THE DETERMINANTS OF BORN GLOBAL COMPANIES EMERGENCE IN POLAND

Elena Pawęta*

Abstract The purpose of this paper is to review potential determinants of born global companies emergence in Poland. It gives an overview of the literature on the born global phenomenon. The research presents basic factors which influence internationalisation process and analyses the Polish market characteristics determining early internationalisation. The study shows specific features of the Polish market which might foster emergence and expansion of born global firms. These are export-oriented economy, export opportunities in the euro area and high entrepreneurial potential. Discussion on possible determinants of early internationalisation sets a theoretical framework for the empirical research on born globals functioning in Poland. Further research may help to identify potential fields for policy action that could be initiated to support born global firms.

Keywords internationalisation, born global, entrepreneurship.

INTRODUCTION

International business literature in the last decades have stated that not all companies follow traditional internationalisation path. Some of them are being born global – they start international operations immediately after company founding. So-called born global firms first appeared in McKinsey & Co. research [Rennie 1993, retrieved: 27.10.2016], which showed that companies do not need a strong domestic market in order to operate internationally.

The main goal of this paper is to analyse the potential for born global companies emergence by setting out potential determinants for early internationalisation in Poland. In order to achieve this goal, the following

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research question was asked: Does business environment in Poland foster emergence of the born global companies?

The conducted research confirmed the evidence of born global companies existence for the last two decades. However, Poland acquired this trend later. Due to political conditions and transformation period, the polish economy have been incorporated into a global economic system only in 1991, and the European Union cooperation allowed it to even more fully participate in the global marketplace. In Poland the born global phenomenon became a subject for scientific research only in 2006 [Jarosiński 2012, pp. 7–24].

This article discusses the key theoretical concepts related to rapid internationalisation of firms and possible motives for born global companies creation. Based on the critical literature review, several factors fostering early internationalisation in Poland, like: small domestic market, export opportunities in the euro area and high entrepreneurial potential, are enumerated. The influence of the economic crisis on CE economies and Poland in particular and businesses internationalisation is also discussed.

1. MATERIALS AND METHODS

In order to review potential determinants of born global companies emergence in Poland, the critical literature review was used. Firstly, the paper gives an overview of the international literature on the born global phenomenon. It also presents basic factors which influence internationalisation decisions – environmental, situational factors and entrepreneurial characteristics. The author analyses Polish market characteristics influencing early internationalisation.

The journals and Internet platforms connected with entrepreneurship in Central Europe were reviewed. For example, the official Internet portal of the Visegrad Group, which provides historical facts, official statements, essays and articles on the Poland and other Central European countries. Many articles were acquired online, from the Visegrad Revue webpage, or from the Visegrad Insight online newspaper.

Statistical data like GDP, export and unemployment levels were taken from the Eurostat internet platform.

2. LITERATURE REVIEW

Traditional internationalisation theories such as the Uppsala model [Johanson and Vahline 1977, pp. 23–33] suggest that firms first develop in their domestic market, establish a solid home base and go international in later stages of their life cycle. However, some companies do not follow this scheme but go
global immediately after their founding. This phenomenon was first outlined in the 1993 research of the Australian manufacturers [Rennie 1993, retrieved: 27.10.2016] which showed that some companies are being born global. These findings initiated further research on this topic.

The born global firm does not have a generally accepted definition in the international literature (see table 1). It is a relatively new concept, hence every researcher works on his own definition, focusing on criteria such as share of foreign sales, time period before starting international activity or number of markets exported.

Table 1. Definitions of born global companies in the literature

<table>
<thead>
<tr>
<th>Author</th>
<th>Time before starting international activity</th>
<th>Share of foreign sales</th>
<th>Number of markets</th>
<th>Other characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rennie [1993]</td>
<td>2 years</td>
<td>75%</td>
<td>Multiple</td>
<td>Global mindset from the outset</td>
</tr>
<tr>
<td>Knight &amp; Cavusgil [1996]</td>
<td>2 years</td>
<td>25%</td>
<td>n.a.</td>
<td>Global mindset from the outset</td>
</tr>
<tr>
<td>Madsen &amp; Servais [2000]</td>
<td>3 years</td>
<td>25%</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Luostarinen &amp; Gabrielsson [2006]</td>
<td>n.a.</td>
<td>50%</td>
<td>n.a.</td>
<td>Global vision and global growth path</td>
</tr>
</tbody>
</table>

Source: own elaboration based on Gabrielsson and Kirpalani [2012].

Gabrielsson et al. [2008, pp. 385–401] explain such differences in the definitions. First Australian and US studies on born globals suggest that the foreign market share of such company should be at least 25%, because Australia and the US are large countries with low export ratio. However, European perspective demands a stricter definition, because any start-up from a small country with a specialized product could meet these requirements. That is why Finnish research [Luostarinen and Gabrielsson 2006, pp. 703–801] have suggested that at least 50% of sales should be on continents external to the one from which the firm originated.

