Introduction

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A fundamental shift is occurring in the world economy. National economies are moving away from being relatively isolated from each other by barriers to cross-border trade and investment; by distance, time zones, and culture. This shift is described as globalization (Solberg 1997).

Two major drivers of greater globalization have been the decline in trade barriers and developments in new technology. The decline in trade barriers enable companies to view the world as their market, rather than just looking at their domestic market. Technological changes with advances in communications, transportation technology and most recently the emergence of the Internet and the World Wide Web, have rapidly lowered the costs of global communication. Both the decline in trade barriers and the developments in new technology contribute to making competition more international and increasing the amount of cross-border trade (Hill 2000).

Internet and electronic commerce have been the subject of tremendous popular attention. Investors conviction of an economic revolution drove the valuation of Internet firms to the level of an Internet bubble. Normal metrics that governed investment such as business models and price–to-earnings ratios, can be said to have been ignored, and to get online became the major concern. As of 18th November 1999 the online portal Yahoo.com ($55 billion) was bigger than the four largest American airlines; United, American, USAir and Northwest (Devinney, Coltman, Midgley 2000). From march 2000 however, investors seem to have lost faith in online profits and Internet firms stock prices have since plummeted. The Internet bubble burst have had several casualties, including highly profiled clothing website Boo.com (The Economist 2001).

Shapiro and Varian (1999) argue that while technology changes - economic laws do not. Internet firms with non-profitable business models have been forced to shut-down. According to webmergers.com a total of 135 companies in the US had shut down by December 2000. On the other hand, these where out of an estimated 7,000 to 10,000 private or public Internet firms (Businessweek 2000).

Although share prices have fallen and the current value of Internet firms can be said to be closer to their true potential, the Internet will still play an important part in world business. It is important to remember that despite overvaluation, Internet companies have made a strong impact and probably will continue to do so into the future. The online retailer amazon.com has only after 6 years of business grown to have sales of nearly $ 3 billion. Furthermore both the portal yahoo.com and the auction site ebay.com are reporting profits and growth rates of up to 90% per year. All three companies have expanded internationally and are now among the world's best known brands (The Economist 2001).

1.2 Background to Research

Taking into account the growing importance of both international trade and the Internet, the focus of this research is to explore the Internationalization of Internet firms that can be characterized as Born Globals.

A (International) Born Global Internet firm is here defined as a company that can be said to fulfill (two) three distinct characteristics. (1) The firm takes advantage of Internet technology to develop new and innovating products and/or services, (2) the firm conducts major parts of its core business functions online and (3) the firm is international already from inception.

The first part is linked to the products and/or services being related to the Internet. This means that the company may have a new way of doing business, or an innovative product as a result of the possibilities with Internet technologies. The second part is related to performing a major part of the core business function of the company online. This means that transactions and interactions, including market communications, customer service, contractual and purchasing procedures, payment, logistics and shipping may be performed online. The last and third part is linked to the company having a rapid and accelerated pace of internationalization and is related to the phenomena of Born Global companies.

More specifically, this research will investigate how these firms internationalize, how they utilize the Internet in their accelerated internationalization and how successful performance can be explained. There is little research in this field of investigation, and the research questions below are therefore explorative in nature.

1. Why do Born Global Internet firms expand internationally?
2. How are new international markets selected?
3. How do (international) Born Global Internet firms enter new markets?
4. How has the Internet been used in the internationalization of these firms?
5. How can successful or unsuccessful performance of Born Global Internet firms be explained?

The first research question refers to the companies motivation for their rapid expansion. The second question refers to how new markets are selected and seeks to investigate if traditional theories are still relevant or if new factors are more important. The third question refers to the choice of entry mode and how these relatively young companies are enter multiple countries within a short period of time. The Internet's role in the internationalization process is the background for the fourth research question. It will investigate how use of Internet technologies support these firms accelerated internationalization. The final research question seeks to explore the performance of these firms.

1.4 Aims and objectives

The aims of this Research is to explore the internationalization and performance of Born Global Internet firms. The focus lies on how they internationalize, and if they follow an internationalization process in accordance with traditional internationalization theories, theories of accelerated internationalization or whether the process and pattern is different, in what way. A secondary aim is to look at the ways that the Internet is used as a tool in the internationalization of these companies and thereby investigate how it influences their international expansion.

Chapter 2

Literature review

In this chapter a range of literature and theories regarding how firms internationalize will be presented. After an introduction to the concept of internationalization, , will be reviewed. Following an examination of research regarding the network approach to internationalisation, and Finally research regarding Internet enabled internationalization will be discussed,

2.1 The concept of internationalization

Welch and Luostarinen (1988) define internationalization as being the process of increasing involvement in international operations. According to Melin (1992) internationalization can be perceived as a part of the on-going strategy process of most firms. The main difference between internationalization and other types of strategy processes (or growth strategies) can be found in two dimensions. First, the company transfers products, services and resources across borders. This implies that the company has to select in which country or countries the transaction should be preformed. The second dimension refers to the choice of how to enter foreign markets (Andersen 1997). These two dimensions, international market selection and choice of entry mode, represent the key strategic decisions in connection to a company's internationalization (Bradley 1995).

