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Rapid multinationalization: Propositions for studying born micromultinationals

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ABSTRACT

This study examines how so-called born micromultinationals multinationalize. Existing theoretical frameworks do not capture the multinationalization of young and small firms because of the literature gap separating studies on born globals and international new ventures from the research on multinational enterprises. However, firms go beyond accelerated internationalization and engage in accelerated multinationalization. Born micromultinationals invest and operate in multiple countries from, or soon after, their foundation. We argue that it is necessary to examine their smallness, newness and entrepreneurial nature, as suggested in the BG/INV literature, as well as to investigate why and how they invest abroad through the lenses of MNE theories. We discuss existing theories and examine them in the light of four case studies of Finnish born micromultinationals. Our results show that the organizational, locational and internalization approach and transaction costs economics for example, have explanatory power for the FDIs conducted by born micromultinationals. We suggest that the multinationalization process of born mMNEs consists of commitment decisions; reconfigurations of the value chain; and learning from, and creating and building trust with internal sources.

1. Introduction

Multinational companies of the 21st century are not necessarily large. At little or no cost, even the smallest business has access to communications and computing innovations that were beyond their reach just a decade ago (Subramaniam, 2015). SMEs that operate like multinational enterprises in using high-commitment modes of entering foreign markets are called micromultinationals (mMNEs) (Coviello, 2015; Dimitratos, Johnson, Slow, & Young, 2003), which, by combining virtual and physical networks, have the potential to disrupt industries (Subramaniam, 2015). An example of an mMNE is the Australian cloud-based business-management software provider WORK [etc.] (www.worketc.com). This young firm has 22 employees in five countries and eight locations.

Why are these companies important? For one thing, mMNEs enjoy advantages that are unavailable to SMEs operating in a single market, such as being able to benefit from global variations in knowledge, skills and labour costs (Varian, 2011). They can conduct their business around the world and around the clock across multiple time zones (Varian, 2011). Many of them operate in industries in which the products are intangible and thus easily transferable, such as the software domain.

In our study we focus on born mMNEs, i.e. mMNEs that started international operations soon after their foundation. We have formulated the following research question to guide this study: *How do born mMNEs multinationalize*? A multinational enterprise (MNE) is, by definition, an enterprise that owns and controls value-adding activities in two or more countries (Dunning, 1989). Accordingly, multinationalization in this study is viewed as the process of becoming and further developing as a multinational company. In our opinion, a company becomes multinational (from an international, export-based company) at the moment of its first foreign direct investment (FDI). However, this is not the end of the process but marks the beginning of real multinationalization. Studies that concentrate on born globals (BGs) and international new ventures (INVs) tend to refer to this process as a 'pattern' or 'pathway' of internationalization. Kuivalainen, Sundqvist, and Servais (2007), for instance, describe the key dimensions of this process as scale (export intensity, i.e. the share of turnover from

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foreign markets), scope (the number of markets in which the company sells) and time (the speed of internationalization) and ignore multinational properties such as establishing FDIs. Thus, we believe it is justified to differentiate *accelerated multinationalization* from accelerated internationalization (Weerawardena, Sullivan, Liesch, & Knight, 2007) given our focus on how the process of establishing FDIs proceeds, rather than merely focussing on the scale, scope and time aspects that characterize studies of the internationalization process. Firms establishing FDIs, and thus engaging in multinationalization, face different challenges from those confronting exporting firms because they need to think about aspects – such as HR strategy and knowledge transfer – from different perspectives. Internationalization may merely entail exporting without any of the challenges of a multinational company. Multinational firms need to optimize their business in terms of its configuration, the design and redesign of the value chain and its coordination, creating a system for adjusting the roles and functions of interdependent units (Vahlne, Ivarsson, & Johanson, 2011).

As a starting point we examine the multinationalization process of born mMNEs, as depicted in the literature on international business, and derive our ex-ante explanatory factors from both the BG/INV literature and traditional IB theories, such as the resource-based view (RBV) and transaction cost economics (TCE). Multinationalization has been studied extensively on the MNE level (e.g. Andersson & Forsgren, 1996; Andersson, Forsgren, & Holm, 2001; Birkinshaw & Hood, 1998), but it remains unclear how the process evolves in smaller companies (Dimitratos, Amorós, Etchebarne, & Felzensztein, 2014). These firms have not been examined through the theoretical lenses of MNE theories that extend beyond the speed and scope of rapid internationalization.