Definitions of a born global firm may differ significantly, but they all focus on global mindset of the founder. Although, empirical studies focus on tangible characteristics, global vision of an entrepreneur appears to be the key feature of early internationalising companies. The entrepreneur-related factors, causing that small and medium firms get involved in international activity shortly after
inception, include international vision of the founders, their international experience, identification of a specific international opportunity, and desire to be an international market leader [Persinger et all 2007, pp. 73–82]. Born global companies are usually formed by proactive managers with an entrepreneurial mindset who possess personal international network of contacts.

Apart from entrepreneur characteristics, emergence of born global companies may be explained by a combination of external and internal factors. External factors facilitating early internationalisation are usually connected with sectoral, regional or national export culture, specific demand characteristics or foreign trade facilitators [Zahra and George 2002, pp. 255–288]. Some regions with a strong export tradition in a certain sector create the „internationalisation culture” among entrepreneurs which leads to international activities enhancement [Eurofound, 2012, retrieved: 11.10.2016]. Born globals are more likely to emerge from small and open economies [Gabrielsson and Kirpalani 2012] because low domestic demand and, on the other hand, active international demand foster international entrepreneurship. High risk level and limited potential for starting up a domestic business are push factors for innovative start ups to go international [Lejko and Bojnec 2011, retrieved: 07.10.2016]. The regulatory framework may also facilitate international activities [Eurofound, 2012, retrieved: 11.10.2016], for example, favourable conditions on the home market supporting research and development incentives or beneficial framework conditions in foreign markets such as legal or tax incentives.

The internal determinants of early internationalisation are suitable products or services, company mission to become internationally active, human or financial resources availability. A monopoly or near-monopoly position in a certain product or service gives a huge competitive advantage in the international business. It usually derives from tacit knowledge, unique product or process or other assets inseparable from the controlling firm [Cavusgil and Knight 2009]. Many born globals internationalise because of a superior product that gains acceptance worldwide. Usually, it is an innovative unique and high-quality product which allows to gain competitive advantage in the international markets. Global niche markets create a demand, which can be satisfied by highly technological, innovative companies with the strong international outlook.

### 3. DISCUSSION

The question is whether the concept of born global companies is suitable for Poland and other CE countries. Does business environment there foster emergence of such businesses? In order to discuss that, we analyse possible determinants of early internationalisation in CE countries through the example of Poland.
There have been no previous extensive research on born global companies on the Central European scale. However, there is an evidence from the researchers from Poland [Berliński 2006, pp. 132–151; Duliniec 2011, pp. 63–80], the Czech Republic, Slovenia [Lejko and Bojnec 2011, retrieved: 07.10.2016], Hungary [Incze 2010, retrieved: 07.10.2016] that early internationalisation phenomenon exists. It seems clear that the next step is to combine national research findings in order to gain broader understanding of born globals in CE countries.

3.1. Export orientation of Poland and other Central European economies

Andersson and Victor [2003, pp. 249–276] suggest that nations with small domestic markets have higher propensity to generate born global companies than nations with large markets. CE countries, with their small and open economies, are highly export-oriented. However Poland can rely more on its domestic demand and consumption because its market is relatively large. When we measure amount of exports in GDP (see figure 1), the Visegrad Group countries appear to be among comparatively largest exporters in the European Union. The highest percentages of exports in GDP are 95% for Hungary and 97% for Slovakia. The Czech Republic export ratio is 78%. Therefore, small and export-oriented CE countries possess higher potential to generate early internationalising companies than larger economies like Poland.

![Figure 1. Export as a percentage of GDP in the Visegrad Group countries among the European Union countries in 2012](source: own calculations based on Eurostat data.)
According to the above Poland has less potential to generate born global companies than smaller economies like Slovakia or Hungary. However, if we look at the dynamics of percentage of export in GDP, it is obvious that after 2004 when Poland entered the European Union, the percentage of export in GDP was always higher than the average in the European Union.

![Figure 2. Export as a percentage of GDP in the European Union in the years 1995–2015](image)

Source: own calculations based on Eurostat data.

### 3.2. Export opportunities in The European Union

Significant external motive for early internationalisation in Poland is access to euro markets. Close localization, lack of trade barriers and low psychic distance makes foreign European markets more available. German market, being the largest European economy, is the largest importer of the V4 countries’ products and services [V4 Trade and Investment Observer 2012, retrieved: 15.10.2016]. Visegrad countries export from 20% in case of Slovakia to more than 30% in case of the Czech Republic to Germany (see table 2). The interconnections of economies within the region are also visible – the Czech Republic is the second most important importer of Poland and Slovakia, which, in turn, are the second and third biggest importers of Czech goods [Špok 2012, retrieved: 16.10.2016].
Depreciation of the local currencies, mainly in case of the Hungarian forint and the Polish zloty, have had a positive effect on sales to the foreign markets, as it improved export profitability. Flexible exchange rates of national currencies allowed Czech, Hungarian and Polish economies to react swiftly to the business cycle downturn in the years 2008–2009, as their export prices became more competitive. In contrast, Slovakia, being a member of the common currency area, suffered in terms of competitiveness [Sobjak 2013, retrieved: 16.10.2016]. Such favourable export conditions might enhance early internationalisation within Polish entrepreneurs.

