

The competitive advantage of early and rapidly internationalising SMEs in the biotechnology industry: A knowledge-based view

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Abstract

Our knowledge on ‘born globals’ (BG) is fragmented and lacks an integrative framework. Starting from a knowledge-based view of the firm, we analyse internationally active biotechnology small and medium enterprises (SMEs) from Switzerland, Germany, and Australia to find out about the generation and protection of their competitive advantage that enables them to internationalise early and rapidly. Our results question some of the conventional wisdom on ‘born globals’ and discuss implications for the established body of knowledge as well as implications for practitioners.

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1. Introduction

The past 10 years have brought forth an impressive volume of research on internationally active small and medium enterprises (SMEs). Throughout this paper, we will refer to them as ‘born globals’ (BGs), being aware of the multitude of other denominations.¹ However, the call for papers of this special issue of JWB notes very well that research on these firms is fragmented and lacks a cohesive theoretical framework.

As of today, the field of international entrepreneurship (IE) is lacking in solid theoretical frameworks, a deficiency that may cause fragmentation in this area (McDougall & Oviatt, 2000). Gaps remain in terms of the

development of normative implications for international new ventures (INVs), and in the elaboration of new theoretical insight for the development of practitioner-oriented planning frameworks (Autio, 2005). Although authors have employed perspectives as different as organisational learning (Zahra, Ireland, & Hitt, 2000) and evolutionary economics (Knight & Cavusgil, 2004), we neither completely understand which capabilities enable SMEs to be internationally active at all, nor do we know the elements of their international competitive advantage. Both conventional wisdom that assumes a constrained resource endowment of SMEs, and the export-focussed view on BGs have limited our understanding of why an SME becomes a BG (Jones, 1999). Some issues that can greatly favour internationalisation of SMEs, such as intellectual property rights protection, have received little attention. Moreover, in our own empirical work which is featured in this article, we found some surprising phenomena, such as internationally active SMEs that are not exporting at all, new business strategies based on comparative advantage in

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¹ Sharma and Blomstermo (2003) provide an overview of other names and of the studies defining them.

international value chains, and SMEs that by virtue of intellectual property rights can serve world markets.

Given these gaps in theory and these empirical phenomena, we feel that there is a need for an inductive, hypothesis-generating approach. Specifically, we want to identify the basis of the competitive advantage of a BG that enables it to early and rapidly internationalise. Thus, we do not focus here on the patterns and entry modes of the internationalisation process. Rather, we ask which specific intra-firm resources and capabilities enable the firm's internationalisation process at all. Thus, we lament that there has been very little empirical research aimed at uncovering the actual bundles of capabilities that make SMEs internationalise early (Knight & Cavusgil, 2004).

To make this contribution, we analyse empirical findings from in-depth case studies of six BGs from the biotechnology sector. This analysis is guided by the following research questions:

- (1) What is the basis of a BG's competitive advantage, given the common presumption that BGs have a limited resource endowment and thus suffer from a 'liability of smallness'?
- (2) How is this competitive advantage generated, sustained, and protected?
- (3) How is the rent-generating *potential* of an SME's competitive advantage *effectively realised* in international markets, that is: how can BGs transform their specialised knowledge into business performance, given their lack of tangible resources?

To explore these questions, this paper will proceed as follows. Having set out in detail the theoretical and empirical need for our investigation, we will conceptually base our paper on the knowledge-based view of the firm and explain why this perspective is suitable for an analysis of our research questions (Section 2). Having described our research methodology (Section 3), we feature and analyse the empirical data obtained from our interviews. These findings and analyses are then used to construct a model of how SMEs can early and rapidly internationalise (Section 4). Subsequently, we discuss the implications of our findings for future theory development (Section 5), for managers (Section 6), and the limitations of our approach as well as directions for future research (Section 7).

2. Literature review

Literature on BGs can be separated into two streams: First, contributions that analyse the *external* processes

or patterns of internationalisation of BGs over time, and second, studies that look *inside* the firm at either personal traits of the entrepreneur or at firm-specific characteristics.

2.1. The dominant view: The 'how' of BG internationalisation

Given that the process theory of internationalisation ('Uppsala model') and the stage-based model of gradual export commitment to foreign markets could not be empirically confirmed as regards born globals (cf. Chetty & Campbell-Hunt, 2004, for a review), several streams of research emerged that looked at the patterns and processes of BG internationalisation to develop alternative views.

One of these streams is what we call the 'export-oriented' view that was triggered by the second part of Oviatt and McDougall's definition of an INV as '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 & McDougall, 1994). This view mostly equates 'sale of outputs' with 'export', assuming that an SME is a BG as soon it exports typically more than 25% of sales, modelling international growth by how rapidly the SME increases its international sales (e.g., Autio, Sapienza, & Almeida, 2000; Moen, 2002).

To equate 'export intensity' and 'internationalisation' of SMEs may be misleading as other possibilities for internationalisation that can go without any export may be ignored (Jones, 1999). Consequently, other streams of this process literature have looked at ways of internationalisation other than exports. This literature analyses foreign market entry modes and patterns, FDI flows, inter-firm cooperations, and inter-firm network relationships, or combinations of these (cf. Coviello & McAuley, 1999; Dimitratos, Johnson, Slow, & Young, 2003; Jones & Coviello, 2005, for reviews of this literature). It also tries to find out whether any of these modes is superior in terms of firm performance (e.g., Lu & Beamish, 2001) and analyses the relationships between modes and speed of the internationalisation process (e.g., Hashai & Almor, 2004). However, while this literature provides useful frameworks for the analysis of the *patterns and processes* (i.e., the 'how') of internationalisation of SMEs, it does not focus on an SME's competitive advantage that makes it eligible to successfully undergo the internationalisation process *at all*.

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