

THE ROLE OF BORN GLOBAL IN THE CZECH ECONOMY

Eliška REKOVÁ^{a}*

^a *Faculty of Business and Management, Brno University of Technology, Czech Republic*

ABSTRACT

The aim of this paper is to set the terminology of born global in the Czech concept, to emphasize the importance of export for the Czech Small Medium Enterprises (SME), establish the role of born global in the Czech Economy and create the concept how to monitor the born global companies' development in the Czech Republic.

The analysis of primary and secondary data is primarily used in this scientific paper. Secondary data are aimed on structured data collection including the literature overview of 'born global', export and export strategies of the Czech Republic. Primary data include the in-depth analysis of Export Strategies of the Czech Republic 2012-2020, structured interview with employees of the Ministry and study of monitoring indicators.

The analysis of Export Strategies of the Czech Republic 2012-2020 reveals significant limits for monitoring of born global companies and fulfilling the aims and indicators following the report. The in-depth analysis revealed that there is no methods or relevant documents in the Czech Republic that would help to define 'born global' companies in the Czech Republic and to verify initial values for results comparison and how the indicator will be measured with the aim to achieve 'double born global by 2020'.

The future article will focus on the creation of methods based on this concept and practical implementation of this methods on the Czech market for born global, will establish cooperation with the Ministry and will focus on examining the individual monitoring indicators of the companies born global when entering the foreign market.

KEYWORDS: *Born Global, Database, Export Strategy of the Czech Republic, Indicators.*

1. INTRODUCTION

To be involved in the international trades is very important for the Czech Republic that represents only a small part of the world economy. The involvement in the world economy ensures long-term sustainability, prosperity and economic growth because it represents growth potential of domestic companies, possibility of increasing domestic sales production, improvement of quality of products and services with respect to the competitive environment (Calof & Beamish, 1995).

The Ministry of Industry and Trade (MPO, 2018) supports the export of SME and acknowledges a high potential of born global companies because these companies excel in innovation, rapid technological progress, high level of specialization and increasing added value.

One of the initial documents dealing with the issue in the Czech Republic is the Export Strategy of the Czech Republic 2012-2020 published by the Ministry of Industry and Trade from which one of the specific aims follows 'Increasing the number of highly innovative exporters to double by 2020.' But how can this goal be achieved?

This support of born global firms has several limits such as lack of methods for monitoring born global development in the Czech Republic thus the support of above mentioned specific aim, non-

* Corresponding author. E-mail address: rekovae@fbm.vutbr.cz

unified definition of born global term and non-existing databases of born global companies so the companies that could be included among companies with high business model innovation.

The aim of this paper is to set the terminology of born global in the Czech concept, to emphasize the importance of export for the Czech SME, establish the role of born global in the Czech Economy and create the concept of database of born global firms to monitor the born global companies' development in the Czech Republic.

2. MANUSCRIPT

2.1 Literature review of born global

The traditional theory of international trade claims that enterprises firstly establish their good position in the home trade and enter the international trade in later stages of their life (Bilkey & Tesar, 1977; Cavusgil, 1980; Johanson & Vahlne, 1977; Luostarinenem, 1979).

This opinion is doubted by a research showing that some companies enter the international field quickly after their foundation - so called born global. These companies are supposed to be strongly focused on innovation and growth, so they can contribute very well to the renewal of economy and labor market that Europe is pursuing after global financial crisis (Eurofond, 2012). The term 'enterprise born global' was firstly used in the 1990s in connection with a study of the McKinsey and CO Company for the Australian Manufacturing Council company (Rennie, 1993).

This paper will use the term 'born global' which has not had a unified definition yet. Certainly, they are different from other exporting enterprises in several main characteristics. According to Varma (2009), the pace of internationalization and geographic effects belong among them. He agrees with authors such as Rialp et al. (2005), Freeman et al. (2013) and Gabrielson et al. (2012) that the time between foundation of the enterprise and its entry into the foreign trade should not exceed three years.

Ferreira, Santos and Serra (2010) define 'born global' as enterprises that offer their products and services globally so there is another sign confirming geographic effect that is defined as an activity in at least two countries, in homeland and abroad.

Some authors would like to also include the share of foreign trade on the total revenue into the evaluating criteria of 'born global' companies. However, the authors are not even unified in this criterion and some of them describe this share as 10% on total revenues (Kandasaami et al. 2010) while other authors (Maadsen et al., 2000) 25%.

Mejstřík (2013), defines 'born global' companies as enterprises that are developing quickly, enter the foreign trades and have a high level of internationalization, which corresponds with the definition used in this paper: 'Born global' which means 'born to be global' is a term for companies that soon after their foundation (usually within 3 years) expand into the foreign trade where they sell their products or services corresponding at least 25% of total revenues of the company. This definition was expressed by the authors Knight and Cavusgil (2004), includes also the opinions of other above-mentioned authors and is extensively quoted in this form (Gabrielsson et al., 2008; Daszkiewicz, 2014; Knight et al., 2004; Mejstřík, 2013).

