear and quite different from what *Zooppa* is today. In fact, Riccardo Donadon and his team created the business model in order to render the project feasible. Wil Merritt, the current CEO of the company, believed very much in the possibility to launch a successful start-up operating in the advertising business. In fact, he contributed to make the firm succeed from inception. In 2008, when *Zooppa* started to operate in Seattle, Wil became officially the CEO of the company. His great past career in the advertising industry allowed him to prompt the growth and development of *Zooppa* in the American market. In fact, during his working experiences he had the possibility to establish a huge amount of business contacts, which have been fundamental for *Zooppa*'s growth in the United States. Moreover, his presence contributed to increase the visibility and reliability of the firm's projects towards investors and external companies looking for creative contents. In addition to this, all his past experiences in different countries contributed to build and shape his global mindset, which reflects in the international expansion of *Zooppa*. Finally, his strong passion and enthusiasm for the advertising business have been fundamental for the growth of the company.

Therefore, the previous international working experiences of the CEO influenced very much the worldwide expansion of the organization. This is consistent with the findings of McDougall et al. (1994), who argue that earlier activities of the entrepreneur in different countries contribute to the international development of the company. Moreover, *Zooppa*'s CEO innovative and dynamic behavior corresponds to the *Strategist*'s figure identified by Freeman and Cavusgil (2007). Ergo, according to this analysis, the characteristics of the CEO analyzed tend to correspond to the ones of the BG entrepreneur highlighted in the second chapter of this work. However, this analysis allows identifying one more feature related to the entrepreneur: his passion for the

advertising business. This intangible element is very important, since it enables to increase the commitment and effort of the entrepreneur towards the achievement of goals and targets.

Looking at *Zooppa*'s business model and marketing strategy, it is possible to recognize that the company tried to revolutionize the way through which advertising campaigns are planned and realized. According to *Zooppa*'s conception, crowdsourcing became a powerful resource for big companies. In fact, the possibility to exploit the creativity of the community's members allows big brands to have access to a myriad of creative contents with a sustainable financial effort. In this way, firms and agencies can easily obtain a huge amount of contents that are innovative, original and unique. In addition, since such contents are created by end-users, they are also likely to be more effective than advertising projects developed internally by a specific company. Indeed, members of the community are people who deal with various products or services on a daily basis, and have therefore an insight on how developing attractive advertising campaigns. Moreover, the international development of *Zooppa* allowed a lot of people from different countries to get in touch with and join its virtual community. This is particularly important, because *Zooppa* works in the advertising business. In fact, since advertising projects must be localized in order to be effective, the global community allows *Zooppa* to target different foreign markets and satisfy the needs of its clients offering creative contents that fit with the various local situations of target countries.

Hence, according to the analysis made about *Zooppa*'s marketing strategy, the existing literature about BGs is partially confirmed. Firstly, as the majority of authors who studied BGs argued (Luostarinen and Gabrielsson, 2006; Moen and Servais, 2002; Madsen and Servais, 1997; Hennart, 2014) the company satisfied the needs of a market niche, which is in this case represented from each single firm, through creative, innovative and original advertising contents that are tailor made for big companies and advertising agencies. Secondly, the company targeted also culturally distant markets such as the United States and Brazil shortly after its establishment. This choice, consistent with the theory proposed by Ahlbrecht and Eckert in 2013, was not driven by the cultural differences existing with the cited countries, but was influenced by the possibility to exploit business opportunities in growing, in the case of Brazil, or

digitally advanced, in the case of United States, markets. Finally, this case study partially confirms the propositions of Loane (2005) and Bell and Loane (2010), according to which web tools play a crucial role in communication activities of BGs. In *Zooppa's* case, web tools were fundamental not only for the communication strategy, but also, and most importantly, for the success of the company's business model. In fact, if on the one side social media platforms represent the way through which *Zooppa* carries on all its communications activities, i.e. users engagement and contests promotion, on the other side the company's website represents the intermediate locus between its clients and the community members, since it is used as the main tool to launch the creative contests.

Another important consideration on the basis of *Zooppa's* case study regards the relationship between *Zooppa* and bigger companies (MNCs) and agencies. *Zooppa* did not try to compete against them for making advertising campaigns. On the opposite, it focused on cooperating and serving their needs with user-generated creative contents, thus playing a positive-sum game with them. This business strategy of *Zooppa* is consistent with the battleship strategy model proposed by Vapola et al. 2008, according to which BGs should try to cooperate with instead of compete against MNCs. In this way, both *Zooppa* and MNCs or agencies can reap the benefits of such cooperation. On the one side, *Zooppa* can stimulate the members of its virtual community to create high quality and innovative works intended to serve the requirements of well-known brands that operate in the global scenario, thus leveraging on the popularity of famous organizations in order to stimulate the motivation of community members. On the other side, MNCs and agencies can achieve a high degree of operational flexibility and, at the same time, exploit original and innovative creative ideas. Hence, *Zooppa* provides its clients with an innovative and original service, thus reaping all the benefits of working with big and very popular brands.

As for *Zooppa's* human resources, it is possible to notice that the company is composed of young people, the majority of whom began to work for the organization from its foundation in 2007. This could derive from the fact that the company operates in the digital sector, which is more easily accessible from by young people having a strong

passion towards the digital world. In addition, since a lot of employees work inside the company from the first year of operations, they had the opportunity to learn something specific and exploit career opportunities. Therefore, consistently with the RBV proposed by Wernerfelt (1984), *Zooppa*'s employees developed throughout time some inimitable and specific competencies that render them unique and unlikely replaceable for the company.

Another interesting aspect is related to the relationships among employees and top management team. Such relationships are mainly informal and not driven by hierarchical mechanisms. Hence, considering also that trust and commitment coordinate the relations inside the firm, the clan-based characteristics proposed by Ouchi (1980) fit with this case study.

Finally, the recruiting process is not so easy because of the difficulty to find people with a strong commitment to quickly learn new things. This problem is partially solved thanks to the many initiatives that "H-Farm" carries on in order to facilitate people interested to approach the digital world inside the venture incubator.

