ENTREPRENEURIAL ORIENTATION, STRATEGY, AND MARKETING CAPABILITIES IN THE PERFORMANCE OF BORN GLOBAL FIRMS

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We investigate born global firms, companies that expand rapidly into foreign markets from or near their founding, to see how they are able to succeed despite limited resources and experience. We highlight the roles of knowledge and capabilities for early internationalization and success in international markets. Results from a survey-based study suggest born global firms have a distinctive mix of orientations and strategies that allow them to succeed in international markets. Specifically, research revealed that possession of an international entrepreneurial orientation, a focus and/or differentiation strategy, and marketing capabilities are important antecedent factors in the international performance of born global firms. These results are discussed.

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In the 1980s, researchers began to notice a type of business that was internationally oriented from its inception. The term “born global”, first coined by Rennie (1993) while investigating Australian exporters for McKinsey and Co. consultants, was a result of the observation that approximately one quarter of the Australian firms began to rely on exporting as a substantial source of sales revenue extremely early in the firm’s development. Oviatt and McDougall used the term “International New Ventures” to describe firms that seek competitive advantage from international markets by using resources from a number of countries or by offering its product in several different countries. They defined such a firm 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. The distinguishing feature of these start-ups is that their origins are international, as demonstrated by observable and significant commitments of resources (e.g., material, people, financing, time) in more than one nation” (1994: 49).

Subsequently, Knight and Cavusgil (1996) operationalized born global firms (‘born globals’) as companies that export twenty-five percent or more within the first three to six years of their foundation, and this description has been widely employed across the research (Rasmussen and Madsen, 2002). At first thought to only be found in high technology businesses, born globals are in fact found in a broad range of industries and fields such as high-design businesses, high quality service businesses, high unique know-how businesses, and high sophisticated system businesses (Luostarinen and Gabrielsson, 2002).

The born global phenomena has been documented in management literature (e.g., McDougall and Oviatt, 2000), the textbook press (e.g., Daniels and Radebaugh, 1998), and has also been recognized by leading consulting firms (e.g., Rennie, 1993). The widespread acknowledgement of this new type of firm has contributed to the creation of a new academic field, international entrepreneurship. The growing body of literature on the born global phenomena indicates the importance of this new type of firm (Knight, Madsen and Servais, 2004).

In this paper, we investigate the characteristics that permit born globals to succeed despite the limitations that tend to characterize these small and medium enterprises. We highlight company knowledge assets and the capabilities that contribute to a firm’s early internationalization and its resulting success in international markets. We then conduct a survey-based study of such businesses from around the United States. We investigate a distinctive mix of orientations and strategies that allow born globals to succeed in international markets. Specifically, we focus on the roles of international entrepreneurial orientation,
focus and differentiation strategies, and marketing capabilities on born globals international performance.

**EARLY INTERNATIONALIZATION**

Despite deficiencies in human, financial, and tangible resources, born globals internationalize rapidly as compared to traditional organizations. Typically, born globals enter the foreign marketplace within the first three years of domestic establishment. Most of these organizations are smaller, allowing the firm to be flexible which appears to be a benefit when entering foreign markets (Knight and Cavusgil, 2004).

Knight and Cavusgil (1996) named a number of trends that have led to the emergence of born globals including:

- Amplified demand for customized products and the ever expanding market for niche products.
- Advances in process technologies that enable firms to operate with small scale production while employing complex components.
- Significant advances in communications technology, such as the internet, fax, and e-mail, which allow small firms to operate efficiently in international markets and to have greater access to information about international markets.
- Internationalization of technology, knowledge, and facilitating institutions which allows for firms to easily access funding and to transfer technology.
- The development of a global network that facilitates the creation of mutually beneficial relationships with international partners.

In contrast to born globals, traditional companies follow a domestic path and then eventually expand to foreign markets. As a result, traditional companies must unlearn routines and operations (gained from their domestic experiences) and learn new process for new markets (Knight and Cavusgil, 2004). As firms age, this process of creating new knowledge and routines becomes costly and difficult since new knowledge and routines conflict with long-imbedded existing routines (Autio, Sapienza and Almeida, 2000). This implies that firms in the early stages of development are better equipped to develop and manage the knowledge that creates superior performance in foreign markets (Knight and Cavusgil, 2004). From the beginning born globals establish routines that are inherently flexible and can be applied or easily altered to the function requirements of different foreign markets. Without having to unlearn old routines and apply new routines, born globals are able to quickly achieve competitive advantages and expansion into multiple international markets (Knight and Cavusgil, 2004).

Furthermore, born globals have a certain culture that is conducive to innovation and adaptation (Knight and Cavusgil, 2004). Born globals are young,
flexible, and agile, characteristics of an organizational culture which permits the firm to adapt easily to diverse markets and to adjust to changes rapidly. Such characteristics are associated with a firm’s entrepreneurial orientation (Covin and Slevin, 1989), a type of firm culture which encourages innovation and risk-taking (Knight et al, 2004). A firm with an organizational culture that promotes innovation and the creation of knowledge will continuously work to develop products and improve business practices (Covin and Slevin, 1989). Similarly, companies that have a culture which embraces risk taking are more likely to explore foreign market opportunities from early on in their existence (Knight and Cavusgil, 2004). Thus, the firm’s entrepreneurial orientation, contributes to its ability to internationalize early in its development (Knight and Cavusgil, 2004) due to the organization’s capacity for innovative actions and risk taking.