2.2 Export of the Czech SME

Export and import of goods and services are one of the disciplines of internationalization. Comparing the export of goods and services to the total gross domestic product (GDP), the Czech Republic belongs among the countries with the highest ratio. The data of the Czech Statistical Office (CZSO) show that export was equal 79% of total GDP in 2010, in comparison with e.g. Germany where the ratio was only 50%. The influence of foreign trade on GDP still has a growing tendency (CSZO, 2013).

As follows from the export analysis made by the Association of Small and Medium-Sized Enterprises (AMPS) and Crafts of the Czech Republic between 2014 and 2015, (AMSP, 2015)

exports of SME in the Czech Republic grew by more than 13%, SME increase export activities outside of the EU, while in 2012, 30% of SME exported outside of the EU, in 2015, it is already 49%. Dominant position is held by crucial neighboring countries such as Germany, Slovakia and Poland where 48% of our export are headed.

According to the document called the Export Strategies of the Czech Republic 2012-2020 published by the Ministry of Industry and Trade (MIT), follows a highly proactive policy with focus on the support of Czech enterprises export (MPO, 2018).

According to Čásková (2013), export is crucial for small and open economies such as the Czech Republic.

Šudrichová (2011) refers to the fact that the state support for SME started to develop with the arrival of economic crisis in the Czech Republic in 2008 and 2009.

2.3 Export Strategies of the Czech Republic

The Ministry of Industry and Trade approved the Export Strategy of the Czech Republic 2012-2020 in 14. 3. 2012 and the priorities are following:

- Shifting of Czech exporters in value chains into higher segments or branches with higher added value
- Increase of the number of highly innovative exporters (born global) twice as much by 2020
- Double interannual growth rate of export into countries outside the EU (European Union) in comparison with export into the EU
- Increase of the number of exporters into countries outside the EU by 25% by 2020

Monitoring of results of aims of the Strategy fulfillment was set as an important part of implementation. It was assumed that the indicators such as data from the Czech Statistical Office and the Ministry of Industry and Trade will be included. As emerged from a thorough research, there is no methods that would help to define born global companies in the Czech Republic and thus to verify initial values for results comparison and how the indicator 'double born global by 2020' will be measured.

The Ministry of Industry and Trade approved the Export Strategy Update 2012-2020 on the session 28. 11. 2016 (MPO, 2018). This update follows the Export Strategy of the Czech Republic 2012-2020. The Export Strategy update was proposed by the Minister of Industry and Trade in cooperation with the Ministry of Foreign Affairs. Specific aims considering born global companies are not included in this update because a suitable method for monitoring of indicators and thus fulfillment of the strategy has not been found so far. Based on structured interviews with employees of the Ministry of Industry and Trade, the basic limit in the field of methods for born global companies was revealed. This concept of methods would enable to identify born global, set recommendations and procedures for entering the foreign market and help to find an appropriate method for monitoring of born global development in the Czech Republic.

2.4 Methods

The methods used in studying the born global companies are comparable to those used in the study of other small and medium-sized enterprises. In the framework of the pre-research, an analysis was carried out to reveal the most common approaches to exploring the born global companies.

The literature review reveals the use of mainly qualitative research methods such as case studies, interviews and questionnaires and, to a lesser extent, quantitative methods of data collection, such as questionnaire surveys. Quantitative methods have the advantage of a strong standardization of data, i.e. high reliability, but at the expense of limited validity, because the scope for expressing opinions is greatly reduced. Most often, however, a combination of both methods is used.

The analysis of primary and secondary data is also used in this scientific paper. Secondary data are aimed on structured data collection including the literature overview of 'born global', export and export strategies of the Czech Republic, such as analysis of databases of companies doing business

in the Czech Republic. The primary data include the in-depth analysis of Export Strategies of the Czech Republic 2012-2020, structured interview with employees of the Ministry and identification of possible born global of companies using a newly established database.

2.5 Results

To determine a suitable concept for monitoring, it is important to know the definition of born global, create a concept of database of companies that meet this definition in the Czech Republic, determine a relevant sample and monitor chosen indicators by qualitative and quantitative data collection for a long time.

2.5.1 Formulation of research aims, limits, setting the strategy

The analysis of Export Strategies of the Czech Republic 2012-2020 reveals significant limits for monitoring of born global companies and fulfilling the aims and indicators following the report. The in-depth analysis revealed that there is no methods or relevant documents in the Czech Republic that would help to define 'born global' companies in the Czech Republic and to verify initial values for results comparison and how the indicator will be measured with the aim to achieve 'double born global by 2020'.

