

E T & P

The Accidental Internationalists: A Theory of Born Globals

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The distinguishing characteristic of international new ventures/born globals (INVs/BGs) is that they have foreign sales from the outset, or very quickly afterward. I argue that this is due to their business model. INVs/BGs sell to spatially dispersed customers distinctive niche products that incur low communication, transportation, and adaptation costs. In contrast to the firms described by the Uppsala model, selling to foreign customers does not require additional time or effort for INVs/BGs. Thus INVs/BGs can be seen as accidental internationalists.

Welch and Luostarinen (1988), Rennie (1993), Oviatt and McDougall (1994), and Knight and Cavusgil (2004) have observed that some firms internationalize very early in their life. Oviatt and McDougall have called such firms *international new ventures* (INVs), and Rennie, and later Knight and Cavusgil, *born globals* (BGs). While specific definitions vary—Chetty and Campbell-Hunt (2004, p. 65) set an INV/BG benchmark of 75% export intensity within 2 years of inception, while Evers (2010, p. 400) suggests 25% of total sales in foreign countries in the first year of trading—there is general agreement that INVs/BGs are firms that start international activities very early, at birth, or soon afterward, and subsequently sell a high share of their output abroad. One can also define INVs/BGs as firms that make foreign investments very early, either to serve customers or to procure inputs, but in this article I will follow Evers and Chetty and Campbell-Hunt in focusing on a firm's ability to sell early to a substantial number of foreign customers through exports or foreign production.

Why do some firms gain foreign customers so quickly? I argue that the main reason is their business model, that is, what they sell, how they sell it, and to whom.¹ INVs/BGs sell niche products at low information, transportation, and adaptation costs to expert customers dispersed throughout the world. Their quick expansion abroad shows that, contrary to what is assumed by proponents of the Uppsala internationalization process model (Johanson & Vahlne, 1977, 1990; Johanson & Wiedersheim-Paul, 1975), entering foreign markets is not necessarily a slow and laborious process. Compared with their

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1. For a discussion of the business model concept, see Onetti, Zucchella, Jones, and McDougall-Covin (2012).

Uppsala counterparts for which selling to foreign clients necessitates extra time and effort, acquiring foreign customers is for INVs/BGs no different than acquiring domestic ones. In that sense, INVs/BGs are accidental internationalists.

What Explains INVs/BGs?

In their seminal 1994 article and in later work (e.g., McDougall, Shane, & Oviatt, 1994), Oviatt and McDougall (1994) argued that INVs could not be satisfactorily explained by the two dominant theories in International Business at the time, the Uppsala internationalization process model and the internalization model of Buckley and Casson (1976) and Rugman (1981). Proponents of the Uppsala model describe a process by which market-serving firms expand their foreign sales abroad from a domestic base. International expansion is gradual and slow because firms have insufficient information on opportunities and risks in foreign markets and because such information can only be acquired by doing business there. With greater experience, the firm reevaluates opportunities in the foreign country, and this leads to an upward cycle of greater commitment and larger sales. The same cycle leads firms to first target countries on which they possess some information, and then to move to those about which less is known. Since knowledge is assumed to come from experience, and it takes time for the firm to digest information gained on the ground, internationalization progresses slowly. Oviatt and McDougall observed that, in contrast, INVs internationalize very quickly. Hence for them, the Uppsala model cannot explain INVs/BGs, and a new theory is needed.

Oviatt and McDougall further argued that INVs/BGs invalidate the predictions of internalization theory. Internalization theory posits that multinational enterprises (MNEs) grow abroad to exploit their internally developed knowledge. To strengthen appropriability, MNEs internalize the market for their knowledge by integrating into the foreign manufacture of goods and services that incorporate their knowledge. Because doing so through joint ventures can lead to knowledge leakage, MNEs prefer full-equity entry modes. McDougall et al. (1994, p. 478) note, however, that the empirical evidence shows that many INVs/BGs “favor a hybrid structure to govern transactions and make extensive use of their business and personal networks, even when they have proprietary knowledge that they risk losing by employing [a hybrid] business structure.” They also point out that internalization theory assumes that large size is a prerequisite for multinationality, whereas INVs/BGs are generally small.

What accounts for INVs/BGs then, and what are their distinctive characteristics? While there are differences between the models proposed (e.g., Madsen & Servais, 1997; Oviatt & McDougall, 2005; Rialp, Rialp, & Knight, 2005), most authors see three main categories of factors responsible for the emergence of INVs/BGs. First, INVs/BGs possess unique firm-specific resources which allow them to compete in international markets (Jones, Coviello, & Tang, 2011; Knight & Cavusgil, 2004; Mascherpa, 2011). The resource-based view is the theoretical basis for this argument, according to which a firm’s performance depends on its ownership of rare, valuable, nonimitable, and nonsubstitutable resources (Barney, 1991). In the INV/BG literature, these resources are further defined as technological, organizational, relational, and human (Rialp et al.). Thus, INVs/BGs possess superior technological resources which they exploit by selling knowledge-intensive products (e.g., McNaughton, 2003; Rialp et al.). They also are said to be endowed with superior organizational, relational, and human capital. Zhang, Tansuhaj, and McCullough (2009), for example, explain the superior international performance of Chinese INVs/BGs relative to traditional Chinese exporters as stemming

from superior international entrepreneurial capability, while Knight and Kim (2009) regress a firm's international sales growth on its international orientation, international marketing skills, international innovativeness, and international market orientation. Some of these skills are hypothesized to originate from the founders' international education and experience, and from their mastery of foreign languages (e.g., Evangelista, 2005).