Table 2. Top 5 importers of Visegrad Group goods and their share of total exports in 2011

<table>
<thead>
<tr>
<th></th>
<th>Hungary</th>
<th>Share of total exports</th>
<th>Czech Republic</th>
<th>Share of total exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>25,20%</td>
<td>Germany</td>
<td>32,15%</td>
<td></td>
</tr>
<tr>
<td>Romania</td>
<td>5,80%</td>
<td>Slovakia</td>
<td>8,97%</td>
<td></td>
</tr>
<tr>
<td>Italy</td>
<td>5,40%</td>
<td>Poland</td>
<td>6,28%</td>
<td></td>
</tr>
<tr>
<td>Austria</td>
<td>5,40%</td>
<td>France</td>
<td>5,47%</td>
<td></td>
</tr>
<tr>
<td>Slovakia</td>
<td>3,30%</td>
<td>Austria</td>
<td>4,50%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Poland</th>
<th>Share of total exports</th>
<th>Slovakia</th>
<th>Share of total exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>26,07%</td>
<td>Germany</td>
<td>20,40%</td>
<td></td>
</tr>
<tr>
<td>Czech Republic</td>
<td>6,20%</td>
<td>Czech Republic</td>
<td>14,20%</td>
<td></td>
</tr>
<tr>
<td>France</td>
<td>6,13%</td>
<td>Poland</td>
<td>7,30%</td>
<td></td>
</tr>
<tr>
<td>Italy</td>
<td>5,36%</td>
<td>Austria</td>
<td>7,00%</td>
<td></td>
</tr>
<tr>
<td>Russia</td>
<td>4,52%</td>
<td>Italy</td>
<td>5,30%</td>
<td></td>
</tr>
</tbody>
</table>

Source: adapted from Špok [2012, retrieved: 16.10.2016].

3.3. Entrepreneurial potential in Poland

Some studies focusing on decision to start a firm and become an entrepreneur suggest that rise in unemployment leads to an increased start-up activity. The explanation of this phenomenon is the following: when people cannot find jobs matching their skills or income expectations, they more eagerly decide to start their own business. The global crisis caused the increase in unemployment in the CE countries, interrupting strong job creation dynamics that existed during the pre-crisis period [Sobjak 2013, retrieved: 16.10.2016]. Figure 3 confirms the fact that until 2013 in Poland the unemployment rate increased while the number of active enterprises went down.

According to the Global Entrepreneurship Monitor (GEM) [Poland 2012, retrieved: 10.10.2016] research on entrepreneurial skills in European countries and the USA, Poland and Slovakia showed high entrepreneurial potential. The research was based on self assessment of own capabilities and knowledge.
Polish people assess their entrepreneurship potential rather high – 54% declare that they possess enough knowledge for starting and managing a company. That gives Poland a third position after the USA (56%) and Macedonia (55%). [Poland 2012, retrieved: 10.10.2016].

![Unemployment rate vs. Number of enterprises in Poland (2010-2014)](image)

Source: own calculations based on Eurostat data.

3.4. Vulnerability of born global companies

According to the Eurofound report [2012, retrieved: 11.10.2016], born globals contribute to current and future economic and labour market development in Europe. The estimated one-fifth of European start-ups can be considered to be born globals, and they are characterised by higher employment numbers than domestically oriented firms. They create high quality, well paid and stable work places. Moreover, born global companies have positive influence on macroeconomic development through tax revenues or value chain effects caused by their innovativeness. Due to their pioneer character, they foster innovation and competitiveness on the market. After born global companies emerge, their vulnerability, due to their young age, lack of experience and established domestic markets, presents significant challenges for staying on the
market. These firms may need government support to realize their full potential [Eurofound, 2012, retrieved: 11.10.2016]

Emergence of the born global companies in Poland is enhanced by specific economic and political situation of this region. Discussion on possible determinants of early internationalisation sets a theoretical framework to further empirical research on born globals functioning in Poland and potential fields for government support.

CONCLUSIONS

Taking into consideration that Polish economy is relatively small, open and highly export-oriented, it probably possesses the „internationalisation culture” which pushes start-ups abroad as they see opportunities in international business. The level of unemployment contributed to entrepreneurship growth in Poland, which, according to the latest GEM research, is on high level in CE countries. Therefore, we can assume that part of the start-ups created in Poland choose the international development path, hence become born global firms.

Political and economic changes in Poland caused that some companies adopted new internationalisation strategies. As the economy becomes more open, entrepreneurs see more opportunities on the foreign markets and create born global companies, starting international activities from the inception.

Further empirical research on born global activities in Poland might address the questions: how many born globals there are among the exporters, what are the determinants of their emergence, what are specific challenges they face. Answers to those questions may help to work out the potential fields for policy action that could be initiated to support born global firms.

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DETERMINANTY POWSTAWANIA FIRM BORN GLOBAL W POLSCE

Abstrakt


Słowa kluczowe umiędzynarodowienie, born global, przedsiębiorczość.