Early internationalization of born globals has also been facilitated by the reduced transaction costs associated with doing business in foreign markets (Knight and Cavusgil, 2004). Transaction costs have been reduced through the globalization of markets, as well as through technological advances in information and communication technologies (Knight and Cavusgil, 2004). Globalization of markets is associated with increasing similarities in buyer preferences across the world, which has lowered the transaction costs associated with product development and marketing adaptations (Knight and Cavusgil, 2004). The widespread use of the Internet and related technologies has also made the cost of doing business internationally less burdensome, making the management of international operations and international marketing functions more cost-effective, thus more feasible for organizations with fewer resources (Knight and Cavusgil, 2004). Similarly, technological advancement has lead to lower transportation costs which has, in turn, reduced the marginal cost of international sales and made foreign markets more attractive (Dow, 2005). Born globals are also able to take advantage of international opportunities when transportation costs are decreased as a product of trade agreements and the ease of distribution that results from closer economic relations between nations (Dow, 2005).

Early internationalization of born globals may also occur as a result of a firm’s competitive advantages (Hymer, 1976). Hymer’s monopolistic advantage theory argues that a foreign firm might possess an advantage that is not available to local firms (1976). One such advantage that would lead to rapid internationalization would be the firm’s knowledge-based capabilities, for example, the firm’s unique business practices or patentable intellectual capital (Dow, 2005). A firm that possesses such an advantage over other firms may expand internationally to utilize the advantage that they have at a lower marginal cost (Hymer, 1976).
According to Luostarinen and Gabrielsson, the location of origin for the born global is also linked to firm motives for rapid international expansion. (There is a distinction between the motivations of born globals of large nations and born globals of small and open economies). Born globals of large nations have a large domestic market resulting in little or no pressure to internationalize. However, born globals of small and open economies (SMOPECs) have lots of pressure to enter global markets since the domestic market is extremely small. Companies in large nations benefit from ample financial sources and a plethora of global managerial and marketing knowledge due to the large amount of global companies. On the other hand, companies in SMOPECs have small and open markets, limited financial resources, and less managerial and marketing resources, yet these companies have pressure to enter global markets. It seems that born globals are more important phenomena for SMOPECs than for larger economies (2002).

**IMPORTANCE OF KNOWLEDGE**

Knowledge and the assimilation of individuals’ specific knowledge is the single most important resource that a born global company can possess (Knight and Cavusgil, 2004). Knowledge creates a particular advantage when entering and operating in foreign markets (Autio et al., 2000). Born globals assemble a collection of idiosyncratic and intangible knowledge based capabilities in the entry and operation of foreign markets early in their development (Autio et al., 2000; Knight and Cavusgil, 2004). Organizational performance is traceable to increases in a firm’s overall knowledge (Kogut and Zander, 1993). The most significant knowledge resources that a company has are unique and immobile, and specifically reflect the capabilities of each individual firm (Knight and Cavusgil, 2004).

The ability to create value by transforming inputs into outputs reflects the organizational capabilities of a firm (Knight and Cavusgil, 2004). When organizational activities are routine, capabilities are embedded into an organization’s memory generating a unique configuration of a firm’s resources (Penrose, 1959). Capabilities that reflect the skills, abilities and knowledge of the firm’s managers permit firms to achieve performance advantages (Teece, Pisano and Shuen, 1997). Knowledge-intensive, performance-creating activities where the born global is specifically skilled are competencies that permit rapid international expansion by the firm (Knight and Cavusgil, 2004). Born globals thrive on a base of knowledge gained through experience in international markets, as well as the knowledge and experience of the managers. These characteristics make born globals unique relative to their competitors (Knight and Cavusgil, 2004). Born globals gain a resource advantage through this knowledge, since, while other firms might observe and imitate a competitor’s policies and practices, it would be extremely difficult to imitate a born global’s knowledge-intensive processes (Knight et al., 2004).
International market knowledge and the management of that knowledge is a major determinant of international performance of entrepreneurial firms (McDougall and Oviatt, 2000). While traditional firms rely more on tangible resources, born globals are more dependent on mostly intangible knowledge-based capabilities that permit them to operate in a diverse range of markets (Knight and Cavusgil, 2004). Thus, the hiring of employees who have significant experience and knowledge of global markets assumes a greater significance for the born global (Knight and Cavusgil, 2004).

Rialp, Urbano, and Vaillant (2005) compared born globals to firms that followed a traditional model of internationalization in Spain and found that one of the greatest differences between the two types of firms is their ability to gather and effectively use knowledge of foreign markets. Born globals make use of personal and business international networks through constantly building relationships and maintaining those relationships (Rialp et al., 2005). These firms reach out to export promotion agencies, other firms operating abroad, academic contacts, and international distributors and suppliers to build key relationships to expand their network and knowledge base (Rialp et al., 2005).

Knight and Cavusgil (2004) found that a majority of the managers interviewed from born globals felt that it was important to have an entrepreneurial and innovative mindset when approaching foreign markets, in addition to having a strong international orientation. The managers stressed the importance of creating a strong set of international marketing competencies (Knight and Cavusgil, 2004). Born globals have unique entrepreneurial characteristics and when those characteristics are combined with other resources and skills they create idiosyncratic capabilities that permit the firm to take advantage of opportunities in foreign markets (Knight and Cavusgil, 2004). Born globals have a strong entrepreneurial orientation that in turn enables them to create ‘processes, practices, and decision making activities’ that are linked with successful entrance into foreign markets (Knight and Cavusgil, 2004). International entrepreneurial orientation is a key for developing productive organizational routines in born globals (Knight and Cavusgil, 2004).