The venture incubator "H-Farm" was fundamental during all the launch and growth phases of *Zooppa*. This is consistent with the theories of Fernhaber and McDougall (2009) analyzed in the second chapter of this work, according to which the venture incubator is fundamental not only in the financing phase, but also in the growth and development stages of an organization. As a matter of fact, if "H-Farm" would have not financed and contributed to the growth and expansion of the company through its business contacts, it would have been impossible for *Zooppa* to quickly succeed on a worldwide basis. Therefore, this case study confirms that the international expansion of a BG is hugely facilitated if people having knowledge about the business environment and already existing business contacts guide it, especially in the first period of operations.

Last but not least, after having analyzed the network configuration of *Zooppa*'s relationships, it is possible to recognize the company's ability to increase its visibility in the global market. Thanks to the cooperation with different kinds of organizations, *Zooppa* can share experiences, events and resources, thus facilitating the relations and

contacts with its partner institutions. In this way, a lot of synergies and common guidelines are created with the aim of increasing the visibility of the entire ecosystem. Therefore, *Zooppa* did not establish its network of worldwide partnerships in order to outsource a certain kind of activities. In fact, the various relationships with other institutions can be useful in order to increase the company's visibility and, as argued by Freeman et al. (2006), gain access to specific market knowledge: such partnerships allow artists all over the world to know and get in touch with *Zooppa*, thus increasing the diversification of the contents that are created and offered through the platform.

### 3.4 Case study #3: Orobianco

The third company taken into consideration for the analysis is *Orobianco*. The firm is located in Gallarate, in the province of Varese<sup>4</sup>.



Source: [www.facebook.com/orobiancoweb](http://www.facebook.com/orobiancoweb)

Figure 12 – Orobianco logo

#### 3.4.1 The company

*Orobianco* was founded in 1996 by Giacomo Valentini, who had the purpose to launch a company offering high-quality Italian fashion items. The company operates in the fashion industry and focuses on the design and manufacturing of bags, leather goods, luggage and many other accessories concerning the fashion world, such as watches, umbrellas, ties and glasses. *Orobianco* performs internally all the activities related to the product development: the items are conceived, designed and manufactured by *Orobianco*'s team. Originally, the company was composed of two people: the entrepreneur and an employee. As time went by, the firm grew in a considerable manner and today has about 140 employees.

The company can be considered a BG, since the international expansion began shortly after its establishment. In fact, in 1997 Giacomo Valentini started to examine the Japanese market in order to understand the best way for positioning the *Orobianco* brand in that country. The research phase was carefully implemented since it was

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<sup>4</sup> The document "Orobianco Company Profile – updated at the first semester of 2014" has been used to integrate the interview of this case study.

necessary to understand the best way to cope with the competition of both retailers offering various fashion brands and specialized stores selling leather items. Parallel to this, the Japanese market structure and the demands of local people had to be deeply analyzed and understood. In order to accomplish these challenging but fundamental tasks, Giacomo Valentini decided to travel several times to Japan. In this way, he could directly get in touch with and better perceive the Japanese culture, thus having the possibility to fully comprehend the specific requirements of the Japanese market. Firstly, he found that the Japanese market required high quality and totally “Made in Italy” products. Therefore, the first strategic choice consisted in maintaining all the manufacturing phases inside the Italian boundaries and using a three-color ribbon, representing the Italian flag, as a peculiar mark of *Orobianco* products. In this way Japanese counterparts were guaranteed to have certified Italian items made with excellent raw materials. Secondly, the demand of the Japanese market was characterized by a high degree of customization and brand flexibility. Hence, the second strategic choice consisted in offering different products in different shops, with the peculiarity that two shops could not offer the same items. This strategy allowed *Orobianco* to differentiate its offering, thus satisfying the various needs and requirements of Japanese buyers. Thanks to the decision to offer wholly Italian products and to differentiate its offering, *Orobianco* decided not to compete against companies offering standardized items. On the opposite, those strategic choices allowed the organization to pull the attention of Japanese customers and avoid a race to the bottom against low-cost, common products. The market research stage took about three years to be successfully completed. It was a long but fundamental phase in the development of *Orobianco*’s identity since it allowed Giacomo Valentini to understand which was the best way to succeed in the global scenario and especially in the Far East countries. In 1999, Japan started to represent the principal market for the company and the products began to be available in several retailers and department stores. During the next years, beyond to consolidate its position and brand identity in the Japanese market, *Orobianco* expanded its operations in other foreign countries located in the Far East. In fact, after 2008 the company began to sell its product also in Hawaii, Taiwan, Korea, Singapore, China, Hong Kong, Vietnam, Thailand and Guam. Only more recently, European and Italian buyers demonstrated their interest towards the company’s items: for instance at the end

of 2011 *Orobianco* started to sell a particular line of jackets in the UK. What is important to highlight is that the company adopted different strategies in order to enter different markets: as for the Vietnamese market, a particular item that can not be found anywhere else has been created; as for the Korean market, the company established a partnership with LG in order to strengthen its appeal in the country; as for the UK market, a specific line of quilted jackets was introduced. Therefore, the company always invested in the market research phase, trying to understand and recognize the main peculiarities of each foreign market when deciding to expand its operations on a worldwide basis. This strategy proved to be successful: in this moment, foreign turnover represents almost the entirety of *Orobianco*'s total turnover and more than a half of the company's products are sold in the Asian-Pacific area.

### **3.4.2 Entrepreneur**

Giacomo Valentini is a person with a strong passion for travelling and a natural interest for the entrepreneurial and industrial world. He started to travel around the world when he was very young: when he was 15 years old, he attended English-taught courses in Denver – Colorado. In 1973, he travelled for the first time to Japan, where he had the possibility to get in touch with the Japanese culture and nurture his passion for judo. A few years later, in 1976, he went to Australia and established a firm offering furniture characterized by pure Italian style: during this experience, he took care of the design of sofas and furniture offered. In 1980, after having travelled more than once to China, he decided to go back to Italy and work as the marketing manager of the company owned by his family. This working experience contributed to enhance his knowledge about foreign markets, since products were exported all over the world: USA, Canada, South America, Middle East, China and Africa. In 1982, Giacomo Valentini worked as marketing manager for the Montedison Group. During this period, his strong passion for art and design did not disappear. After more than ten years with the Montedison Group, a trip completely changed his life. In 1995, he had the idea to found his own company during a trip to Tibet as a cashmere consultant. In this occasion he decided to call his company *Orobianco*. This name derives from the term *white gold*, which refers to how Tibetans mention their most valuable resource: a goat producing one of the best types of cashmere in the world. Inspired by this trip and after having recognized that financial

organizations were particularly prone to finance new firms operating in the fashion industry, he thought to launch his company and position it among the Italian and foreign luxury fashion brands.