The second type of factor that accounts for the quick international penetration of INVs/BGs is the use of nonequity modes of entry. Madsen and Servais (1997) and Oviatt and McDougall (2005) stress the importance of network relationships as a moderating influence on internationalization speed. The third main factor proposed as responsible for the emergence of INVs/BGs is the dramatic decrease in transportation and communication costs made possible by new technologies such as the Internet (Oviatt & McDougall, 1994).

These models are not entirely satisfactory. They include a very large number of variables, which makes them confusing and unwieldy. Moreover, what they see as necessary and sufficient factors are not fully consistent with the findings of the empirical literature. First, the models posit that a firm must produce knowledge-intensive products and services to be an INV/BG, yet empirical studies (e.g., Evers, 2010; Hagen & Zucchella, 2013; Luostarinen & Gabrielsson, 2006; Wickramasekera & Bamberry, 2003) have identified INVs/BGs selling low-tech products such as apparel, furniture, and food. Second, while the models stress the crucial role that networks play in facilitating fast internationalization, a number of studies (e.g., Rasmussen, Madsen, & Evangelista, 2001; Zucchella, Palamara, & Denicolai, 2007) find that this is not necessarily the case. Third, some studies (e.g., Dib, da Rocha, & Ferreira da Silva, 2010; Nummela, Saarenketo, & Puumalainen, 2004) find that the social capital of founders, for example, their international experience and fluency in a foreign language, has no impact on the speed of internationalization.

My goal in writing this article is to provide a more parsimonious explanation of why INVs/BGs manage to gain a large number of foreign customers right from the start while other firms take longer to do it. Specifically, I attempt to show that the business model used by INVs/BGs, namely the product they sell, how they sell it, and to whom, goes a long way toward explaining why they sell quickly to customers in many countries. To make this point, I first analyze what a firm must do to acquire domestic customers, and how long this is likely to take. I show that this depends on product, customer, and mode of delivery. I then consider the circumstances under which selling to foreign customers might take more time than selling to domestic ones. I analyze how much time Volvo, one of the firms on which the Uppsala model is based, needed to expand abroad, compared with Atlassian, an Australian-based INV/BG. The comparison shows that the difference in internationalization time can be explained by differences in type of product, customer, and delivery mode. I also use Logitech as an example of how transitioning from a niche to a mass market results in a significant increase in the time needed to expand foreign sales. This leads me to propose a different list of necessary and sufficient conditions for INVs/BGs and to show why some factors which have been highlighted as crucial in the literature may, in fact, not be. In my conclusion, I analyze the implications of my explanation for the Uppsala internationalization process model and the transaction cost theory of the MNE (Hennart, 1982, 2010) and make some suggestions for further research.

What Must Firms Do to Increase Domestic Sales?

A firm transforms inputs into outputs and then sells them to customers. To survive and prosper, it must have customers for its products. What does it take to acquire and keep customers? To keep things simple, I first consider domestic expansion.

Table 1

What Makes Firm Expansion Take Longer?

Task	Takes more time	Takes less time
Customer identification	Seller has to find buyer	Buyer finds seller
Customer persuasion/education	Standard products Ignorant buyers	Distinctive products Expert buyers
Transaction close	Conditions subject to negotiation	Set conditions
Marketing mix adaptations	Heterogeneous tastes and use conditions/producer customizes	Homogeneous tastes and use conditions/customer customizes
Repair and after sales	First time/novice customers	Repeat/expert customers
Credit	Final consumers	Industrial consumers
Collection	Final consumers	Industrial consumers
Logistics	High weight/value; perishable	Low weight/value; nonperishable

First, a firm must identify potential customers so that it can inform them about the features and potential uses of its products and try to convince them that they are worth buying. To expand sales, the firm may have to modify its marketing mix, that is, adapt the product, change the price, alter the promotion, and modify the distribution system. Acquiring new customers is generally more costly than retaining existing ones, and unhappy customers can damage a firm’s reputation, so firms usually try to provide after-sales services to their existing customers. If the product has a relatively high cost compared to the financial resources of its customers, the firm may provide credit. In that case, it will have to invest in collection services, or subcontract them to specialist providers. Last, procuring the inputs necessary to produce a product or service and putting it in the hands of customers requires a varying amount of transportation and storage.

There are considerable differences in the speed at which firms can perform these tasks, and hence in the time it will take them to increase sales. Table 1 gives some examples of factors that may affect the time needed to perform each task. The first task is customer acquisition. Sellers must find out who their potential customers are, and this will take less time if the customers themselves seek the firm.² It also takes less time for sellers to teach potential customers about the benefits of a product and how to use it if the customers have already spent time learning about a product and its uses before they come to buy. Persuading potential customers to buy one’s products also takes time. In some cases, sellers undertake lengthy advertising campaigns and send salespersons to contact potential customers to make them aware of their product and to try to convince them to buy it. The larger the number of prospects, the slower the process. Again, selling time is cut when potential buyers have already spent time investigating the product and are ready to buy. This is more likely if the product is unique and distinctive than if it has close substitutes, and if it is important for the buyer rather than peripheral. Finally, closing the sale takes less time if the product has a set price than if the conditions of sale are arrived at through negotiation. Performing all these tasks will also take less time if they can be

2. In his study of Hong Kong toy exporters, Ellis (2000) finds that direct exports were more often initiated by buyers than by the sellers themselves.

subcontracted to firms which have already established links to potential customers, that is, distributors, trading companies, or resellers.³