Psychic distance refers to a collection of factors that may interfere with the flows of information between markets (Johanson and Wiedersheim-Paul, 1975). Psychic distance is greatest between vastly different countries, but exists between any two markets (Johanson and Wiedersheim-Paul, 1975). Psychic distance is perceived differently by each individual, although one’s view of psychic distance will change over time as the individual’s direct experience with a particular market influences the individual’s perceptions of the market (Johanson and Wiedersheim-Paul, 1975). Thus, the presence of a large psychic distance may cause uncertainty about the ability of the firm to benefit from its competitive advantages (Johanson and Wiedersheim-Paul, 1975). When the firm enters a
market and begins to gain experience and knowledge about how to do business in international markets, the firm’s psychic distance, relative to all markets, will diminish (Johanson and Wiedersheim-Paul, 1975). However, if the CEO of a new firm has had substantial experience in many different international markets, the firm will perceive the psychic distance between markets as lower from the start, thus they are much more likely to enter foreign markets early (Dow, 2005).

Psychic distance affects a company’s choice of whether or not to expand internationally as well as where to expand internationally (Dow, 2005). Firms that possess a more global orientation, and therefore are less influenced by psychic distance, will tend to enter a more diverse set of markets in the early stages of internationalization (Dow, 2005). Firms that do not have a global orientation will tend to enter markets that are psychically proximate, whereas a born globals decision will be based on other factors (Dow, 2005).

**STRATEGIC ORIENTATION**

Born globals have a geocentric perspective perceiving the entire world as their market and this fact is a strong motivator for participation in international marketing. International marketing is the process of planning and conducting transactions across national borders to create exchanges that satisfy the objectives of individuals and organizations (Czinkota and Ronkainen, 2004). This requires firms to adjust their marketing tactics to fit each market that they enter (Czinkota and Ronkainen, 2004). Firms are also subject to more constraints such as differing legal and cultural environments. The key is that a firm is able to adapt their marketing mix to the different environments in which they operate (Czinkota and Ronkainen, 2004).

Early planning of global marketing is essential for born globals to establish a strong marketing department to develop successful campaigns (Luostarinen and Gabrielsson, 2002). The planning of marketing tactics is extremely important since these firms lack the financial resources to recover from marketing failures (Luostarinen and Gabrielsson, 2002). These efforts include early hiring of sales and marketing core staff, contact with marketing channels and customers, and preparation of sales budgets (Luostarinen and Gabrielsson, 2002).

Knight et al., (2004) conducted exploratory case studies on 32 different born globals in which most of the firms stated that marketing competence is crucial to their success and noted that skillful performance of marketing functions was very important (Knight et al., 2004). Everything from knowledge of the consumers, positioning products correctly, pricing and distributing products, to research and development of new products were extremely important due to a firm’s lack of resources (Knight et al., 2004). A firm’s ability to gather this information, manage it, and use it to implement marketing strategies was found key to the international success of these born globals (Knight et al., 2004).
Nearly all of the firms interviewed by Knight et al. (2004) followed a product differentiation strategy, where the firms attempted to distinguish their products from their competition by uniquely meeting a particular need, and in the process creating customer loyalty (Knight et al., 2004). Most of the interviewed firms served narrow, niche markets around the world by following a product differentiation strategy. Also many of the firms studied differentiated themselves through product innovation, often by taking advantage of new technologies. Offering new and distinctive products to niche markets appears to contribute to the superior international performance of these born globals, by creating a buffer against competition allowing these firms to have a type of monopolistic advantage (Knight et al, 2004).

International market orientation refers to a firm’s mindset that stresses the development of customer value through the organization’s marketing practices for customers in a foreign market (Kim, 2003). Firms that are marketing-oriented strive to create satisfied customers, for example, by offering products and services that buyers perceive as having greater value than those of competitors (Narver and Slater, 1990). These firms are constantly striving to present superior value to buyers; this creates and maintains a business culture that fosters the behaviors needed to provide superior customer relationships (Narver and Slater, 1990). Companies are facing more competition than ever due to rapidly changing technology and global competition; this has led to marketers focusing more on the customer (Kim, 2003).

Firms that pursue an intense international market orientation are likely to have a quality focus (Knight and Cavusgil, 2004). A quality focus reflects the company’s effort to exceed customers’ expectations, and in turn can lead to a larger market share and greater profits. The consumer’s perceived value and quality of a product will increase the power of the brand name and help set the product apart from the competition (Knight and Cavusgil, 2004). Marketing valuable and superior quality offerings is an approach that is associated with powerful marketing capabilities (Knight and Cavusgil, 2004).

Customer focus seems to serve as a baseline orientation that influences other factors such as product quality, marketing, and product differentiation strategies (Knight et al, 2004). These strategies appear to serve as a link between customer focus and international performance and have a direct positive effect. The strategies noted above might be very important to any business to succeed, but it appears that they are key to the success of born globals (Knight et al, 2004).

Innovativeness of technology also leads to the improvement of a firm’s marketing capabilities (Kim, 2003). Advances in technology allow for companies to communicate more efficiently with customers and allows them to gain knowledge about their competitors. Marketers can also use advances in
technology to learn how to adapt products or services to different markets. Born globals rely on the use of technology to facilitate their marketing process (Kim, 2003).

Born globals tend to depart from less advanced marketing strategies to more advanced marketing strategies either from the start of the company or at a very rapid pace (Luostarinen and Gabrielsson, 2002). It is common for born globals to use the internet for marketing as well as sales. The internet, a low cost option, is able to reach multiple markets in real time and is a valuable resource for their business (Luostarinen and Gabrielsson, 2002).

**SUCCEEDING IN INTERNATIONAL MARKETS**

There have been many research projects worldwide that suggest born globals are appearing around the world in large numbers. It has also been noted that in some industrialized countries, such as the United States and Australia, born globals account for a significant portion of export expansion. Knight and Cavusgil (2005) identified more than 1,000 born globals in the United States, most of which acquired at least 25 percent of total sales from international markets within the first three years of their creation.

Born globals are faced with many challenges and are often deprived of the resources typically required for a company to expand abroad. Since most born globals are established with an international mindset many of these challenges can be avoided with proper planning and research (Luostarinen and Gabrielsson, 2002).

