# Determinants of Born Global Companies in Chinese Content

LIU, Jinhao (Graduate School of Social Sciences, Waseda University)

**Background:**

At the late 1970s, a new phenomenon was quietly emerging that some newly established companies have gotten internationalised at the very beginning. The activities, such as fundraising, product manufacturing and product selling, of these newly established companies have spread across several countries and regions, and especially the high-technology companies, they got internationalised very rapidly because of their strong competitors. And such companies were defined as 'a business organisation that, from inception, seeks to derive significant competitive advantage from the sales of outputs in multiple countries.' (Oviatt and McDougall, 1994).

Such a company was named as born global company (BGC) or international new venture (INV) generally. But the two names are almost the same, because they both identified such companies that run their business internationally in a short time period after they established. For example, BGC's vision is "management views the world as its marketplace from the outset of the firm's founding"(McKinsey & Co (1993); Rennie (1993); Knight and Cavusgil (1996)) is similar with INV's "a business organisation that, form inception, seeks to derive significant competitive advantage from the sales of outputs in multiple countries" (Oviatt and McDougall, 1994). Also, in the early researches, we could also read some names to refer BGC or INV, like Global start-ups, Born internationals, Born internationals, Instant internationals, Global knowledge-intensive firms, High-technology start-ups, New technology-based firms. In this research, Born Global would be used to represent.

Research on the born global companies by Rialp and Knight (2005) had shared the fact by the literature review that the born global phenomenon has occurred in many countries such as Israel, Australia, New Zealand, the U.S. and Canada as well as some countries in the Northern and Western Europe. In Japan, Prof. Nakamura from Toyo Univ. have some works in introducing the BGC. And Prof. Kanda from Meiji Gakuin Univ., Prof. Takai(高井透先生) from Nihon Univ., and Prof. Shibawara from Tsukuba Univ. also have some works to introduce the BGC in Japanese context. All the economies listed above are the advanced economies by the definition of OCED, CIA, IMF and World Bank.

In the recent years, scholars also have paid attention to the developing countries, such as Venezuela (Graterol-López and Sigala-Paparella, 2014), Chile (Cancino and Coronado, 2014) and Colombia (Tabares, Alvarez and Irbano, 2015) in Latin America; India (Sumati, 2013) , Vietnam (Thai and Chong, 2008) and, of course, China (Zhang, Tansuhaj and McCullough, 2009) in Asia.

As the world's largest non-advanced economy, China has experienced rapid economic growth after the Reform and Opening up since 1978. And with the proposal of the Belt and Road Initiative in recent years, China would make a tremendous contribution to the world economy. According to the report from McKinsey & Co., world exposure to China was beyond China to the world around 2009 which indicates that China's economy is playing an increasingly important role in the world's economy. That way, we could say, BG research in China's context also has some practical significance and value.

**Hypotheses:**

China's capital market started late, with incompleteness and insufficient supervision to some extent. On this basis, government intervention has a greater impact on the capital market. The lack of government support has also reduced financing channels and intensity for a person that wants to establish a new company. Therefore, in China, household income is a very important financial source for these entrepreneurs.

When the household income is high, entrepreneurs or these persons who want to establish a new company would rely on this income, and such a reliance also help them reduce the pressure to obtain funds through other financing channels. Hence, we hypothesize that (H1a) the entrepreneur with a higher household income would more likely to set up a born global company.

In the year 2009, Chinese Government have promulgated the Employment Promotion Law, in which the Central Government encourage the local governments in every level to facilitate the administrative procedures for who wants to start up and to increase the fundraising channel for the SMEs and who wants to start up. Since then, people could raise funds much more easily when they recognise the opportunity, and (H1b) the influence of household income on the establishment of born global company is decreasing after 2009.

Although the Chinese market is huge, competition is still fierce. Any newcomer who wants to seize market share will undoubtedly have to face very high pressure from domestic market. However, it has also become the choice for entrepreneurs to extend to overseas market which reduces the pressure of domestic competition. Developing in and learning from overseas market could help a company to accumulate the experience of management, and such experience would also help itself develop in the domestic market. Hence, we assume that (H2) a company that has fierce domestic competition is more likely to be a born global company.