The need for marketing mix adaptations is another important factor affecting the pace at which sales can be increased. It is slower if the seller needs to adjust the marketing mix to different categories of customers. There is usually no way to perfectly anticipate the required changes in the marketing mix, as they only become apparent some time after sales have commenced.⁴ Marketing scholars generally agree that the need for marketing mix adaptations is greater for consumer products than for industrial ones (Root, 1994, p. 31). Note that while it is generally the seller who makes these adaptations, this is sometimes done by the buyer. Trading companies, distributors, and original equipment manufacture (OEM) buyers typically provide this service to manufacturers. A firm that uses these intermediaries can therefore save on the time needed to learn through trial and error what must be done to adapt the product to a new category of customers, and is therefore able to ramp up output faster than one that must make its own marketing mix adjustments (Cyhn, 2000; Egan & Mody, 1992). In some cases, buyers have already found a way to standardize the inputs they purchase, thus allowing sellers to sell to many different types of customers without having to make marketing mix adaptations.⁵

Sellers often offer after-sale services. Setting up the kind of network the firm needs takes time. How much handholding customers require depends on whether they are first-time or repeat customers, and whether they are novices or experts. It also depends on the quantity and quality of the information given at time of purchase. First-time, novice customers and those given insufficient information are more likely to require more after-sale service. They are also likely to make more mistakes when using the product or service, and these will require the attention of the after-sale team.⁶ In contrast, expert and repeat customers will need less advice, and the firm may be able to expand sales with less sales support, and hence faster. An additional factor that may delay product rollout is the need for credit. Expensive goods and services sold to retail customers may require financing. Before starting sales, the firm may need to make agreements with banks or finance companies, or failing that, may need to set up an in-house finance department. Extending credit implies the need for collecting debts. This too will have to be arranged beforehand. In some cases, this can be subcontracted to an external provider, while in others, the firm will have to hire personnel to handle the function. Setting up credit and collection for industrial consumers is easier and quicker than for final consumers because industrial customers are fewer in number, and more information is available on their credit-worthiness.

Last, the time and expense needed to obtain the inputs necessary to produce products or services, and to put them in the hands of customers, is likely to vary substantially

3. For the firm to be able to take advantage of this shortcut, intermediaries must exist and the transaction costs incurred in contracting with them must be low (see Hennart, 2010).

4. Haier, the largest white goods manufacturer in China, was faced with numerous complaints from their rural customers that their washing machines often broke down. After some investigation, Haier learned that the breakdowns were caused by farmers using the machines to clean their vegetables for market sale. The firm modified its machines to cater to this group of customers (Palepu, Khanna, & Vargas, 2006).

5. Metalfrío, a Brazilian seller of commercial refrigeration industry, was able to increase its foreign sales fourfold in 4 years by selling standardized units to global customers such as Inbev, Modelo, Coca-Cola, and Nestle (Cuervo-Cazurra & de Magalhaes Alvim, 2013).

6. The launch of the Acer Aspire in the United States is illustrative. The Aspire was the first multi-media desk PC and was targeted at first-time users. These users flooded Acer's call centers with questions and problems. Acer had rushed the introduction of the Aspire before setting up sufficient customer support. These problems caused Acer's U.S. market share to drop from 14% at the time of the launch in September 1995 to less than 5% at the end of 1997, severely delaying Acer's sales in the U.S. market (Bartlett & George, 1998).

across products and services. For products, what matters is physical weight to value ratio and perishability. Products that are heavy relative to their value, and those that are perishable, cannot readily be transported over long distances and so require local production. For instance, expanding the sales of soft drinks necessitates setting up a chain of local bottling plants given that the product is of high weight but low unit value. Perishable products also need to be produced close to the consumer. Logistical costs for services depend on whether they can be provided at a distance or require co-location with the user. Personal services are a good example. When co-location is needed, the customer must come to where the service is provided or the service must be brought to the customer. The extent to which production must be decentralized and brought to the location of the customer depends on the value of the service and the frequency of purchase. One may be willing to travel a very long distance for surgery, but not for a manicure. Expanding the sale of products and services subject to high transportation costs requires setting up dispersed production units, which takes time. In contrast, the output of products and services that incur low transportation costs can be increased from an existing plant. For example, selling computer software through the Internet incurs very low transportation costs, and new customers can be added by just scaling up production at a single location. This can be done much faster than when additional plants or service facilities need to be set up in geographically dispersed locations.

To sum up, one would expect substantial differences between firms in the time they need to reach a given level of domestic sales. These differences arise from the nature of the products they sell, the customers they have, and the delivery system they use.

What Changes When Firms Sell Abroad?

Many international business scholars have been convinced by the Uppsala model and the liability of foreignness literature (Hennart, 1982; Hymer, 1976; Zaheer, 1995) that expanding abroad requires more time and incurs higher costs than expanding at home. But is this always the case? In the next section, I show that the generalizations of the Uppsala model are based on special cases and that the time and cost penalty of selling abroad depends on the specific type of product, customer, and delivery system. In some cases, these are such that selling to foreign customers does not require any more time and effort than selling to domestic ones.

Volvo vs. Atlassian

Compare the speed of internationalization of two firms, Volvo, one of the firms studied by Johanson and Wiedersheim-Paul (1975), and on which the generalizations of the Uppsala model are based, and Atlassian, a small Australian firm that is a typical INV/BG.

Volvo started activities in Sweden in 1927. It lined up agents in Denmark (1929), the Netherlands, Spain, Portugal, and Brazil (1930), and set up sales subsidiaries in Finland in 1928 and Norway in 1930 because it could not find distributors in these countries. Volvo did not sell in continental Europe until the 1950s because of competition from local producers. As many markets were protected by high tariff and nontariff barriers, it was not always feasible to export from Sweden, so in the 1960s, Volvo established manufacturing plants in Canada and Belgium, in Australia in 1970, and in Italy in 1973, and by then, the 46-year-old firm was selling more than 70% of its output in more than 100 foreign countries (Johanson & Wiedersheim-Paul, 1975).