Technological advances have dramatically decreased the cost of international business facilitating the emergence of born globals (Knight and Cavusgil, 2005). These firms rely heavily on low cost communications such as email, the internet, and other forms of computer supported communication systems, allowing firms to gather information and communicate easily with clients no matter where they are located (Knight and Cavusgil, 2005). Born globals are taking advantage of communication technology; there are no longer significant barriers to international markets (Knight and Cavusgil, 2005).

For born globals to be successful they must be organized effectively; research and development, marketing, and production must be seamlessly coordinated (Luostarinen and Gabrielsson, 2002). This can be achieved in smaller companies by tri-functional team building, where different department teams in the company work very close together from the start of an idea through the launch of the product and finally in processing the feedback on that product (Luostarinen and Gabrielsson, 2002).
There must be a very clear business focus to ensure success of the company. By having a focus on highly specific niche products the business focus can be carried out in an extremely short time period (Luostarinen and Gabrielsson, 2002). Focusing on a specialized niche product steers the direction of the research and development teams and gives a basis for economies of scale. If the business focus is not defined well the already limited financial and research resources are used inefficiently and do not have any real impact (Luostarinen and Gabrielsson, 2002).

Many born globals are focusing on the attribute of quality in their products and services to achieve a competitive advantage (Knight and Cavusgil, 2004). A quality focus simply reflects a company’s effort to produce products and provide services that exceed customer expectations (Rasmussen and Madsen, 2002). Consumers value superior quality products and are willing to pay higher prices for products and services that they perceive to be high quality. Quality has been associated with improved performance not only in the domestic market, but also in foreign markets (Knight and Cavusgil, 2004). Superior quality products have been known to reduce service costs and increase the perceived value which allows profits to rise; because of this born globals are likely to be associated with superior quality products (Knight and Cavusgil, 2004).

Of the firms interviewed by Rasmussen and Madsen (2002) almost all of them viewed their competitive advantage as producing considerably higher quality products/services than what was already on the market. A significant number of these firms produce products/services that are for a highly specialized niche market, yet their actual products/services are standardized. However, only one or two of the firms interviewed would be classified as high-tech firms (Rasmussen and Madsen, 2002).

Porter (1980) identified three generic strategies that companies follow: differentiation, focus, and cost leadership. Company strategy tends to be driven by the company culture, which is the organization’s fundamental set of shared values, beliefs, and orientation that direct the organization (Selznick, 1967). An organization’s culture engenders a company’s strategy, and a company’s strategy is one of the most important elements in driving a company’s performance (Selznick, 1967). Strategies reflect how a firm competes in different markets, targets customers, and positions products and services. Of the three generic strategies born globals typically follow either a differentiation or a focus strategy (Porter, 1980).

Knight and Cavusgil (2005) identified different strategies that many born globals appear to follow including international entrepreneurial orientation, technological leadership, and the generic strategies of differentiation and focus. Classifying born globals by organizational strategy demonstrates how the
management of an organization reflects the organization’s performance. A firm’s strategy is the result of a conscious process by management to operate the firm in a manner which will permit it to optimize its performance (Porter, 1980). As a result, companies develop certain strategies to maximize their effectiveness and/or efficiency with the goal of superior and sustainable performance (Porter, 1980). Possession of a clear and precise strategic orientation is critical to the international success of born globals (Knight and Cavusgil, 2005).

The managers of firms that follow an international entrepreneurial orientation stress the importance of having a proactive and innovative approach to operating in international markets (Knight and Cavusgil, 2005). This orientation is characterized by an entrepreneurial managerial vision, innovativeness, and pro-active competitive attitude in foreign markets. This orientation in foreign environments supports a firm’s awareness of key strategic initiatives that enable international success (Knight and Cavusgil, 2005).

A firm that follows a differentiation strategy strives to emphasize the uniqueness of their products, through the creation and marketing, as compared to those of rival firms (Porter, 1980). Firms can differentiate themselves through product features, customer service, brand image, and advanced technology, among others. This strategy is most successful when a firm differentiates along numerous different product or service oriented dimensions simultaneously (Porter, 1980). This strategy provides a firm with the ability to gain consumer brand loyalty and enjoy lower sensitivity to price (Porter, 1980).

To succeed in foreign markets, born globals must reduce their direct competition with well established or larger firms (Knight and Cavusgil, 2005). One way that born globals reduce the direct competition is to offer unique or niche products or services. These companies strive to pursue a differentiation strategy with unique products and marketing based strategies to gain success in international markets. These firms use marketing techniques to communicate the uniqueness of their company and/or product industry wide (Porter, 1980).

The focus strategy stresses that a firm concentrates on a certain consumer group, portion of a product line, or geographic market (Porter, 1980). Through this approach firms address the needs of a particular market extremely well, operating more effectively and/or efficiently than competitors who compete on a broader scale (Porter, 1980). This strategy does not require a firm to succeed by low cost or differentiation from the perspective of the entire market, but it does require that a firm achieve one or both of these positions in a narrow target market (Porter, 1980). A firm following a focus strategy is constantly trying to better serve its consumers than its competition (Porter, 1980).
HYPOTHESES

The theoretical model investigated in this study is presented in Figure 1. Companies each have their own corporate culture which is their basis of the knowledge, skills, and capabilities; this culture is what defines the company. Innovative firms obtain particular types of knowledge and capabilities which allow those firms to be differentiated from others. Many companies see the importance of maintaining international knowledge and in turn they are continually pursuing international markets. The managers of these companies embed the importance of maintaining an international orientation in the company’s corporate culture. Therefore, one of the most important attributes of corporate culture in born globals is what is termed international entrepreneurial orientation.

International entrepreneurship has been defined as 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). The idea of combining entrepreneurial skills with international focus sets up the corporate culture of international entrepreneurial orientation (McDougall and Oviatt, 2005).