### 3.4.3 Marketing strategy

#### 3.4.3.1 Products

Originally, *Orobianco* offered exclusively products related to the fashion industry, such as bags and luggage. As time went by, the company decided to diversify its offering through the creation of accessories, such as watches, ties and umbrellas, and more recently through the creation of a line of perfumes, wines and the opening of cafes and restaurants.

In 1997, the first *Orobianco* collection, composed of ten models of cashmere bags and scarves, was launched during the fashion week in Florence. Nowadays, more than 13.000 models have been developed, with an average increase of 1.000 models every year. The company develops new products on a regular basis, thus being able to target different foreign markets having specific requirements.

After 1997, the company consolidated its presence in the Italian and Japanese market through the production of fashion items: in 2004, bags and accessories represented 90% of *Orobianco*'s production. During the following years, the diversification process began: the company developed a collection of shoes and started to offer a wide range of accessories related to fashion, like watches and lighters. Even if *Orobianco* adopted this diversification process, bags and luggage continued to represent its core business. In fact, in 2007, after ten years of trial-and-error processes in which all the luggage components were tested, the "Tecknomonster"



Source: Orobianco Press Office  
Figure 13 - "Tecknomonster" collection

line was launched (*Figure 13*). The "Tecknomonster" line is a collection of luggage made of high quality and strong raw materials. In 2011, a specific advertising campaign,

in which the “Tecknomonster” product is hit with a hammer, has been launched through the web in order to highlight the incredible resistance of this luggage’s collection.

Shortly after, *Orobianco*’s diversification process was prompted in an incredible manner: the company established partnerships throughout the world that enabled the



Source: Orobianco Press Office

Figure 14 - Orobianco wines

creation of golf items, all inspired to the Japanese tradition, belts, umbrellas and glasses. In addition to this, thanks to the cooperation with Japanese designers and animators, *Orobianco* developed “Sen6”, a character that was created with the purpose to have its own concept store and to be represented in many goods. This character appeared later on an I-Pod holder exclusively designed and developed for the Italian singer Nesli.

In 2011, *Orobianco* started to operate also outside the fashion industry. In fact, the company cooperated with Albano Carrisi in order to sell some agricultural products typical of the Italian history with the *Orobianco* brand. Given the successful impact that this strategic decision had in the

Japanese market, one year later, another alliance was established with Giorgi, a company producing wine (Figure 14). Prompted by the great results occurred thanks to the partnerships with agricultural companies, in April 2013 *Orobianco* launched the “Osteria Orobianco” and the “Spumanteria Alimentaria” in Osaka and the “Kaffè Orobianco” in another Japanese area. The “Osteria” is a place where people can find and taste dishes derived from a fusion between the Italian and Japanese cuisine. The “Spumanteria” offers delicious food during the day and an assortment of high quality wines in the evening. The “Kaffè” (Figure 15) allows people to relax in a friendly atmosphere and find the *Orobianco* items at the bazar located at the first floor.

Finally, in 2011 *Orobianco* launched in the market two fragrances produced in Italy, named “417” and “418”. In 2012, in order to strengthen its presence in the perfumery market, *Orobianco* established a partnership relationship with Sileno Cheloni, a man who works in the Aqua Flor perfumery in Florence. Such cooperation resulted in the creation of a line of perfumes composed of six new fragrances: “Eccesive”, “Estetiko”, “Kattiva”, “Kattivo”, “Lalibela” and “Sadyca” (Figure 16). Particular attention has been paid to the packaging of such new perfumes, since they are particularly, but not only, conceived for people who love



Source: Orobianco Press Office

Figure 15 - Kaffè Orobianco



Source: Orobianco Press Office

Figure 16 - Orobianco perfumes

travelling.

Therefore, *Orobianco* followed a great diversification process from 1997, when the first collection of bags and scarves was presented. In fact, Giacomo Valentini wanted to offer not only some fashion products to its customers, but also a real lifestyle that could involve their life from morning to night and represent a point of reference for people with a strong passion for travelling around the world.

### 3.4.3.2 Distribution channels

*Orobianco* aims to establish direct relationships with retailers and end-customers of each market in order to distribute its products. As a consequence, the company has not exclusive agents that are responsible for the distribution in a specific market area or particular country. On the opposite, *Orobianco* has a myriad of contacts with all the agents acting at different distribution levels, such as importers, wholesalers and retailers. Originally, the company’s items were sold through several retails and department stores in the Japanese market. As the firm started to grow and register new

trademarks, also stores offering exclusively products mirroring the *Orobianco*'s lifestyle began to appear in foreign markets, such as “Quattro Angoli” stores that were opened in many locations throughout Japan. Other specialized stores, such as the “Sen6” stores, where people can find all the items representing the special character, and “Lussobianco” stores, which offer exclusively men's total look, were opened in Tokyo, Osaka and other Japanese cities. As for the Chinese market, a different strategy has been adopted: thanks to an alliance with three partners, the company decided to open single-brand stores. Finally, a diverse approach has been chosen for the Taiwanese market: *Orobianco* started to sell its products in 2009 through department stores and, after having consolidated its presence in the country, opened also a single-brand shop in Taipei in 2013.

Parallel to traditional distribution channels, *Orobianco*'s products are distributed through online platforms that supply high quality goods, such as “Luisaviaroma”, “Rakuten Global Market” and “Piazza Duomo”. In regard to this, in 2009 *Orobianco* examined the online platforms that were selling its goods with a double aim: on the one side, the company wanted foster their growth and development; on the other side, it wanted to protect the interests of its customers.

#### **3.4.3.3 Target customers**

*Orobianco* aims to serve the needs of the extra-luxury market segment in Italy and, more generally, in European countries, whereas in the Asian-Pacific market the company targets the high market segment. This is consistent with the strategy of offering high quality, “Made in Italy” items that are produced with selected raw materials.

Considering the actual target customers, about 80% of the company's products are represented by men's or unisex goods, whereas the remaining 20% is represented by products designed for women. In fact, originally *Orobianco* focused on producing only men's and unisex items. Shortly after the firm's establishment, Giacomo Valentini did not take into consideration women's items because a great effort would have been required in order to perfectly understand the needs and demands of such market segment. In 2003, that is seven years after the company's foundation, the women's market segment started to be analyzed and the first women's goods were launched in

the market.