Born mMNEs are not similar to the exporting BGs and INVs discussed in the earlier literature (McDougall & Oviatt, 2000; Oviatt, McDougall, & Loper, 1995; Shrader, Oviatt, & McDougall, 2000) and rapidly transform into MNEs, opening different types of subsidiaries in multiple locations at a very early stage (Dimitratos et al., 2003). Although firms that internationalize early and rapidly after their foundation, such as BGs and INVs (Oviatt et al., 1995; Shrader et al., 2000), have been a strong focus of academic study in recent decades, it is assumed in most of the research that such firms serve international markets through lower-commitment modes of investment (e.g. Brouthers & Hennart, 2007; Brouthers & Nakos, 2004; Jones, 1999; Ripollés, Blesa, & Monferrer, 2012): the idea that SMEs can also internationalize (several) parts of their value chain has been largely neglected since Oviatt and McDougall's (1994) seminal INV study was published (Kuivalainen et al., 2007). However, as the economy has shifted away from physical goods towards the production of information, SMEs have more options for organizing their operations (Child & McGrath, 2001). As Cavusgil and Knight (2015: 13) point out in the Journal of International Business Studies retrospective, 'in the longer term, as technology facilitates global, virtual small firms that configure and coordinate their value chains with the aid of iPads, iPhones, and similar devices, we may reach a point where the born global concept becomes outmoded. —Research must keep pace with the evolving patterns of start-up firms.' There have also been calls for more research focusing on younger SMEs and their choice of foreign-market entry mode (Laufs & Schwens, 2014). The entry modes that young SMEs adopt to penetrate foreign markets affect their future success (Burgel & Murray, 2000; Dhanaraj & Beamish, 2003). In connection to this, mMNEs may exert more control over international activities and thereby realize superior performance (Dimitratos et al., 2014; Prashantham, 2011) and thus deserve more research attention. Furthermore, the assumption that SMEs only use low-commitment modes may limit the types of support that governments give them. There are costs and challenges that mMNEs face that SMEs focusing on exports do not (Contractor, Kumar, Kundu, & Pedersen, 2010), and it would therefore be beneficial to enhance understanding of them. We argue that making sense of this phenomenon could help in guiding managers and better framing policy debates. This is important as SMEs' multinationalization has an effect on the global economy and culture (Varian, 2011). Given mMNEs increasing importance on a global scale, this is an avenue that merits further investigation (Dimitratos et al., 2014).

In our empirical study we scrutinize the suitability of the existing literature in the light of findings derived from four case studies of Finnish born mMNEs. Our contribution to the literature is twofold. First, we provide empirical explanations related to the process of multinationalization in firms of this type, which are even more extreme in their internationalization than BGs. Second, iterating the theory and case studies, we develop a set of propositions to characterize born mMNEs. We conclude that the multinationalization process of born mMNEs consists of commitment decisions; reconfigurations of the value chain; and learning from, and creating and building trust with internal sources.

2. Theoretical background

2.1. Born mMNEs

SMEs that own or control value-adding activities in two or more countries are mMNEs (Dimitratos et al., 2003). We note that this is a simplistic measure but after the first FDI a mMNE needs to start to learn how to do local HRM in the host country for example: in general, many aspects related to the common tasks and duties prevalent among MNEs come to the fore and it can be said that these firms operate like multinationals.

Although the term multinational was used earlier to describe the international activities of large firms (Dunning, 1989), cases of SMEs using more advanced entry modes have been reported regularly (Dimitratos et al., 2003). As Mathews and Zander note in their JIBS article (2007) (Mathews & Zander, 2007), mMNEs constitute a new MNE species in the global economy. Although not all mMNEs are INVs, and vice versa, some do establish their foreign operations soon after their foundation, thereby qualifying as INVs (McDougall & Oviatt, 1996; Zahra, Ireland, & Hitt, 2000) and in some cases as BGs (Knight, Madsen, & Servais, 2004) regarding their time to internationalization if they have established these operations in less than three years from their inception. We use the term born mMNEs (Dimitratos et al., 2003) to describe firms that, despite being small and resource-constrained SMEs, own or control value-adding activities (they have established FDIs) in two or more countries in less than three years after their foundation. In Oviatt and McDougall's (1994) seminal paper, they presented four types of INV based on two dimensions, value-chain activities (few–many) and the number of countries (few–many). In fact their global start-ups, which would score high values on both dimensions, could be considered similar to born mMNEs. However, even though a global start-up is the most committed manifestation of an INV, it merely has close network alliances in multiple countries (Oviatt & McDougall, 1994) and is thus different from born mMNEs that go beyond this networked approach and establish their own FDIs at an early stage (see Fig. 1 for the positioning of born mMNEs).

There is scant empirical evidence on mMNEs' activities but some evidence exists that the utilization of a high-commitment operation mode often coincides with strong co-operation, even with competitors (Dimitratos, Johnson, Plakoyiannaki, & Young, 2016). Early and rapid internationalization is often based on networking and social capital (Dimitratos et al., 2014; Prashantham, 2011) and hence born mMNEs indeed often combine