An international entrepreneurial orientation means that these firms make the leap into international markets because of unique entrepreneurial competences and outlook (e.g., Autio et al., 2000; McDougall et al., 1994). This orientation reflects the ability of firms to be proactive and innovative and to seek out new markets and opportunities. These firms take the initiative to pursue new and different opportunities in complex markets, usually markets that have uncertainty and risk (McDougall et al., 1994). Having an international entrepreneurial orientation in a multitude of diverse international markets gives support to the realization of key strategic initiatives that enhance a firm’s international success (Knight and Cavusgil, 2004).

The focus strategy implies that a firm focuses on a particular buyer group, division of a product line, or geographic market (Porter, 1980). Focus is achieved by a company consistently meeting the needs of a specific target market better than other competing companies (Porter, 1980). Born globals that follow this business strategy are able to serve a target market more efficiently and/or effectively than their competitors that compete on a broader scale (Porter, 1980).
Firms following a focus strategy narrow the market that their firm will target to a specific segment (Porter, 1980). This strategy may also be used to select market segments that are least susceptible to substitutes or where there is the least amount of competition (Porter, 1980). The focus strategy will always have some limitations on the overall market share that is achievable, since these firms only concentrate on a small portion of the market. The focus strategy essentially involves a trade-off between profitability and sales volume (Porter, 1980).

Adopting a focus strategy leads to a company attempting to provide its consumers with products and services that have value not present in competitor's products (Porter, 1980). The firms concentrate on satisfying the needs of their consumers and do this through long term customer relationships and also by producing high quality products (Narver and Slater, 1990). By following a focus strategy firms are committed to investing in the creation of value for their customers that they cannot find anywhere else (Porter, 1980).

A corporate culture that has an international entrepreneurial orientation leads to the development of key business strategies (Knight and Cavusgil, 2004). Firms with an international entrepreneurial orientation create a corporate culture
that focuses on innovation and knowledge of international markets (Knight and Cavusgil, 2004). Through this unique combination of skills and knowledge firms are more likely to develop a focus strategy (Knight and Cavusgil, 2004). A corporate culture which embraces risk taking and innovation enables the firm to easily adjust to uncertain markets and to consistently maintain competitive advantages. The knowledge and skills that entrepreneurially oriented firms instill in their managers’ permits the development of focus strategies, and the effective adaptation of the strategies to different international markets.

\[ H_1: \text{In the born global firm, international entrepreneurial orientation is a significant antecedent of focus strategy} \]

Differentiation can be achieved through marketing strategies such as leveraging brand image, product design, and customer service. These firms take advantage of a type of monopolistic advantage by developing distinctive products that create a buffer against competition (Porter, 1980). This strategy will allow a firm to optimize profit margin and avoid the need to be a low-cost producer, but since this strategy creates a perception of exclusivity companies will often not gain high market share (Knight and Cavusgil, 2005).

Firms with an international entrepreneurial orientation are more likely to develop a differentiation strategy to gain success in particular markets. These firms are innovative and use their entrepreneurial mindset and idiosyncratic capabilities to continue to differentiate the company and its products from the competition (Porter, 1980). The differentiation strategies that firms follow are designed for the international markets firms are entering or plan to enter. The international entrepreneurial orientation sets the tone of the company and allows the company to design and implement a differentiation strategy.

\[ H_2: \text{In the born global firm, international entrepreneurial orientation is a significant antecedent of differentiation strategy} \]

The marketing capabilities of a firm are created as a result of the firm’s marketing oriented business strategy which allocates resources to those areas most likely to optimize firm performance (Narver and Slater, 1990). As a result of the firm’s strategic orientation, marketing campaigns are created to communicate with the markets that these firms enter. Through the communication that a firm establishes with its market(s) a company develops a brand image and a consumer base (Knight et al, 2004).

To employ successful marketing a firm must have knowledge of the consumers in its market, manage that knowledge, then put the knowledge to use through the implementation of marketing campaigns (Narver and Slater, 1990). The success of marketing campaigns can be crucial to born globals since they
usually lack financial resources. Due to this, born globals tend to spend more time and financial resources in researching consumers and markets, as well as planning marketing campaigns to ensure a higher success rate (Knight and Cavusgil, 2004).

The increasingly competitive international marketplace has created a heightened focus on the customer. Globalization is creating consumers who have more information, are better organized, and are more demanding, forcing firms to expand their marketing efforts to better communicate effectively with their consumers (Czinkota and Ronkainen, 2004). Firms are often competing to prove to customers that their products are more valuable and of a higher quality than their competition (Czinkota and Ronkainen, 2004).

Companies that follow a focus strategy are evaluating the markets that they enter to determine what segment to target and how to best target consumers in that market. These companies adapt to the market to appeal to their consumers through value of higher quality products and/or customer service (Narver and Slater, 1990). Meeting the needs of a specific group of consumers is the goal for these firms (Porter, 1980). The firms evaluate each market and modify their marketing campaigns to specifically target relatively small groups of consumers (Porter, 1980). The marketing campaigns of these firms are designed to reach narrow markets and to communicate to consumers how their company or their product can better satisfy their needs.

\[ H_3: \text{In the born global firm, focus strategy is a significant antecedent of marketing capabilities} \]

The marketing capabilities of a firm include the handling of product adaptation in different international markets, controlling marketing activities, differentiating the product, and being extremely effective in pricing, distribution, advertising and promotions (Narver and Slater, 1990). A company with well developed marketing communication capabilities knows what outlets to use and how to use them to communicate best with its targeted segment of consumers (Narver and Slater, 1990). These firms analyze the targeted segments of consumers and conduct research to uncover the mechanism for reaching their targeted consumer (Narver and Slater, 1990).