The aim of this paper is to set the terminology of born global in the Czech concept, to emphasize the importance of export for the Czech SME, establish the role of born global in the Czech Economy and create the concept how to monitor the born global companies' development in the Czech Republic.

2.5.2 Definition of born global in Czech Republic

Based on research of scientific articles about 'born global' from the whole world, clarifies terminology by comparison of available definitions and includes the term 'born global' into the Czech context is set up the definition of Czech born global as: 'Born global' which means 'born to be global' is a term for companies that soon after their foundation (usually within 3 years) expand into the foreign trade where they sell their products or services corresponding at least 25% of total revenues of the company.'

2.5.3 Creation of concept of database born global in the Czech Republic

There is no unified database of born global companies in Czech market thus there is no indicator that would enable to monitor born global companies' development and measure monitoring the fulfillment of aims following the Export Strategy. The paper suggests a procedure for creating a database of born global companies in the Czech Republic and for monitoring indicators during time. The author sets the database of born global companies from two groups of enterprises where the databases are existing. Nevertheless, the companies meet only one condition of born global companies' definition, so a deeper research is needed to eliminate these enterprises that will not meet the conditions.

The first group of companies consists of small and medium enterprises in the Czech Republic that export their products and services and thus meet the condition of expansion to the foreign trade where they sell their products and services. According to available databases, the number of all exporting enterprises is 20 937 in the Czech Republic for 2015.

It is necessary to verify if they started to export within 3 years since their foundation and if the sales from selling their products correspond to at least 25% of the total turnover of the company. The verification is done through a questionnaire survey that was sent electronically to all affected companies. Based on the analysis of the responses, it is possible to include companies in the newly created born global database.

The second group consists of enterprises that cannot be found in databases of traditional Czech exporters, but they are considered to be the Czech start-ups. The initial definition of a start-up is a newly emerging business idea, project or a starting company with a business plan that has the potential to be monetized. There is also a condition of innovation, so the start-up tries to deal with the situation on the market locally and in time-innovative way. The potential of rapid growth is also

important (in terms of sales and customers), the role of founders (initial investment, the idea) and a future need of outer investment for further growth and introducing a new product to the market (www.edotace.cz, 2017). The number of startups in the Czech Republic is 1266 companies in 2017. These are frequent conditions which are also attributed to born global companies and it is important to verify the full definition whether they export abroad and in which proportion to total sales. The verification is done through a questionnaire survey that was sent electronically to all affected companies.

The method of analyzing two existing databases and then completing and evaluating the questionnaire survey will help create a new born global database of companies. This database will also verify Mejstřík's statement (2013) that in the Czech Republic 6% of export companies are the born global companies, which would correspond to about 1332 born global companies.

3. CONCLUSION

This paper deals with one of the segments of SME in the Czech Republic – born global companies that excel in innovation, rapid technological progress, high level of specialization and increasing added value. Their identification is determined by several factors, the factors of time and place play a significant role among them. Considering the importance of export for the Czech Republic which follows the studied literature, statistical data processed by the Czech Statistical Office, the Association of Small and Medium-Sized Enterprises and Crafts CZ and the MIT (Ministry of Industry and Trade) and official documents processed by the MIT such as the Export Strategy CZ 2012-2020, this paper is focused on Czech born global export and the goal: 'Increasing the number of highly innovative exporters to double by 2020' followed. After cooperation with the Ministry of Industry and Trade regarding closer identification of born global companies and their monitoring, we came into realization that there is no methods or relevant documents for measuring born global in the Czech Republic as well as methods for support of born global entering the foreign market and thus the support of the specific aim of the Export Strategy is still immeasurable.

The aim of this paper was to set the terminology of born global in the Czech concept, which has been proved through the research of scientific literature, a summary of important authors dealing with the topic of born global and their definition and elaboration of the penetration of definitions that can be classified into the environment of the Czech Republic.

The next aim to emphasize the importance of export for the Czech SME and establish the role of born global in the Czech Republic, was demonstrated by the analysis of the Czech Export strategy and the export importance study for the Czech Republic.

The last aim was to create the concept how to monitor the born global companies' development in the Czech Republic for ensure the possibility to monitor the number of companies born global in the Czech Republic and that was achieved by creating a new database that defined born global companies.

An analysis of applied scientific approaches within the companies born global has been carried out and it has been evaluated that monitoring of born global will be done by one of the methods of quantitative data collection in the form of a questionnaire survey that excels at its speed and has the advantage of strong data standardization and high reliability.

This paper set up the terminology of born global in the Czech concept, emphasize the importance of export for the Czech SME, establish the role of born global in the Czech Economy, create the concept of database born global companies to monitor the born global companies' development in the Czech Republic and proposes a methodical approach to their monitoring.

In the future it will focus on finding a simple methods and implementation of this methods to the Czech trade in practice, cooperate with the Ministry and focus on studying monitoring indicators at born global companies when entering the foreign trade in the future.

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