Table 2

Time Needed to Expand Sales: Volvo vs. Atlassian

Function	Volvo	Atlassian
Customer identification	Need to find customers and understand their needs	Customers find seller
Customer persuasion/ education	Buyers ignorant; need to be educated and persuaded by salesforce and/or advertising	Expert buyers do not need persuasion and advice
Marketing mix adaptation	Heterogeneous tastes and use conditions	Relatively homogeneous tastes and use conditions; buyers do their own customization
Repair and after sales	Nonexpert customers; need advice and repair	Expert buyers solve their own problems
Credit	Consumers need financing	Credit not needed
Collection	Collection needed	Collection not needed
Logistics	Need for local production due to high transportation costs and barriers to imports	Low weight to value products/nonperishable products; services can be delivered from headquarters

Atlassian was founded in Sydney in April 2002. In February of the following year, it released its first product, JIRA, a computer program that helped project managers monitor the progress of individual tasks. The program was sold on the Internet to computer programmers at a price calculated to be low enough so that an individual programmer could purchase it without having to involve the central information technology (IT) department. Buyers received full source code, allowing them to customize the product to their own needs. Payment was through credit card. JIRA sold worldwide from the start, its first sale being to Swedish programmers (Goldpitcher, 2007). The program soon gained a strong following in the IT community through word of mouth. Two years after its founding, the firm had 3,500 customers in close to 50 countries (Zalan, Muzychenko, & Burshtein, 2009), and by 2010, it had 20,000 customers in 134 countries with foreign sales accounting for 90% of total sales (Australian Export Awards, 2010).

Table 2 compares the time that Volvo and Atlassian needed to expand sales. Volvo had to compete with other carmakers, so it had to identify who might be attracted to its cars, inform them of their features, and persuade them to buy. Understanding buyer preferences and building consumer awareness in each target market took time. Volvo shipped cars and replacement parts to distributors who then delivered them to an extensive network of automobile dealers who sold the cars and performed repairs. Because buyers of cars expect personal contact in showrooms, and because they want close-by repair facilities, the dealer network has to be dense. Carmakers usually find it inefficient to subcontract distribution to independent distributors so they must invest in the costly and time-intensive task of building a network of wholesalers who franchise and even sometimes own dealerships. Given the relatively high price of cars, a credit and collection infrastructure also needed to be established. Because firms face constraints in the rate at which they can increase their managerial resources in the short term (Penrose, 1959), simultaneous integration into many foreign markets is usually difficult, so Volvo's entry into foreign markets through sales and manufacturing subsidiaries was by-and-large sequential (Johanson & Wiedersheim-Paul, 1975).

A firm like Atlassian faces very different constraints. Atlassian sells its product on the Internet. Its approach differs from that of sellers of enterprise software who typically target company-wide accounts, with potential buyers contacting a company salesperson who prepares a proposal which is then negotiated. Selling software in this way is a slow process which requires a company sales force. Atlassian, on the other hand, is somewhat

unique in having a “no salesperson sales model” (Taulli, 2011). Its business model is geared to the individual programmer, or to small groups of programmers. All the necessary documentation to install the programs as well as prices are posted on its website. The price is low enough to be paid by credit card, and Atlassian does not negotiate discounts. To reduce selling costs, potential buyers are allowed to try the programs free for 30 days. Atlassian’s customers are programmers, so they need little handholding. They can buy Atlassian products without any Atlassian involvement. The company did not spend any time trying to identify customers and persuading them to buy. Once the reputation of its software programs spread in the IT community, customers sought them out (Zalan et al., 2009, p. 6). Atlassian’s business model has allowed it to gain customers worldwide without having to set up an extensive network of sales subsidiaries.⁷

The marketing mix for cars is typically adjusted for each market because of differences in physical environment (climate, road conditions), government regulations (emissions, safety), consumer preferences (style, power, reliability), price elasticity of demand, and relative fuel prices (diesel vs. gasoline), among others. Hence, entry into each new foreign market is preceded by market research, and vehicles are thoroughly tested to anticipate potential problems that might arise in a particular environment. Language and cultural differences may require making adjustments in advertising campaigns and in sales material. Additional adjustments are often required once sales have begun, slowing down sales further. Because of transportation costs and tariff and nontariff barriers, foreign markets are often more efficiently served through local assembly. This requires significant investments which are only undertaken when export sales have reached a level at which they appear to be justified. Local assembly ultimately requires a local network of parts makers, and this takes time to build up. For all these reasons, expansion of car manufacturers into foreign markets is gradual and slow.

In contrast, Atlassian was initially able to scale up its business from its Sydney home base. Its customers are able to communicate in English, the global language of IT. By providing the source code, Atlassian could sell a standard product that customers themselves could adapt to fit their specific needs, so it did not have to make product adaptations. Customers paid in advance by credit card so there was no need to plan for collection.

Firms like Atlassian challenge the idea that expanding into foreign markets is a slow and gradual process because it requires experiential knowledge that can only be accumulated gradually. For Atlassian, foreign customers are indistinguishable from Australian ones. Selling to them requires no prior international experience or any special knowledge of their tastes and circumstances, and does not cause any specific problems that might slow sales growth. As shown in Table 3, Volvo needed more time to serve foreign than domestic customers, but this was not the case for Atlassian.