In future, the company will increase the production of goods for women in order to foster its growth in the global market. Indeed, it has the aim to level off the production of men's/unisex and women goods at 50% each. In this way it will be possible for *Orobianco* to face the increase of the men's fashion market in foreign countries, and especially in the Asian-Pacific area (currently, the company has a share of about 20% of the men's fashion market in Japan), and at the same time to expand its presence in the women's market segment.

#### **3.4.3.4 Advertising and promotion**

In order to promote its products and present the new collections to its customers all over the world, *Orobianco* takes part to international exhibitions and fairs no less than four times every year. These trade shows are organized during the fashion weeks and the most important ones are "IFF Tokyo", "Pitti Immagine Uomo" and "Pitti Woman Precollection". Every year, the company participates to fairs in different locations. In this way, it is possible to show the products to a broader base of different people.

In addition to this, the company recognized the necessity to move with the times and develop web based communication tools. In 2010, the QR Code was inserted inside the products' catalogues and the Facebook, Twitter, YouTube and Myspace company's profiles were created. In 2012, "Orobianco TV" was launched with the aim of spreading videos about the organization, its products, events and backstage throughout the Web. In 2013, also the Instagram, Google+ and Pinterest profiles were created in order to complete the company's presence on the best-known social network platforms.

*Orobianco* cooperates also with some magazines in order to increase its visibility. For instance, in 2011 the founder Giacomo Valentini and his family had the possibility to write their interests and attach their photos on a dedicated page of "Monomax" magazine.

Finally, fashion bloggers play a fundamental role in the promotion of *Orobianco*'s items, especially in the Asian-Pacific area. In particular, Hun Lee, a Korean fashion expert and great friend of Giacomo Valentini, created the blog "Il Gusto del Signore" with the purpose to suggest the menswear fashion tendencies in his country. In his blog, Hun Lee defined *Orobianco* as "the brand of the future". In addition to Hun Lee's

“Gusto del Signore”, many other very important blogs, such as “Mode Hunter”, “Guy Overboard” and “Não vou sair assim”, contribute to increase the visibility of the Orobianco brand in many countries around the world.

#### **3.4.4 Production system**

The development of an *Orobianco*'s product starts off with Giacomo Valentini's ideas. His strong passion for travelling allowed him to understand the specific requirements that luggage, carry-ons and many other fashion accessories should satisfy in order to be handy and functional. In fact, while travelling he could personally test the product characteristics, thus easily adjusting the item's design in order to make them the most practical as possible. He recognized that relying exclusively on his ideas was not enough to satisfy the various customers' demands. In 2001 he adopted the co-design method, according to which buyers could suggest him the best way to create the products during some brainstorming sessions. This method allowed him to develop new products' features and design some items that perfectly fitted with the buyers' requirements. Moreover, the company's CEO always cooperates with other artists and top designers coming from all over the world. In this way he can achieve a twofold aim: on the one hand, new products can be developed; on the other hand, top designers coming from different countries can feel part of the *Orobianco* world. For instance, in 2004 he started to cooperate with Barbara Fischer, who later became his wife, in order to exchange ideas and have access to new creative approaches.

When the first products' design has been completed, the new idea is examined with the creative team through graphic processing and is then translated into a virtual sample. The virtual sample allows the creative team to analyze all the product details, determine the style, volume and colors combination and choose the raw materials to use, thus understanding the real feasibility of the item. Next, CAD (computer-aided-design) engineers design the product. After that, measures are tested on the paper model: if the results of this test are positive, the model is approved and the production phase can begin. First of all, the best raw materials are selected and cut through cutting machines. After each cut, a quality check is done over materials in order to ensure the best quality of the final product. Cut pieces are then assembled from the expert hands of artisans that take care of each detail in the manufacturing process. At the end of the process, each

product is submitted to the final quality check: if the item respects the requirements of this check, a card is inserted inside the product and a tricolor ribbon is applied in the outside part. Finally, the product is protected through a proper packaging and is then shipped to its destination.

Ergo, *Orobianco* performs all the phases of production. Shortly after the firm's foundation, on the basis of the market research on the Japanese market, Giacomo Valentini recognized the importance to maintain all the production phases inside the Italian boundaries and in particular next to the company's headquarter located in Gallarate. Therefore, the first challenge for *Orobianco* consisted in resisting the temptation to outsource the production phases in order to gain access to low costs of labor. On the opposite, the company exploited the abilities of Italian master craftsmen and artisans. From the beginning, *Orobianco* did not rely on external firms for producing its items, but always exerted a high degree of control over the production phases inside its headquarter. As the company started to grow, it was necessary to acquire new facilities in order to carry on the production processes. In fact, from 2004 to 2013, the company's structure was completely revolutionized: new facilities were opened with the aim of enlarging the administrative and commercial offices and productive sites, increasing the efficiency of logistics operations and ensuring an effective quality control over the increasing number of *Orobianco*'s items. In addition to this, in 2008 the original headquarter of the company was not used anymore as a production site, but contained only commercial offices and a show-room. In 2007, the "Orobianco Research Center" was established in Gallarate. This center was created with the purpose of transforming new product ideas into reality: researchers and experts in new technologies cooperate with crafts-based professionals in order to understand the feasibility of new items. After an initial period of trial-and-error processes, in 2009 the first goods coming from the "Orobianco Research Center" were available. In the same year, the "Make It Better" Department was created in order to develop prototypes and improve the best products of the company and in 2011 the 3D animation section was introduced in the design department.

This organizational restructuring was necessary not only because the company had to be ready to quickly respond to the new industry challenges, but also because some of its brands were growing very quickly and needed a certain degree of autonomy. For

instance, the production and quality test activities of the “Tecknomonster” collection were completely shifted in a new facility in 2010 and the “Desertika” collection, even if remaining part of *Orobianco* holding, became completely autonomous in 2013, having its own website and e-commerce platform.

What is important to highlight is that this expansion occurred entirely inside the Italian boundaries: nowadays *Orobianco* produces all its bags, leather items and luggage inside its facilities, which are located in the territory of Gallarate. In addition, all product components, including leather, textiles and metal parts are exclusively “Made in Italy”. The only items that are produced outside the Italian boundaries are a series of jackets, which are “Made in UK” from historic UK factories, and some accessories, which are “Made in Japan”.