One of the major decisions a firm must make in its internationalization is the choice of entry mode. For future reference six general modes of entry will be described based on Loustarinen (1980) and Hill (2000). These are exporting, licensing, franchising, joint ventures, strategic alliances and the establishment of a wholly owned subsidiary.

Exporting

Exporting is here used as an entry mode category that includes indirect exporting, direct exporting and export to an agent or importer/distributor. Direct exporting, as a reactive mode, refers to exporting in response to unsolicited inquires and orders from abroad. Direct exporting. in a proactive manner, requires firms to actively explore exporting in selected target markets. This may involve pointing out distributors and/or agents in the target markets, determining price/ margin levels and developing the appropriate promotional mix. Indirect exporting involves the sale of a manufactured product or line to a domestic intermediary who then takes the goods and resells it to markets abroad. The exporter firm takes over the functions of doing research, promoting, pricing and finding distributors for the producers products in the foreign markets.

Licensing

Typically, a licensee is an already established company in the target market. The licensee may receive technical know-how, patent usage, access to production processes, the right to use a trademark, or copyrighted materials from the licensor. Licensing as a mode of entry, limits the investment and commitment, but enables profitability through licensing fees or royalty payments.

Franchising

A company that has developed a format and operational procedures for a particular type of business may franchise the right to conduct such a business to a franchisee. Franchising is a way to utilize a franchisers accumulated experience and know-how. Profits are shared between the franchiser and the franchisee.

Subsidiaries and divisions

Setting up sales subsidiaries, new divisions or production plants abroad, requires a high degree of commitment to finance the offices and other facilities needed. This type of entry mode is usually selected in target markets where the potentials of sales volume warrants the costs of the investment.

Joint Ventures

Joint Ventures refers to when a firm joins with one or more partners to establish a new business abroad. This mode of entry typically requires commitment of equity and/or other assets, including management talent and intellectual property. The Joint Venture enables partners to share technological, management and marketing know-how of each other.

Strategic alliances

Strategic alliances refer to cooperative agreements between companies. These alliances can include ingredients from among others licensing arrangements or joint ventures and can range from short term contractual agreements to formal joint ventures. The establishment of strategic alliances may facilitate entry into foreign markets.

2.4 A network approach to internationalization

Collaboration in business is becoming common practice amongst firms, and these collaborations can range from informal relationships to more formal such as joint ventures (Chetty and Blankenburg Holm 2000). In order to study the internationalization of a firm, Madsen and Servais (1997) argue we need to understand the context in which it operates, such as environmental conditions and the company's relationships.

One of the more recent approaches to internationalization is the network approach which is related to the research of Johanson and Mattson (1988). According to the network approach internationalization is seen as a process in which relationships are continuously established, developed, maintained and dissolved with the aim of achieving the objectives of the company. Relationships are developed through interaction in which the parties build mutual trust and knowledge. These relationships are connected by networks consisting of several companies including customers, customers customers, competitors, supplementary suppliers, suppliers, distributors, agents, and consultants as well as regulatory and other public agencies (Johanson and Vahlne 1990).

It is assumed that without a good network in international markets the company will have problems with future growth. According to Johansson and Mattson (1988) the number and strength of the relationships in the network increases as the firm internationalizes. By internationalizing the firm creates and maintains relationships with counterparts in other countries. This can occur in three different ways: Through the establishment of relationships in country networks new to the firm (international extension), by increasing commitment in already established foreign networks (penetration) and by integrating their positions in networks in various countries (international integration).

Borch (1994) claims that strategic cooperations and alliances are sources of increased capacity of small firms in their struggle to overcome challenges of internationalization such as the problem of scarce resources.

The network perspective may be said to go beyond the models of incremental internationalization. It suggests strategies made by the company are influenced by a variety of network relationships. This means that relationships may drive, facilitate or inhibit the internationalization of a company.
A company may not only be influenced by its cooperating partners, but also the partners partners may have an affect on the firm. Network relationships may also contribute to the company's choice of foreign market and entry mode (Coviello and Munro 1997).

The importance of company and personal relationships varies in different industries and countries. According to Johanson and Vahlne (1990), networks are especially important in turbulent, high technology industries. A study by Lindqvist (1988) of the internationalization process of small high-tech companies show that some do not follow the traditional internationalization pattern, but go directly to more distant markets and more rapidly set up their own subsidiaries. A reason for this can be the entrepreneurs behind these companies having networks of colleagues dealing with the new technology.