Niche vs. Mass Markets: The Case of Logitech

The story of Logitech also shows the difference in the cost and speed of foreign market penetration when selling to niche and OEM markets on one hand, and mass retail markets on the other. That small firm based in Lausanne acquired in 1982 the world distribution rights to a version of a hybrid optical-mechanical mouse developed by one of its cofounders, a professor at the École Polytechnique Fédérale de Lausanne. Logitech

7. In 2005, Atlassian set up an office in San Francisco to provide customer support, and it has since set up offices in Amsterdam; Gdansk; Kuala Lumpur; and Porto Alegre, Brazil to cover all time zones. Most software development work is still done in Sydney.

Table 3

Additional Time Needed for Foreign Over Domestic Customers

Function	Volvo	Atlassian
Customer identification	Significant: need for market research for each target market	Zero
Customer persuasion/education	Significant: may need new advertising campaigns; may need to set up foreign sales subsidiaries in each target market	Zero
Marketing mix adaptation	Significant: may need new marketing mix in each target market	Zero
Repair and after sales service	Significant: may need to set up foreign subsidiaries in each target market	Zero
Credit	Significant: may need to arrange for credit in each target market	Zero
Collection	Significant: need to plan for protection against foreign exchange risk	Zero
Logistics	Significant: may need to set up new production plants, new local supplier network, new local distribution in each target market	Zero

modified the mouse and contracted with a local firm to manufacture it, but unhappy with product quality, decided to set up its own 25,000-unit production plant. At the time, the mouse was a high-cost niche product sold to a small number of university and laboratory researchers.

As PC sales dramatically increased the size of the market, Logitech grew just as fast by entering into OEM contracts with HP, AT&T, and Olivetti. Its next plant was a 300,000-unit production facility in California. After selling exclusively OEM, Logitech entered the U.S. retail market in 1986. Jolly and Bechler (1992) chronicle the difficulties Logitech then experienced. Its first attempt to line up U.S. distributors and retailers was not successful because it could not afford the significant advertising support needed to persuade them to take on its products. It decided to sell products directly to customers at cut-rate prices through mail order and placed ads in the two main U.S. computer magazines to that end. A gradual increase in mail-order sales built up the firm's reputation and allowed it to then use traditional channels. The same mail-order entry strategy could not be used in Europe, however, as there was no trade magazine with the same kind of market penetration as the two used in the United States. Moreover, European customers, for the most part engineers, were more brand than price sensitive. Unable to use alternative channels, Logitech had to rely on conventional distributors, and those distributors insisted on a high price strategy. This caused Logitech to be undercut by Taiwanese manufacturers, resulting in a decline in market share that took years to remedy. In Japan, expanding sales was hampered for a different reason: the market was dominated by Nippon Electric Company (NEC), which promoted its own input devices (Jolly & Bechler).

The story, as related by Jolly and Bechler, is one of initial rapid and easy market share gains when the company sold its products to an elite group of consumers. Sales continued to grow rapidly when it sold OEM to a small number of computer giants who bought a standardized product in large quantities, but they slowed down when Logitech started to sell in the retail market. Establishing reputation and convincing distributors to handle its products took time. While a single market-entry strategy could accommodate the initial niche and OEM markets, this did not prove possible in the retail market. Because each main market posed different challenges, the firm had to proceed step by step, through trial and error, and to adopt, at least initially, differentiated entry strategies. Logitech, a firm used by McDougall et al. (1994) as an example of an INV/BG, actually started to behave more like an Uppsala firm when, in a pre-Internet environment, it began to develop its retail sales.

What Are the Distinctive Characteristics of INVs/BGs?

The preceding analysis suggests that while some business models imply slow and gradual foreign expansion, others make it possible to increase foreign sales immediately. Hence the following necessary and sufficient conditions for INVs/BGs:

(a) They sell niche products and services sought by internationally dispersed customers.

Niche products and services are distinctive, in the sense that they have few substitutes. While it is true that product and service distinctiveness can be achieved through advanced technology, this can also be achieved through design and craftsmanship (Gabrielsson, Kirpalani, Dimitratos, Solberg, & Zucchella, 2008); specific provenance, such as the French “grand crus” (Toften & Hammervoll, 2009); and unique delivery methods, for example, selling staple clothing items like socks through subscription (Hagen & Zucchella, 2013). Niche products include high-tech products such as specialized machinery; high-design products, such as furniture and fashion; high-quality foods; and high-quality and high know-how services (Luostarinen & Gabrielsson, 2006). Buyers of niche products have very specific tastes, which are homogeneous within the niche, and tend to be knowledgeable about the product. In contrast to manufacturers of mass retail goods which often must find potential customers, educate them, and persuade them to buy through lengthy and expensive pull or push marketing campaigns, firms that sell distinctive niche products and services need spend less time on market research, advertising, and sales promotion, as they can reach customers through low-cost means such as expert endorsement and trade fairs. Their products are likely to be sought out by customers aware of their features and ready to buy. Because some firms sell such distinctive products and services to *domestic* customers only, selling in narrow niches is a necessary, but not a sufficient condition for INVs/BGs. Consumers must also be internationally dispersed.

(b) They sell products and services for which they do not need to make international marketing mix adaptations.

Adapting the marketing mix to local variations is a time-consuming, trial-and-error process which slows down foreign expansion. Quick scaling up of production is possible when consumers have homogeneous tastes or when they themselves adapt the product to their own circumstances, as in the case of Atlassian.

(c) They use low-cost means of communication and delivery.

High communication costs make it difficult to collect information on potential customers in order to make them aware of the product and of its characteristics, and to negotiate the transaction. High physical transportation costs (and high tariff barriers) make it necessary for a firm that wants to sell to distant locations to locate facilities close to the consumer. Setting up selling and manufacturing operations abroad takes time and slows down expansion, especially if these tasks must be undertaken by the firm because they cannot be subcontracted to third parties. In contrast, firms that make use of low-cost methods of communication and distribution can sell abroad just as quickly as they can at home. For example, the Internet makes it possible to communicate information and to distribute digital products (such as media and software) simultaneously to consumers in all countries at very low cost.