Therefore, the core business of *Orobianco* is exclusively “Made in Italy”. In this way the company can leverage on a unique and inimitable value that big and very well known brands operating in the fashion industry can not exploit.

### **3.4.5 Human resources**

*Orobianco* is characterized by a hierarchical organizational structure. It is composed of 140 employees, with an average age of about 24 years old. The fact that the employees’ average age is very low reflects a clear vision of the company’s CEO: he wants to flank young people to the expert craftsmen. In this way, young employees can easily learn how to use new technologies and, at the same time, acquire the specific manual capabilities that the artisans working inside *Orobianco* have developed throughout time. Finally, the most important aspect that characterizes the company’s employees is their passion for the fashion system. According to Giacomo Valentini, the most important thing for working with *Orobianco* is a strong enthusiasm for the fashion world.

### **3.4.6 Partnership relationships**

*Orobianco* has worked together with a lot of famous international counterparts in order to create new products and enlarge its offerings: the cooperation with *Philips Morris* resulted in the creation of a new lighter, the partnership with *Ellesse* led to the development of a special collection of bags to celebrate the 50<sup>th</sup> *Ellesse* anniversary and the collaboration with Raffaele Brattoli, a runner famous for his extreme challenges,

allowed the company to create the “Desertika” urban sneaker line. Moreover, *Orobianco* has cooperated with several partners in Japan, such as *Rakuten* in order to organize events and brainstorming sessions with buyers, *Toyota* with the aim of increasing the company’s visibility through advertising campaigns and *Abrasus* and *Takashimaya* to develop a line of “Made in Japan” wallets.

The company has collaborated also with Italian firms with the purpose of enlarging its offering with lines of socks, scarves and ties.

Hence, *Orobianco* could successfully diversify its offerings also thanks to the various relationships with companies that have a specific knowledge about particular sectors. This joint effort with other firms contributed to the creation of the *Orobianco*’s lifestyle and to the design of a great variety of items.

### 3.4.7 Discussion

This case study allows making several considerations about the growth and development of a BG firm.

First of all, the entrepreneur is a person who has travelled a lot and has done many experiences in foreign countries since he was a teenager. This international background contributed to the creation of his entrepreneurial global mindset, which reflects in the fast worldwide development of *Orobianco*. This confirms the propositions of McDougall et al. (1994) and Bloodgood et al. (1996), which argue that prior experiences in foreign markets allow the entrepreneur to identify business opportunities on a worldwide basis. Moreover, the various working experiences of Giacomo Valentini prior to the establishment of *Orobianco* allowed him to transfer all his knowledge inside the company. This permitted *Orobianco* to be not just a fashion company, but a firm offering a wide range of Italian products. These characteristics are consistent with the theory of McDougall et al. (1994), which assert that entrepreneurs in BG companies have developed different competencies from their earlier activities. Furthermore, the characteristics of Giacomo Valentini are consistent with the features of the *Strategist* identified by Freeman and Cavusgil (2007). In fact, the proactive and risk-seeking attitude of the entrepreneur is visible through the diversification strategy adopted by the company. This attitude was fundamental in the first phase of operations, when the entrepreneur had to build from scratch all the relations with business counterparts and coordinate the various activities. Finally, also in this case, it is possible to identify one more element that is not stressed in the existing literature on BGs: the great passion of the entrepreneur for design and for the fashion world. This intangible feature was the key behind the idea to launch *Orobianco* and represented the basis for the creation of a unique brand, which could succeed in the global scenario.

As for the company's marketing strategy, it is possible to observe that the firm tried to develop a true lifestyle through its products. In fact, *Orobianco* can not be merely defined as a manufacturing company: the diversification strategy that characterized the company itself was fundamental for its huge international growth and success. The decision to expand the business from luggage and leather items not only to a wider

range of fashion accessories, such as ties, scarves and watches, but also to typical Italian food, such as wines, and to cafes and restaurants allowed the company to create a true expression of Italian luxury lifestyle around the world. Focusing on the products offered by *Orobianco*, some similarities with the existing literature about BGs can be identified. In fact, consistently with Luostarinen and Gabrielsson (2006), Moen and Servais (2002), Madsen and Servais (1997) and Hennart (2014), the company analyzed offers niche products, thus aiming to target the higher and most profitable market segments in the global market. As a matter of fact, since *Orobianco* offers products that are completely made in Italy (or just in a very few cases made in Japan or in the UK) with top quality and selected raw materials, it would not have any sense to compete against companies offering standardized goods. On the opposite, *Orobianco*'s CEO Giacomo Valentini immediately recognized the necessity to offer luxury goods at quite high prices and fully exploit all the advantages deriving from the "Made in Italy" label. In this way, and thanks to a diversified product offering, it was possible to create items that could perfectly reflect the beauty of the Italian fashion style in its entirety. In addition to this, through its cafes and restaurants, the company was able to create physical spaces in foreign countries where people could have fun, relax, meet with friends and share opinions. In this way, *Orobianco* was able to enter the everyday life of foreign customers not only with its products, but also through physical spaces that could represent a point of reference in foreign markets.

Looking at the distribution strategy of the company, the theories of Gabrielsson and Gabrielsson (2011) are confirmed. In fact, *Orobianco* uses both traditional and web-based distribution channels in order to sell its goods. In regard to this, an important consideration can be made about web-based distribution: since the company offers high quality goods, customers can find them only on e-commerce platforms that sell luxury and top range items. Furthermore, in accord with the theory of Ahlbrecht and Eckert (2013), *Orobianco* decided to enter culturally distant markets from inception: CEO Giacomo Valentini planned to expand its business in the Japanese market shortly after the company's foundation. After having reinforced its presence in Japan, the firm started to expand in the Asian-Pacific area. Looking at its international development, it is possible to notice that *Orobianco* decided to adopt different entry strategies for different markets: products were distributed through department stores in some

countries, whereas in others single-brand stores were preferred. Hence, this approach proves once again that foreign markets were carefully analyzed in order to understand not only customers' requirements, but also the best entry strategy related to the items' distribution.