A firm following a differentiation strategy embeds that strategy into its marketing campaigns to communicate to consumers the differences in their company and/or their products. These firms use their marketing campaigns to express the uniqueness of their company and/or product to appeal to a particular type of consumer. The marketing campaigns that firms use when following a differentiation strategy is targeting consumers to understand the differences between the company and its competition and to in turn gain consumer loyalty.
H4: In the born global firm, differentiation strategy is a significant antecedent of marketing capabilities

Traditionally performance outcomes are measured by profitability, annual sales, return on investment and maximizing market share. Performance can also be measured by a company’s expectations for the future of the company. This would include growth of the firm, expansion of markets, and increasing customer satisfaction (Knight and Cavusgil, 2005).

International performance is defined as the extent to which firm objectives are attained in foreign markets as a function of specific orientations and strategies (Knight and Cavusgil, 2005). As stated in the definition, measurement of international performance is based on a firm’s objectives, whether that is to increase profit margins, enter new markets successfully, increase market share, or attain a new segment of consumers. International performance therefore is how successful a born global is at accomplishing its goals (Knight and Cavusgil, 2005).

H5: In the born global firm, marketing capabilities is a significant antecedent of international performance

METHOD

The model in Figure 1 outlines the construct of the hypotheses. Data was collected through a cross-industry field survey of born-global firms in the United States. Measurement scales are presented in Appendix A. Self-report questionnaires used to assess company performance and other conditions can give rise to biased results, and the literature points to limitations in the use of this type of approach (e.g., Spector, 1992). However, this method has been used in numerous past studies (e.g., Knight and Cavusgil, 2004), and we believe it is sufficiently robust to employ here. The scale for international entrepreneurial orientation was derived from the entrepreneurship literature and is based on an eight-item scale developed by Khandwalla (1977), and refined by Covin and Slevin (1989). The differentiation scale benefited from the research of Miller (1988) and Porter (1980). The scale for focus and marketing capabilities was created by Knight and Cavusgil (2005). Finally, the scale for international performance was partially adapted from Knight and Cavusgil (2005).

The population targeted by the survey was a random sample of 1,000 born globals from across the United States that exported at least 25 percent of their total sales. These businesses were identified from various commercial databases. In each case the CEO of the firm was targeted and requested to have the
questionnaire completed by the person most knowledgeable about the firm’s export operations, if not the CEO.

Following a three-wave mailing, 195 usable questionnaires were produced reflecting a response rate of approximately 20 percent. Because this rate was lower than ideal, we assessed respondent representativeness in two ways, comparing key variables in surveys from a sample of the earliest responding to those of a sample of the latest responding firms (Armstrong and Overton 1977) and we comparing randomly chosen samples of responding and non-responding firms. The tested variables were: number of employees, founding year, total sales, and international sales as a percentage of total sales, main export market, first year of exporting, product category, return on investment, sales growth, and market share in main export market. The tests revealed no significant differences (p < .05) on these variables between respondents and non-respondents; thus, non-response bias is not expected to affect study results significantly.

Of the firms that responded to the survey, the average firm had 210 employees and generated $38 million in total sales. On average, foreign customers accounted for 40 percent of total sales, with firms penetrating some 20 different countries at the median. The median year of the firms’ founding was 1983 and the first international sale in 1986.

Initially, tests were conducted to confirm the study’s scales. An exploratory factor analysis was conducted to identify and eliminate measurement items that may be potentially troublesome to the outcome of the data. The scales were then assessed using Cronbach’s alpha to test for reliability. All of the alpha values achieved a score of .70 or above, confirming scale reliability. Table 1 presents information on construct means, standard deviations, and Pearson’s correlation coefficients among the constructs.

<table>
<thead>
<tr>
<th>Construct</th>
<th>Mean</th>
<th>Standard Deviation</th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) International Entrepreneurial Orientation</td>
<td>4.77</td>
<td>0.93</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2) Focus Strategy</td>
<td>5.54</td>
<td>0.87</td>
<td>0.43**</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(3) Differentiation Strategy</td>
<td>5.36</td>
<td>1.13</td>
<td>0.30**</td>
<td>0.40**</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(4) Marketing Capabilities</td>
<td>4.70</td>
<td>0.78</td>
<td>0.36**</td>
<td>0.44**</td>
<td>0.44**</td>
<td></td>
</tr>
<tr>
<td>(5) International Performance</td>
<td>5.03</td>
<td>1.35</td>
<td>0.33**</td>
<td>0.31**</td>
<td>0.35**</td>
<td>0.52**</td>
</tr>
</tbody>
</table>

**p < 0.01**
FINDINGS

The data were analyzed in linear regression analysis. Regression analysis tests the strength of the relationship between two or more variables, based on a sample of data drawn from a population of interest. Regression analysis allowed testing the strength of the estimated coefficients. The analysis also checked for multicollinearity and found it to be minimal. Findings reveal that all hypotheses were supported at the $p < .01$ level. That is, marketing capabilities are a significant antecedent of international performance. Both focus strategy and differentiation strategy are significant antecedents of marketing capabilities. Finally, international entrepreneurial orientation is a significant antecedent of focus strategy and differentiation strategy. These findings, which are summarized in Figure 2, are discussed next.

![Figure 2. Results of Hypothesis Testing (all coefficients significant at $p<.01$)](image)

DISCUSSION

This study confirmed that a born global with an international entrepreneurial orientation is more likely to develop a focus strategy. These firms are able to manage their knowledge of the international marketplace and combine it with their entrepreneurial and innovation skills to create a strategy that effectively targets a select group of consumers. The international entrepreneurial orientation fosters a corporate culture that fuels an organization to follow a focus strategy. These results confirm the findings of studies in other academic literature including Oviatt and McDougall (2005) and Knight and Cavusgil (2005).
This study revealed several important and distinctive attributes that born globals can develop to assist in creating an international entrepreneurial orientation. One approach is to use innovative techniques to support the firm's operations in new international markets and allows adaptation to the culture of each market to better serve them effectively.