The existence of rapid communication and distribution methods in an industry is a necessary, but not a sufficient condition for being an INV/BG. A firm must also have a business model that makes full use of them. Consider Jive, one of Atlassian competitors. While Atlassian products are designed to be used by individual programmers or small groups of them, Jive's products are meant to be adopted by an entire enterprise. Purchasing Jive software is therefore much more complex than buying Atlassian products and so Jive relies on salespersons to negotiate price and features with buyers. Because of the complexity of the purchase and possibly lower language competence of potential buyers, Jive uses a local salesforce in each main market it wants to reach. Recruiting and training local salespersons and establishing sales subsidiaries in foreign markets takes time. By contrast, Atlassian posts prices on its website and operates without a sales force. Hence, it is not surprising that Jive has been much slower in building foreign sales than Atlassian.⁸

(d) They are based in a country with a small home market for the product or service.

Assume that there is one customer in 10 million for a given niche product. Assume further that a firm is able to capture all potential customers in the Triad (the 28 members of the European Union, Japan, and the United States) within 2 years. A firm based in Belgium, a country with a population of about 10 million, would gain after 2 years 1 Belgian and 94 foreign customers, for a foreign sales ratio of 99%. If that firm were based in the United States, it would have 31 domestic and 64 foreign customers, and its foreign sales ratio would be 67% only.⁹ The smaller a firm's home country, everything else constant, the more likely it will be an INV/BG.

I do not claim that the four propositions above are entirely new. Many authors, starting with Oviatt and McDougall (1994), have pointed out that reductions in communication and transportation costs have had an important role in facilitating access to foreign customers. Point (d) has also been made by a number of authors (e.g., Fan & Phan, 2007; Knight & Cavusgil, 2004).

What is new is a more explicit focus on the INV/BG business model. Oviatt and McDougall (2005), Rialp et al. (2005), and Madsen and Servais (1997) state that INVs/BGs can expand their foreign sales quickly because they sell knowledge-intensive products. In the model I propose, it is not the knowledge intensity of the product per se that makes fast internationalization possible, but whether or not it is a niche product or service, or, in other words, whether it has relatively few substitutes and highly expert customers. Distinctiveness, and educated and motivated customers, speed up customer acquisition. Many, but by no means all high-tech products fall into that category.

Two kinds of evidence support the points I have made. First, as we have seen, fast internationalizing firms (INVs/BGs) are also found in low-tech sectors. These firms target international niches for products or services that have few substitutes and educated customers, for example, food products that derive their reputation from a particularly

8. Jive started business in 2001, 1 year before Atlassian. Its share of foreign sales in 2011 was only 21% (Jive Software, Inc., 2012, p. 25) compared with 90% for Atlassian in 2010 (Australian Export Awards, 2010). This may also be due to the fact that Jive is located in the United States, with a larger domestic customer base than Atlassian's Australia.

9. Based on the following population figures: United States, 316 million; EU 28, 508 million; Japan, 127 million; total Triad, 951 million.

avored location (Evers, 2010; Wickramasekera & Bamberly, 2003) and goods of high design and craftsmanship.¹⁰

Second, there is empirical support for the contention that firms selling niche products and services are quicker to internationalize. Zucchella et al. (2007), for example, found that Italian firms that focused on a niche strategy were faster to internationalize. This is also true among high-tech firms. Nummela et al. (2004) looked at medium-sized Finnish companies providing value-added services to the IT sector, and found that the width of competence was significantly associated with speed of internationalization. Companies with broader competences, for example, those doing Microsoft Windows programming, took longer to internationalize than those with a narrowly defined one, like radio frequency identification application know-how. Since firms with narrow competences tend to sell niche products, this confirms the presence of a link between niche specialization and rapid internationalization.

Another implication of my model is that INVs/BGs are likely to use instant means of communication and transportation. Samples of INVs/BGs typically include a high proportion of firms in the IT sector (e.g., Dib et al., 2010; Nummela et al., 2004) with products that can be sold through the internet.

My model also suggests that a number of factors highlighted in the literature may be less crucial than hypothesized. Oviatt and McDougall (1995, 2005) and Moen (2002), among others, have argued that one of the distinctive attributes of INVs/BGs is the international orientation of their managers. Oviatt and McDougall and Madsen and Servais (1997) hypothesize that a founder with extensive international experience is an antecedent of INVs/BGs. Evangelista (2005) argues that managers of INVs/BGs are more likely to have been educated abroad than those of traditional exporters. While it seems logical to expect that INV/BG managers with an international background and skills will be better at identifying, persuading, and servicing foreign customers, this overlooks the fact that often sellers of niche products do not have to spend much time finding and pursuing foreign customers and interacting with them—the customers seek them out and require minimum handholding. Hence, foreign sales may occur even when the firm's founders do not have an international orientation, experience, or education.

This may explain the lack of a robust relationship between speed of internationalization and the international experience and education of firm managers. Zucchella et al. (2007) found that the international experience and education of managers had no impact on speed of internationalization in the sample of Italian firms they studied, but knowledge of foreign languages and past experience in an international firm did. Dib et al. (2010) found no difference between the managers of INVs/BGs and those of traditional exporters in their degree of international orientation and experience. Chetty and Campbell-Hunt (2004) compared three types of New Zealand firms, regional firms selling to New Zealand and Australia only, traditional exporters, and INVs/BGs, and found little difference between the three groups in the international experience of their managers. Wickramasekera and Bamberly (2003) found no statistically significant differences in previous overseas experience and foreign language fluency among managers of INVs/BGs and other exporters in the Australian wine sector.