As regards the advertising strategy, the company, consistently with the findings of Hennart (2014) and Bell and Loane (2010), recognized the necessity to develop web-based communication activities. In regard to this, beyond the traditional presence on the most famous social networks, *Orobianco* developed its own channel named "Orobianco TV". This channel is accessible from Youtube and allows customers and business counterparts to easily enter the *Orobianco* world. Indeed, people can find much information about the company and its products through various videos having as contents promotional campaigns, the way through which products are manufactured and interviews with the CEO, business counterparts or fashion bloggers. In this way, the company completely opened to the public and was able to spread its identity all over the world. The web-based advertising approach did not prevent the company to succeed in the global market, partially confirming the theory proposed by Altshuler and Tarnovskaya (2010). In fact, web-based tools are not the only way through which *Orobianco* promotes its products: the company combined web-based communication with more traditional advertising campaigns on magazines and regular participations to trade fairs.

Another very important aspect related to this case study concerns the analysis of *Orobianco*'s production system. Firstly, the company does not rely on external firms for producing goods, but performs all the manufacturing activities inside its facilities located near Gallarate. In this way, it can have full control over production phases. This is very important for *Orobianco*, since the craft-based production represents one of the most important assets of the company and one of the most representative characteristics of its goods. Moreover, consistently with the theory of Zirpoli and Becker (2011), control over production allowed the company to foster product innovation, thus ensuring new and original items to its customers. Furthermore, the possibility to produce internally the items permitted *Orobianco* to avoid all the downsides deriving from the network structure and successfully grow in the global market. This is found

also in Aspelund and Moen (2012), who argue that the network configuration of activities does not allow a BG to successfully carry-on its international operations and grow on a worldwide basis. Secondly, the choice to maintain all the phases of production inside the Italian boundaries reflects the clear vision that the founder Giacomo Valentini had from inception. In fact, the company was founded in a period in which a lot of firms started to outsource manufacturing activities in foreign countries in order to achieve the advantages deriving from low costs of labor. On the opposite, the “Made in Italy” production allowed *Orobianco* to clearly differentiate from other companies operating in the fashion industry through its high quality products made with selected raw materials assembled from the hands of expert craftsmen. Thirdly, beyond the Italian craft-based manufacturing, the design phase is fundamental in the creation of new products and in the improvement of existing items. In order to access new ideas and creative contents, Giacomo Valentini recognized the necessity to cooperate not only with foreign artists and designers in order to create items able to satisfy the needs of various foreign markets, but also with other companies operating in different business sectors in order to diversify *Orobianco*’s offering. Last but not least, the company was able to grow also thanks to its capability to separate the most successful collections from the *Orobianco* brand, creating their own websites, e-commerce platforms and, in some cases, dedicated shops. This process was necessary for fostering the development of the best product lines and increasing the visibility of the company in the global market.

Finally, other considerations can be done looking at the coordination of the company’s human resources. Oppositely to the clan theory proposed by Ouchi (1980), clan based mechanisms do not coordinate the relationships among employees. In fact, a hierarchical form characterizes the organizational structure of *Orobianco*. This derives from the fact that the company has grown a lot from 1996 to 2014, counting today 140 employees. Therefore, it has the necessity to achieve a certain degree of control through hierarchical mechanisms in order to coordinate a considerable amount of people. Furthermore, it is possible to notice that the company counts a large number of young employees that work together with older and more expert ones. In this way younger employees can acquire specific manual knowledge that would be otherwise lost when

older employees leave the company. This is very important for *Orobianco*, since the craft-based work contributes to enhance in a considerable manner the value of the final items. Hence, consistently with the theory proposed by Wernerfelt (1984), human resources are considered to be unique and very important assets by *Orobianco*: the possibility to foster the transmission of craft-based capabilities allows the company to render its employees inimitable by other companies because of their specific skills and competencies.

## **3.5 Findings**

On the basis of the case studies analyzed, both similarities and differences with the existing literature on BGs result. In this final section of the work, the characteristics of a BG not available in the existing literature are outlined. In order to provide a clear summary of the findings, the same structure of the second chapter of this work is used.

### **3.5.1 Entrepreneur**

The case studies examined in this work confirm the proposition about the entrepreneur's characteristics summarized in the second chapter. In fact, in all three cases the CEOs of the companies did various experiences in foreign countries. Such experiences contributed to create a global vision in their minds, which helped them to foster the international development of their companies from the earliest days of operations. In regard to this it is of particular interest to observe that, if in the cases of *Zooppa* and *Orobianco* the CEOs have a strong background in the industry in which the companies operate, the case of *illa Italia* proves that the lack of such particular experience can be filled up by the great passion of the entrepreneur for the particular business sector. Therefore, according to the analysis made in this work, the past experiences in foreign countries are fundamental because they create in the mind of entrepreneurs the willingness to expand internationally from inception, but are not enough to ensure the success of the company. Looking at the different stories of the entrepreneurs examined, it is possible to recognize a common factor that characterizes them: the strong passion they have for their work. This intangible feature is very important, since it represents the basis upon which the BG firm can succeed in the worldwide market. In fact, the strong enthusiasm of the entrepreneur can have positive effects throughout the organization: on the one hand, it allows increasing the commitment of the entrepreneur in achieving the targets and facing the troubles that may arise every day; on the other hand, entrepreneurs with a great passion for their job may contaminate the company's employees, thus increasing the overall enthusiasm of various people working inside the organization.

### **3.5.2 Business strategy**

As for their business strategy, BGs do not compete against MNCs in the earlier phases

of operations but, consistently with the literature analyzed, seek to cooperate with them in a positive-sum game in which, as argued in Chapter 2, both the BG and the MNC can gain some benefits. This cooperation strategy is particularly observable in *Zooppa* case study: the company offers a specific service to bigger corporations, providing them with innovative and specific solutions. In this way the company can offer a different service to clients looking for advertising contents by creating its specific position in the market and thus avoiding the competition of already established and bigger firms. Parallel to this, for the craft-based companies examined, such cooperation with MNCs could consist in the co-creation or distribution of new items. However this strategy is not so easy to implement because of the risk to modify the brand positioning in customers' minds: the case study *Orobianco* shows that during the growth phase it is important for the company to maintain its own identity and keep on offering unique products or services to the customers. In this way, customers will continue to appreciate the peculiar features of the goods and will not perceive them at the same level of those offered by MNCs. Hence BGs should represent a source of innovation and provide new solutions to the MNC.