The orientation and culture of a firm is initially set by the founder, CEO, and top management and then is communicated throughout the organization. Based on this it is important for these figures to convey an international perspective and entrepreneurial initiative. Top management at born globals has a strong role in inducing managers to adopt a global perspective and to not be afraid of high-risk projects. Top management must embrace an international entrepreneurial orientation, but it is even more important that they communicate this throughout the organization and foster an environment in the company that is conducive to innovation and international thinking.

In addition, born globals that embrace an international entrepreneurial orientation are more likely to develop a focus strategy. Companies with a well defined focus strategy typically invest in the quality of their products as well as their customer service. These companies strive to create value for their customers; this can be done by investing resources in design and manufacturing to produce products of higher quality that will create value for the consumers. Firms that follow a focus strategy see the priceless value of building and maintaining customer relationships; many firms believe that the market is driven by truly satisfying the needs of its customers.

A company following a focus strategy invests in providing customers with value through high quality products and exceptional customer service. In effect, the firm is ‘focusing’ on one or more customer segments rather than the industry as a whole. By contrast, with a differentiation strategy a company uses marketing techniques to separate their product from the competition and to gain brand identification and loyalty.

Findings have confirmed that born globals with an international entrepreneurial orientation are more likely to develop a differentiation strategy. Companies that establish innovative corporate cultures create a group of creative and forward thinking management and employees that aid in developing a differentiation strategy. These companies are able to evaluate the competition in each market and use that knowledge to create their own uniqueness.

This study produced many interesting aspects of how a born global can successfully differentiate itself from its competitors. The main focus of differentiation is in the company’s marketing campaigns. A firm can employ marketing tactics to attempt to engender brand identification and brand image.
An example of this would be Mercedes vehicles in the automobile industry. This company has captured the industry as a whole with its brand image and identification, even though it is only targeting a small segment of consumers who are shopping for luxury automobiles. The marketing that these firms follow to achieve brand identification repeatedly targets consumers to communicate the differences in their brand (Porter, 1980).

Coleman camping equipment and Oakley sunglasses both differentiate their products through technology and quality. These companies invest in research to develop products that have cutting edge technology to appeal to a specific group of consumers in their respective industries. These firms take advantage of having products that are technologically advanced and that are unlike any other product on the market at the time of entry. Another element that companies commonly differentiate themselves with is customer service. These firms strive to exceed customer expectations with service that cannot be found anywhere else. The Ritz Carlton hotel chain is able to provide its consumers with unparallel luxury service. The Ritz Carlton has communicated effectively to its consumers the level of service that it is able to provide and this has allowed it to be successful in gaining uniqueness in the hotel industry. The most successful firms however differentiate themselves on many different levels simultaneously. An example of differentiating on many levels would be Macintosh; this company invests in the cutting edge technology and quality of its products and it is also known for its reliable customer service. By differentiating among many levels a firm benefits by separating itself from the competition more effectively than if it differentiated on only one level (Porter, 1980).

This study has confirmed that a born global with a focus strategy is more likely to have strong marketing capabilities. A firm following the focus strategy has defined the segment of consumers that it is trying to reach and how it is going to provide consumers with value that exceeds the competition. This strategy is more likely to strengthen a firm’s marketing capabilities in part because it has already specified a concise set of marketing objectives. From this strategy a firm concentrates on a specific group of consumers and uses its marketing capabilities to effectively communicate with that segment of consumers.

Findings indicated several marketing tactics that companies use to reach their consumers and effectively maintain relationships with their target market. This includes development and/or adaptation of products, effectiveness of pricing and advertising, locations of sales outlets, effectiveness of distribution, ability to manage the firm’s image, and ability to respond quickly to developing opportunities. Firms following a focus strategy use these elements to reach their targeted segment effectively to develop markets and retain consumers.
The marketing decisions of a company with a focus strategy would be mainly based on the information outlined in that strategy. Companies invest in a marketing plan to make sure they communicate to their consumers the value of their product, it is based on this communication and the company’s standing that a firm’s image is established. This is crucial for firms following a focus strategy since they are targeting such a narrow market and competing for consumers based on their perceived ability to provide a higher value and a unique product.

The differentiation strategy is also an antecedent of a born global’s marketing capabilities. As with the focus strategy, having a clear differentiation strategy sets up the basis for the marketing campaigns. These firms benefit from having a developed strategy that can easily be translated into the marketing objectives of a firm, giving it a head start in the marketing plan. Firms that follow a differentiation strategy strive to separate their product from the competition; whether it is better service, higher quality, newer technology, or added features, these firms want their consumers to understand the uniqueness that they have to offer.

Findings confirm that born globals which follow a differentiation strategy are more likely to have stronger marketing capabilities. These firms focus on marketing to effectively communicate how their product or service is unique in the industry. Firms use marketing to develop or adapt products for different markets to assure that these products or the service that the firm is able to provide is different from what the competitors are able to offer. They are able to market products for different uses so that their product can adapt to different cultures and markets and still be seen as different from other products.

Since the goals of a differentiation strategy include brand identification and consumer loyalty, the firm’s marketing capabilities must be able to actively target the right consumers and develop relationships with those consumers. This strategy relies heavily on the marketing capabilities of the firm since the product needs to be perceived as unique. Firms can use any number of marketing tactics to develop an appeal that is distinct from the other products in the industry.