Oviatt and McDougall (1994, 2005) and Madsen and Servais (1997) have argued that the use of networks is a major determinant of internationalization speed, as networks help founders identify opportunities and establish credibility. Networks, however, may be less

10. For example, top-of-the-range animal grooming products (Cavusgil & Knight, 2009) and pure merino wool sport apparel (World Economic Forum, 2011).

crucial for sellers of niche products because their buyers seek them out. This may explain the mixed findings of the empirical literature on this point as well. Rasmussen et al. (2001, p. 100) concluded from their study of Danish and Australian INVs/BGs that “the existence of a network at the founding of the company is not as important as expected.” Dib et al.’s (2010) comparison of INVs/BGs and traditional exporters in the Brazilian software industry showed that the two groups did not significantly differ in their use of partnerships and of firm and personal networks, nor in their degree of insertion in clusters. Zucchella et al. (2007) found that an entrepreneur’s membership in formal interfirm agreements and informal social relationships had no impact on their firm’s speed of internationalization. And in the study by Nummela et al. (2004), Finnish ICT firms with more business partnerships were actually slower to internationalize.

Conclusions

One distinguishing characteristic of INVs/BGs is that they quickly expand their foreign sales after birth. Hence any theoretical explanation for such firms should focus on the factors that affect the speed at which they obtain foreign customers. The INV/BG literature has offered many explanations for this differential speed. One of them is that INVs/BGs tend to engage less in equity investments such as wholly owned subsidiaries and more on less-costly governance mechanisms like networks (Oviatt & McDougall, 1994, 2005). By relying on networks, INVs/BGs are supposedly able to expand faster internationally than the MNEs studied by Uppsala scholars. Another explanation for INVs/BGs focuses on the capabilities they possess. Those capabilities have been variously identified as entrepreneurial orientation, international orientation, international marketing skills, international innovativeness, international learning ability, international networking capability, and international experience. On the whole, the literature implicitly assumes that all firms face the same structural conditions when expanding abroad: They all need to spend the same amount of time on finding customers, teaching them about the product, and persuading them to buy it, as well as on providing instruction on its use, adapting it to their needs, providing after sales service, and handling the logistics. Hence the capabilities literature argues that firms run by managers who have some special capabilities, perhaps due to previous international experience or an innate ability to deal with foreigners (Karra, Phillips, & Tracey, 2008), will be better at performing such tasks and hence will ramp up foreign sales faster.

I take a different approach. I follow authors such as Madsen and Servais (1997) and Fan and Phan (2007) who have hinted that the difference in the speed with which INVs/BGs and Uppsala-type MNEs capture foreign customers may be due to differences in their business models. Specifically, I show that the speed with which firms can develop their international sales, and hence the probability that they will be INVs/BGs, depends on the business model they are implementing, that is, on the way they have linked the type of product or service they sell with a particular subgroup of customers using a specific communication and delivery method. While some authors have attributed the fast internationalization of INVs/BGs to their selling knowledge-intensive products, I argue instead that the key difference between INVs/BGs and other firms lies in their business model: INVs/BGs sell niche products and services to internationally dispersed customers using low-cost information and delivery methods. Firms that use the kind of business model I describe, in contrast to the Uppsala-type firms that sell heavy, perishable, and less distinctive products to the mass market, can immediately sell in many foreign markets. They can rapidly develop foreign sales whether or not their managers have international

experience, international skills, or knowledge of foreign markets. This may explain why studies of INVs/BGs fail to find a robust connection between fast international sales growth and the international background, experience, and skills of their managers.

By explicitly analyzing the time the tasks required to expand sales abroad are likely to take, and how they vary depending on the nature of the product, customer, and delivery method, I have tried to show that the Uppsala model applies only to a subset of firms. Specifically, it describes firms for which selling to foreign customers requires particularly time-consuming marketing and logistical investments. Not all firms face the same uphill climb, and hence not all will follow the slow and incremental model proposed by the Uppsala school. Many firms selling niche products to expert customers do not have to spend time and resources identifying and persuading them. Firms that can use low-cost delivery methods do not need to set up plants abroad. Firms like Atlassian need spend no more time and effort gaining foreign buyers than domestic ones. The model of market-serving firms I have proposed can thus be seen as one in which Uppsala firms and INVs/BGs are at two extreme ends of a speed-to-foreign-markets continuum, with most firms somewhere in between.

My analysis implies that some other predictions of the Uppsala model may not hold for INVs/BGs. It is unclear, for instance, whether the concept of psychic distance applies to markets for niche products. Fan and Phan (2007) have coined the phrase “domain-specific familiarity” to describe the shared knowledge between buyers and sellers of niche products, and have argued that such shared knowledge trumps the psychic distance between the countries where buyers and sellers are located. Hence, there is little reason to expect INVs/BGs to gradually enter markets at increasing psychic distance. Instead, all potential markets may be reached simultaneously, or, if not, the sequence will be serendipitous, as documented by Bell (1995).

The Uppsala prediction that firms will make increasing use of equity forms of foreign market entry as they spend more time in a target market is based on the assumption that such equity forms are desired all along, but that because they are more risky, the firm will wait to use them until it has accumulated more information on opportunities and risks in the target market. Since INVs/BGs sell to customers with whom they share product-specific knowledge, there is no remaining uncertainty and risk about the size and characteristics of their demand to be resolved through additional sales, and hence, there is no reason to expect the subsequent changes to the initial entry mode that are predicted by the Uppsala model.