### **3.5.3 Marketing strategy**

Consistently with the theories of existing literature, the three case studies analyzed confirm that BGs offer niche products. As a matter of fact, it would be quite impossible for new companies to be competitive in the global scenario with standardized goods: companies offering commodities usually base their competitive advantage on the possibility to decrease the average costs of production through economies of scale. On the opposite, BGs can not invest a huge amount of financial resources on expensive machineries that allow them offering a high volume of products, especially in the first days of operations. Therefore, in order to succeed in the worldwide market, new companies should try to develop unique products based on a specific knowledge, as in the cases of *illa Italia* and *Orobianco*, or offering tailor-made solutions to their customers, as in the case of *Zooppa*. Consistently with these products characteristics, BGs analyzed in this work target the higher, most profitable market segments (both in B2B and B2C sectors). Products' price is higher if compared to the one of standardized items, because of the uniqueness of the goods offered.

Besides, all the case studies confirm that BGs do not follow a slow and evolutionary international development. On the opposite, culturally distant markets are taken into consideration from the beginning: *illa Italia* sells its products in the United States and aims to expand in Japan, *Zooppa* expanded in the United States and in other European countries and *Orobianco* operates mainly in Far East countries. In order to reach such markets, BGs combine traditional and web-based distribution channels. In respect to this, as the *Orobianco* case proves, the combination of traditional and web-based distribution channels is fundamental in order to operate and succeed in many countries. It is important to have indeed also direct contacts with local importers and distributors and, at the same time, establish business relationships with local e-commerce platforms. Furthermore, e-commerce platforms, and more generally web tools, represent a very important tool that allows a BG to skip some intermediate steps in the distribution process. In this way, the company can minimize the costs deriving from market agents and obtain a higher profit through its products. In regard to this, it would be very important for *illa Italia* to build an e-commerce distribution platform.

Finally, communication activities are performed mainly through the Internet. All the three companies developed their profiles on social media platforms, exploited the visibility of web blogs and have a website. The most interesting thing related to advertising campaigns derives from the *Orobianco* case study and is related to the development of the company's TV channel. In fact, the various videos available on Youtube allow everybody to easily get in touch with the company's world: interviews, videos about production backstage and company's events spread all over the world the culture and history underlying the products offered. Anyway, it is important to underline that web-based tools are not enough to succeed in the global market: a firm should also directly promote its goods through trade fairs and exhibitions in order to build face-to-face business relationships.

Hence, BGs must take into consideration the development of web-based communication and advertising, since it allows a company to spread all over the world its identity with a minimum financial effort, and combine it with more traditional promotional activities.

### **3.5.4 Human resources organization**

The most important aspect concerning the human resources organization inside BGs is

that clan-based mechanisms regulate the relationships among employees in the first period of the company's existence. In fact, as *Zooppa* case study shows, shortly after the company's foundation the organizational structure is almost flat: each employee has direct relationships with the CEO and must accomplish a variety of tasks. In such structure, employees give all their energy and passion to the organization and have a strong sense of identity with the company. However, as the *Orobianco* case suggests, during the growing of the company it may be necessary to hire new employees and exert a higher degree of control over an increasing number of people inside the organization. In this situation, the organizational structure extends, getting closer to the hierarchical form. Furthermore, except for *illa Italia* that is currently a sole trader company, the *Zooppa* and *Orobianco* case studies suggest that the firm seeks to hire young employees having a strong passion for the business sector in which it operates. As a matter of fact, if the company hires people that don't do what they are expecting to, it will be very likely to have demotivated and not committed employees. On the opposite, young and motivated people have the possibility to develop their skills inside the firm, learn something that is very specific and, last but not least, exploit also internal career opportunities. Finally, *Orobianco* case study demonstrates the huge importance of transferring the manual, old-fashioned skills to young employees in order to combine them with more contemporary working machineries. This allows companies operating in craft-based industries to innovate the working procedures, thus increasing their competitiveness in the global market.

### **3.5.5 Access to financial resources**

BGs can overcome the initial lack of financial resources thanks to the investments of venture capitalists, as in the case of *illa Italia* and *Zooppa*. Beyond contributing from a financial point of view, venture capitalists are fundamental to foster the international development of the firm. In fact, as the two cited cases demonstrate, shortly after their foundation, new companies need to develop all their activities from scratch, such as establish business contacts, develop distribution channels and advertising activities. This is the phase in which the experience and market knowledge of venture capitalists can really facilitate the initial expansion of the company, ensuring a certain degree of reliability to business counterparts and carrying-on the various operations in an effective

manner. Furthermore, the entrepreneurs themselves can directly contribute to finance the company through its own savings, as in the case of *illa Italia* and *Orobianco*. Last but not least, financial institutions can contribute to fund the new organization with loans, as in the case of *Orobianco*. Anyway, this last option is less feasible for up-to-date companies: on the one hand, financial institutions are less prone to give loans than twenty years ago; on the other hand, new companies can not offer substantial warranties in order to obtain a considerable amount of financial resources. In regard to this, as the case of *illa Italia* suggests, regional institutions could guarantee for the loans, thus facilitating financial institutions to fund new companies.

### **3.5.6 Network coordination of activities**

This work proves that Italian BGs operate not only in ICT or technologically advanced sectors, but also in craft-based industries. In order to analyze the network configuration of activities, a distinction between craft-based and ICT industries is done.

Considering craft-based companies, as the case of *illa Italia* demonstrates, BGs may be forced to outsource the manufacturing phases in the first period of their life because the lack of financial resources prevents the firm to integrate the production process. It is important to highlight that all the manufacturing activities are performed within the Italian boundaries and have a local, not global, dimension. However, as the *Orobianco* case suggests, when the company grows it may be necessary to integrate the production phases in order to have a stricter control over the innovation-related activities and, at the same time, outsource a marginal part of production in foreign countries not with the purpose of exploiting low costs of labor, but in order to gain access to peculiar competencies that are not available at a local level. This is very important since it allows a company to develop new products faster and, as *Orobianco* did, enlarge the range of the goods offered.

Hence, for an Italian BG operating in craft-based industries, it is important to resist the temptation of outsourcing production to low-cost countries. On the opposite, it is possible to leverage on specific, inimitable local manufacturing capabilities that are available in the home territory of the company. For companies located in the North of Italy, this process is feasible because of the structure of the industrial system of this area. In fact a lot of industrial districts rose in the past in the Veneto, Lombardy and

Friuli Venezia Giulia regions. In such areas a unique knowledge developed throughout time in many business sectors, such as furniture, sport systems, glasses, fashion, and footwear. Ergo, new firms can exploit the local knowledge in order to expand on a worldwide basis: the possibility to outsource production activities to firms located in the same region that can ensure a high level of quality allows also new and small companies to expand very quickly in the international market.