This study confirms that, among born globals, marketing capabilities are an antecedent of international performance. This relationship expresses that a firm with strong marketing capabilities is more likely to have success in international performance. The international performance measures how well a company accomplished its goals in individual and different markets. International performance is often measured as growth in a market, market share, or profit. Born globals are constantly expanding to new markets so the assessment of their international performance may be measured for one market or by their success overall in all markets that they have entered. Firms that have strong marketing capabilities are able to target the right consumers, create brand identification and
an image that is conducive to growth and sales. Since each market that a firm enters is different, a firm’s marketing capabilities must adapt to that market to see success. If a firm had weak marketing capabilities and was unable to adapt to a culture or a market it would be reflected in that firm’s international performance measurements.

CONCLUSION

Generally, possession of strong international entrepreneurial orientation, strong focus and/or differentiation strategies, and strong marketing capabilities are associated with superior international performance in born globals. Thus, management at born globals (and perhaps international small and medium enterprises in general) should emphasize the development of these particular orientations, strategies, and tactics.

Among the firms examined almost all were small to medium size enterprises that despite their lack of resources were able to expand into international markets and succeed in those markets. The international entrepreneurial orientation is most likely to support a firm’s development of a strong business strategy, including focus or differentiation, which were both measured in this study. From either a developed focus or differentiation strategy a firm is able to develop strong marketing capabilities to target specific consumers and to effectively communicate with them. The strength of the firm’s marketing capabilities, its ability to communicate to the target market to increase sales and growth, is a driver of international performance.

REFERENCES


## APPENDIX A

### Key Measures Used in the Study

#### Factor (Cronbach’s Alpha)

<table>
<thead>
<tr>
<th>Item</th>
<th>Cronbach’s Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>International Entrepreneurial Orientation (alpha = .82)</strong></td>
<td></td>
</tr>
<tr>
<td>• Top management tends to see the world, instead of just the USA, as our firm’s marketplace</td>
<td></td>
</tr>
<tr>
<td>• Over the past 5 years, our firm has marketed very many products in foreign markets</td>
<td></td>
</tr>
<tr>
<td>• The prevailing organizational culture at our firm (management’s collective value system) is not particularly conducive to active exploration of new business opportunities abroad</td>
<td></td>
</tr>
<tr>
<td>• Top management continuously communicates its mission to succeed in international markets to employees through out the firm</td>
<td></td>
</tr>
<tr>
<td>• Top management is focused on developing human and other resources that can maximally contribute to achieving our goals in international markets</td>
<td></td>
</tr>
<tr>
<td>• In international markets, our top managers have a proclivity for high-risk projects (with chances for high returns)</td>
<td></td>
</tr>
<tr>
<td>• When confronted with international decision-making situations, our firm typically adopts a cautious, ‘wait-and-see’ posture in order to minimize the chance of making costly mistakes</td>
<td></td>
</tr>
<tr>
<td>• Top management believes that, owing to the nature of the international business environment, it is best to explore it gradually via conservative, incremental steps</td>
<td></td>
</tr>
<tr>
<td><strong>Focus Strategy (alpha = .70)</strong></td>
<td></td>
</tr>
<tr>
<td>• In the design and manufacture of this product, we employ some of the most skilled specialists in the industry</td>
<td></td>
</tr>
<tr>
<td>• Our strategies in this market are driven by our beliefs about how we can create value for customers</td>
<td></td>
</tr>
<tr>
<td>• For us, success in this market is driven by truly satisfying the needs of our customers there</td>
<td></td>
</tr>
<tr>
<td>• Developing strong customer relationships is … no importance 1 2 3 4 5 6 7 very important</td>
<td></td>
</tr>
<tr>
<td>• Vision and drive of USA-based top management … no importance 1 2 3 4 5 6 7 very important</td>
<td></td>
</tr>
</tbody>
</table>
Differentiation Strategy (alpha = .76)
- In marketing this product, we emphasize innovative marketing techniques
- In marketing this product, we attempt to engender brand identification and loyalty
- Through advertising and/or selling, we have distinctly positioned this product (away from competitors) to our customers
- Compared to main competitors’ offerings, our primary export product is unique with respect to marketing

Marketing Capabilities (alpha = .83)
- Marketing planning process … much worse than main competitors 1 2 3 4 5 6 7 much better than main competitors
- Development or adaptation of this product … much worse than main competitors 1 2 3 4 5 6 7 much better than main competitors
- Effectiveness of pricing … much worse than main competitors 1 2 3 4 5 6 7 much better than main competitors
- Advertising effectiveness … much worse than main competitors 1 2 3 4 5 6 7 much better than main competitors
- Locations of sales outlets … much worse than main competitors 1 2 3 4 5 6 7 much better than main competitors
- Control and evaluation or marketing activities … much worse than main competitors 1 2 3 4 5 6 7 much better than main competitors
- Effectiveness of distribution … much worse than main competitors 1 2 3 4 5 6 7 much better than main competitors
- Image of your firm … much worse than main competitors 1 2 3 4 5 6 7 much better than main competitors
- Ability to work well with your distributor(s) … much worse than main competitors 1 2 3 4 5 6 7 much better than main competitors
- Ability to respond quickly to developing opportunities … much worse than main competitors 1 2 3 4 5 6 7 much better than main competitors
International Performance (alpha = .87)

- Relative to prior expectations, how satisfied have you been over the past 3 years with
  - this product’s performance regarding…market share … very unsatisfied 1 2 3 4 5 6 7 very satisfied
  - sales growth in this market … very unsatisfied 1 2 3 4 5 6 7 very satisfied
  - pre-tax profitability in this market … very unsatisfied 1 2 3 4 5 6 7 very satisfied
- Compared to your main competitor(s), sales growth of this product in its main export market has been … substantially lower 1 2 3 4 5 6 7 substantially higher
- On a 1 to 10 scale, how do you rate this success of this product in its main export-market over the past 3 years … unsuccessful 1 2 3 4 5 6 7 8 9 10 successful