When a new company wants to stand in a new market, one of the strategies is to have an extraordinary product. It could be adapted to Chinese companies as well as the market. To overcome the liability of foreignness, the Chinese company would like to cultivate a competitive advantage with the expectation to stand out when competing with local companies in the host country. And, a special or unique product indeed could help a company to win the eyeballs from customers in rapidly and distinguish itself from other competitors. Therefore, we bring out the hypothesis (H3) that a company owning the new or unfamiliar products to customers would more likely to be a born global company.

As talked above, a unique or special product would help a company to win the eyeballs from customers. If we regard the product as the outward appearance, what hidden inside is the technology and process that a company used. This feature is much instinct in the ICT or technology field. Hence, we take a hypothesis that (H4) the newer technology/ process a company is using, the more likely a company to be a born global company.

**Sample:**

- Dependent Variable

In this research, the Adult Population Survey (APS) [Year 2002-2016] of China from the Global Entrepreneurship Monitor (GEM) project has been used. GEM project is a large and cross-country research initiative aiming at the research on the global entrepreneurial activities started in 1999. It carries out survey-based research on entrepreneurship and entrepreneurship ecosystems around the world. The data used for the GEM is collected from two large surveys, the Adult Population Survey (APS) and the National Expert Survey (NES). The APS surveys at least 2000 adults of each country covered by the GEM and covers the entrepreneurial aspirations of the country's population. China joined GEM project in 2002, and in some years, China did not take the survey.

- Dependent Variable

The dependent variable is the enterprise's likelihood of becoming international in the early stage. Following the previous researches and considering the feature of APS data, we consider the born global company as a company that established within 42 months and generates 25% of total sales from overseas markets. To discriminate the born global companies from the sample, a qualitative dependent variable was created (0=non-born global company, 1= born global company) to represent each.

- Independent variables

- Household income: use the result of APS variable "GEM income recoded into thirds". Mark 1=Lowest33%, 2=Middle33％ and 3=Upper33％.

- Newness to customer: use the result of APS question "TEA: How many (potential) customers consider product new/unfamiliar?". Mark 1=All, 2=Some and 3=None.

- Domestic competition: use the result of APS question "TEA: How many businesses offer the same products?". Mark 1=Many, 2=Few and 3=None.

- Newness of technology: use the result of APS question "TEA: How long have the technologies or procedures required for this product or service been available?". Mark 1=Very Latest Technology (newer than one year), 2= New Technology (One to 5 years) and 3=Not New Technology (more than 5 Years)

- Control Variables

- Gender: use the result of APS question "What is your gender?". Mark 0=female and 1=male.

- Age: use the result of APS question "What is your current age (in years)?", and record the age.

- Education level: use the result of APS question "GEM harmonized educational attaiment". Mark 0=None, 1=Some secondary, 2=Secondary degree, 3=Post secondary and 4=Graduate experience.

- Industry: use the result of APS question "TEA: Industry SIC code". Mark 0=No and 1=Yes.

## Results:

Table. Result of the logistic regression analysis

| | Dependent variable: 1=BGC, 0=Non BGC | |
|---|---|---|
| | Year 2002 – 2009 | Year 2010 - 2016 |
| | B (S.E.) | B (S.E.) |
| ***Control Variables*** | | |
| Gender | -.450 (.300) | .125 (.219) |
| Age | -.033 (.015) ** | -.002 (.011) |
| Education Level | .433 (.123) *** | .323 (.137) ** |
| Industry | | |
| – *Mining and Construction* | .273 (.650) | .877 (.449) * |
| – *Manufacturing* | .147 (.436) | .952 (.355) *** |
| – *Wholesale Trade* | .282 (.376) | -.176 (.403) |
| – *Info. and Comm.* | (Not applicable) | 1.213 (.553) ** |
| ***Independent Variables*** | | |
| Household Incomes | .543 (.217) ** | -.008 (.147) |
| Newness to Customers | -.741 (.202) *** | -.26 (.164) |
| Domestic Competition | .014 (.226) | .312 (.185) * |
| Newness of Technology | -.040 (.170) | -.292 (.150) * |
| ***Statistical Information*** | | |
| -2 log likelihood | 460.561 | 800.658 |
| Chi-square | 69.536 *** | 35.553 *** |
| (df) | 10 | 11 |
| Nagelkerke $R^2$ | .154 | .048 |
| Number of observations | 1,380 | 3,358 |

*Significant at the .10 level, **Significant at the .05 level, ***Significant at the .01 level.