In the case of ICT companies, partnership relationships can be useful in order to increase the visibility of the BG in the worldwide market. In fact, it is not strictly necessary to outsource production phases to external counterparts, given that such companies do not usually need particular machineries, but just a computer in order to carry on their operations. *Zooppa* case study shows that business partners can be useful in promoting the organization and its activities in different countries with the purpose of enlarging the business contacts.

## *Conclusion*

This thesis focused on the phenomenon of Born Global firms and, more specifically, on the characteristics and peculiarities that allow these companies to expand on a worldwide basis shortly after their establishment.

From the analysis made in this work, it is possible to notice that BGs are not simple internationalized start-ups, but they represent a distinct typology of companies that must be studied separately because it has its own specific characteristics. This “new” category of firms concretely questions the validity of past theories on internationalization processes, according to which a firm can expand outside the national borders and operate on a worldwide basis only following a slow, step-by-step and evolutionary process. As outlined in Chapter 1, the so-called “stage” models of internationalization are not valid anymore for modern firms due to the growing globalization concerning the economic and societal aspects of our lives. As a matter of fact, Italian companies operating in today’s business environment are almost forced to compete on a global basis: even if they decide not to expand in foreign countries, they have to face the threats represented by foreign competitors running their business activities in the national market. As a consequence, due to the increasing competition and the decrease of internal consumptions deriving from the negative economic trend that Italy, and other countries of the Southern Europe, is facing in the last years, it turns out that new firms must necessarily plan to expand on a worldwide basis from inception. This strategic choice allows new firms not only to have access to a wide number of business opportunities and effectively cope with the forces of globalization, but also to diversify their offering, thus increasing their overall stability: an unpredictable loss in one market would unlikely lead the company to fail, but could be better absorbed thanks to the profits made in other foreign markets. On the basis of these considerations it is therefore of fundamental interest to understand how firms can expand globally shortly after their establishment.

As the three case studies examined prove, BG firms must offer tailor made solutions to worldwide-dispersed customers. This necessity derives from the fact that, nowadays, customers expect to have something different than in the past. Anyway this is not enough for a company to succeed in the global market: an entrepreneur with a strong

passion for their job, the exploitation of web-based tools, the possibility to leverage on the financial resources and market knowledge of venture capitalists and the combination of expert and young employees are some of the other necessary ingredients.

For companies operating in craft-based industries, this thesis suggests that the local dimension plays a fundamental role in the internationalization process. In fact, global customers appreciate the culture, the tradition and the manual skills that are embedded in the products offered. In addition to this, the incredible advances in technology and the introduction of digital tools in the production phases, which allow to overcome some of the constraints imposed by the necessity to exploit scale economies in the past, contribute to enhance the possibilities for small firms to be competitive in the global market. Ergo, this combination of factors incredibly boosts the international expansion of new craft-based companies. Furthermore, this work proves a strong linkage between two apparently different and disconnected worlds: design and craftsmanship. The interconnection of these two, at first sight, separated worlds is particularly feasible in the North of Italy because of the possibility to exploit a specialized labor pool of artisans and master crafts-men, which can transform new and innovative ideas of designers into true material solutions to be presented all over the world combining modernity with tradition and thus allowing the creation of completely new items. In this way, it is possible to offer unique and inimitable goods to a wide range of customers, thus satisfying also the more demanding needs through customized solutions. Therefore, the two elements that have been found through this analysis that can be useful for BG companies operating in craft-based industries are, respectively, the essential function of the local territory and the integration between design and craftsmanship.

In regard to this, the case studies of *illa Italia* and *Orobianco* demonstrate that craftsmanship is not a source of competitive advantage strictly related to the past, but, if adapted to current times, can represent a lever upon which new companies can rely in order to rapidly expand in foreign countries. However, it is necessary to specify how craftsmanship can adapt to current times: it is not enough anymore for the Italian craftsmanship and, more generally, the “Made in Italy” label to be synonyms of “high-quality” all around the world. All customers purchasing niche products at high prices expect to have goods with qualitative standards that exceed those of the industry average: quality has become a necessary, but not sufficient condition to succeed for

Italian products in foreign countries. As the findings of this work suggest, it is necessary to combine craftsmanship with new competencies, such as a unique design, as in the case of *illa Italia*, or an inimitable design and the use of new technologies in the production phases, as in the case of *Orobianco*. The possibility to combine the local craftsmanship with other value-added activities has very important implications for future industrial policies. In regard to this, the same principle can be applied to those industries in which Italy has been among the world leaders for many years and that nowadays need to be revitalized, such as wood, mechanics and house furniture.

For Italian companies operating in ICT industries, the findings of this thesis recommend them to cooperate with bigger companies and build alliances with organizations and institutions operating in digitally advanced countries in order to expand in the international market. As a matter of fact, the North of Italy can not be compared to areas like the American Silicon Valley, where the expansion of digital start-ups can be very fast thanks to the possibility to be contaminated by a technologically-advanced business environment. Of course, the different business environment derives mainly from the historical development of the Northern Italy, which was characterized by the presence of companies operating in artisan businesses.

Hence, new ICT companies operating in the geographical area taken into consideration in this work should try to expand internationally by offering innovative and specialized services to bigger and more structured organizations. Parallel to this, they could represent a resource for companies operating in traditional sectors, since the former could develop new digital solutions for the latter, contributing in this way to foster both their local and international expansion.

To conclude, if in the past years the Italian industrial districts represented the ideal economic and industrial model alternative to mass production, nowadays BG firms can represent a new model, which projects the local territory, the historical Italian culture and the social values in the global market. It is indeed necessary to recognize that companies can not operate anymore as they did more than twenty years ago due to the great changes in the global market and in the international competitive arena: the possibility to obtain labor at low cost, the exploitation of specific fiscal policies of developing countries that aim to grow from an economic and social perspective and the actual social and political Italian situation are all factors that compel Italian policy

makers to seriously think at the BG model as a new way directed at enhance the value of the Italian industrial system on a global basis.

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