While the INV/BG literature tries to explain why some firms expand internationally faster than others, the transaction cost theory of the MNE asks a different question. It seeks to explain why some international interdependencies are organized through market exchange, and others through employment contracts, in other words within firms (Hennart, 1982, 2010).¹¹ INVs/BGs may or may not be MNEs, depending on whether they have employees abroad. To the best of my knowledge, transaction cost theorists have not studied the speed with which firms expand abroad. A firm that must locate production close to its customers and must own the plants will take more time to expand internationally than one relying on exports with a sales force located at headquarters or independent agents in the target market. Hence sampling on fast entry is likely to return firms which have not heavily integrated into wholly owned foreign manufacturing subsidiaries to sell their goods and services abroad but have relied instead on quicker modes of entry, such as

11. There is no reason for transaction cost theorists to consider one governance mode as inherently superior to another (see Hennart, 2010).

having their exports handled by intermediaries, trading companies, or OEM buyers. This does not mean that the use of networks is a necessary and sufficient condition for being an INV/BG, as it might be that networks are used just as often by purely domestic firms. For transaction cost theorists, the choice between organizing the interdependence through the market or within the firm depends on the level of transaction costs for a specific transaction, so it is not surprising to see small INVs/BGs like Logitech organizing some interdependences internally (in that case, vertically integrating into manufacturing) very early in their life when this is crucial to their strategy.¹²

The argument developed above has important implications for what I see as promising areas of future research. We have seen that some authors, inspired by the resource-based theory of the firm, have attempted to explain the performance of firms on international markets, and more specifically the speed with which they expand abroad, by their possession of specific resources which they have labeled international business competence (e.g., Knight & Kim, 2009), entrepreneurial orientation (e.g., Jantunen, Nummela, Puumalainen, & Saarenketo, 2008), or international entrepreneurial capability (e.g., Zhang et al., 2009). Zhang et al., for example, define international entrepreneurial capability as a higher order construct built on five dimensions: international marketing ability, international learning ability, international networking ability, innovative and risk-taking capability, and international experience. These items are obtained from responses to a questionnaire administered to firm managers. Because the questionnaires were completed *ex post*, that is, after managers of INVs/BGs had successfully developed the foreign sales of their firms, their responses, and hence the overall constructs on which they are built, are subject to self-serving attributions (Bettman & Weitz, 1983; Miller & Ross, 1975). In other words, managers of firms that have quickly penetrated foreign markets can be expected to attribute the good performance of their firm to their own abilities and experience, whether this is truly the case or not. The same problem arises when attempting to measure entrepreneurial orientation.¹³ The outcome is confusion between causes and consequences.¹⁴ For some of the firms filling out the questionnaires internationalization might have been the by-product of the pursuit of other goals, which is what Rasmussen et al. (2001, p. 100) conclude from interviews with the managers of the five BGs they studied. They write:

Internationalization has not been the primary objective of the founding process . . . the companies were founded because of a desire to be self-employed or because the founders had a good idea for a new type of production or because of contacts in a network or due to unemployment or a combination of these and other factors, but the high degree of internationalization came in all cases after the founding decision. Internationalization was, so to say, not a strategic objective of the founders, but something that was necessary if they would found this or that type of firm.

12. Kohn (1997) found that the percentage of wholly owned subsidiaries was higher for small (10 to 499 employees) U.S. foreign direct investors than for large ones (10,000 employees and above), showing that there is no necessary relationship between firm size and the use of nonequity forms.

13. Two of the questions used by Jantunen et al. (2008) to measure entrepreneurial orientation are whether or not the chief executive officers or top managers they surveyed agree with “we are able to exploit unexpected opportunities” and “we consistently allocate resources to new operational areas.” Managers of successful firms can be expected to strongly agree with these statements.

14. To measure international experience, Zhang et al. (2009) asked respondents whether they agree or disagree with the statement that “top management is experienced in international business,” “top management tends to see the world as the firm’s marketplace,” and “top management continuously communicates its mission to succeed in international markets to firm employees.” It is hard to see how managers of firms with fast-expanding international sales would respond to these questions with a “strongly disagree” whether or not they did have international experience and vision when they started their business.

While it might be the case that between two INVs/BGs with the same business model the one with founders or managers with greater international experience and entrepreneurial orientation might internationalize faster, my view is that international experience and entrepreneurial orientation are not necessary and sufficient conditions for fast internationalization. Managers who score high *ex ante* in international experience and entrepreneurial orientation will not be able to quickly expand abroad without the right business model.

Rather than focus on the resources and capabilities of managers, a more promising approach would be to research the specific characteristics of business models that lead to fast internationalization. This paper is only a first pass at this important topic, and is based on impressionistic evidence gathered from secondary sources. More work is needed to investigate in detail how different types of products, customers, and environments affect the time needed to perform all the tasks necessary to expand into foreign sales. We need to systematically examine the specific conditions under which the assumptions of the Uppsala model that selling to foreign customers takes more time than selling to domestic ones hold in practice. One possible avenue of research would be to obtain detailed information on INVs/BGs in low technology sectors so as to get a broader view of the specific characteristics of business models that lead to fast internationalization. Comparing fast and slow internationalizing firms within a specific industry would also generate new insights. As the cases of Atlassian and Jive show, two firms in the same high-tech industry may differ in their speed of internationalization because of subtle differences in the way they have designed their products and sell them. Detailed case studies would help uncover such differences. Longitudinal studies looking at whether or not INVs/BGs change their international entry strategies as they mature would also be instructive. Lastly, whether firms that focus on narrow global niches (and hence quickly acquire foreign customers) have a higher or lower survival rate than those that choose gradual foreign market entries is another topic worth exploring.

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