Johanson and Mattson (1988) say internationalization processes of firms will be much faster in internationalized market conditions, because the need for coordination and integration across borders is high. The internationalization processes of firms will be much more individual and situation specific in internationalized markets. Furthermore a network approach to internationalization processes offers a valuable approach when analyzing firms such as Internet firms.

The advances in communication technology and especially the emergence of the Internet and the World Wide Web is expected to have contributed to the growing number of companies, which are international from inception. The following review will focus on research of the Internet's influence on firms' internationalization.

2.6 Internet enabled internationalization

In the early 21st century, the Internet has become the most discussed topic in business and in the media more generally (Barwise, Elberse and Hammond 2000). The views on the topic vary from that we are in the grips of an electronic business revolution (Schwartz 1999), to the notion that its is merely a part of the evolutionary process (Devinney, Coltman and Midgley 2000).

In an early study of the commercial scenarios of the Internet, Hoffmann and Novak (1995) identified several firm benefits. This included the potential of the Web as a distribution channel, a medium for marketing communications, and a market in and of itself. Although much research have been focused on the potential of the Internet as a marketing channel in general, there has been limited attention to the international aspects of the Internet and electronic business (Barwise, Elberse and Hammond 2000). The following review will focus on research on the Internet in relation to international marketing activities and internationalization of firms.

2.6.1 Predictions of Internet's effect on the internationalization of firms

In a recent paper, Petersen, Welch and Liesch (2000) discuss three general different predictions regarding the effect of the Internet and electronic business on the internationalization of firms. The three predictions are:

1. The Internet has a modest effect on foreign market expansion

2. The Internet induces faster foreign market expansion
3. The Internet causes impetuous foreign market expansion

In the first prediction the effect of the Internet on firms' foreign market expansion will be very modest based on that an important limiting factor in the internationalization process, the accumulation of experiential knowledge, remains largely unaffected by the Internet. In contrast the second prediction suggests faster foreign market expansion as a result of the "borderless marketplace" induced by the Internet. The third prediction argues Internet prompting firms to undertake faster international expansion than has been seen until now. However, attempts to penetrate foreign markets more thoroughly will reveal the "borderless marketplace to be illusory. The result being that a gradual contraction emerges as geographically diversified firms experience the serious cost disadvantage of foreignness in certain markets

The paper indicates it may not be evident what effect the Internet will have on firms foreign market expansion. As Petersen, Welch and Liesch (2000) mention, both different industries and different firms operating in the same product area may be effected in different ways and follow different predictions. The three predictions are good examples of the complexity of the discussion regarding Internets effect on international marketing.

2.6.2 Research regarding the Internet and international marketing

Only a few studies have explored marketing and the Internet in an international context. One of the first research projects investigating the issue of the Internet and International marketing in general was a study by Hamill and Gregory (1997) released a study that focused more specifically on the Internet and the internationalization of small companies. Both these studies can be described as innovative and have influenced further research in the area (Poon and Jevons 1997)(Bennet 1997). In a more recent article Samiee (1998) provided a conceptual perspective regarding exporting and the Internet. The research of Hamil and Gregory (1997) together with the work of Samiee (1998) will here be reviewed in detail.

<u>Hamill and Gregory</u>

According to Hamill and Gregory (1997) there are three main applications for the Internet in the internationalization of small and medium sized enterprises (SME). The applications are as the table below indicates network communications, market intelligence and sales promotion. Intended targets include all actors in the firm's network such as foreign customers, agents, distributors, partners, governments R&D institutions etc.

As previously mentioned it may be critical for a firm to maintain effective communications with it's network of customers, suppliers, agents and distributors in order to have a successful internationalization (Johanson and Mattson 1988, Blankenburg 1992, Blankenburg and Johanson 1992). According to Hamill (1997) the Internet provides a variety of tools for improving or supporting network communications including electronic mail, Internet Relay Chat and video conferencing.

To acquire market intelligence from the Internet is, according to Hamill and Gregory (1997), one of the most important ways in which connectivity can help small firms in their internationalization. The Internet may be a valuable source of low cost and updated market research. The relevant international marketing information on the Internet is extensive, and include online newspapers, journals, country and industry market research reports, trade lists of suppliers, agents, distributors and government contacts in a large number of countries, details on host government legislation covering imports, agency agreements, joint ventures; relevant international discussion group and several other sources for information.

The third application of using in firms internationalization is marketing and sales promotion. More and more companies all over the world are setting their own website as a mean of disseminating useful company and product specific information to potential customers, encouraging customer feedback and interaction. According to Hamill and Gregory (1997) setting up a website can, provide an attractive, low-cost method of sales promotion to global customers. Furthermore they argue that a good website may be used for advertising, corporate visibility, brand name recognition, public relations, press releases, corporate sponsorship, direct sales, customer support and technical assistance.

Samiee

Samiee (1998) states that firms, which have not been exporters, cannot expect to become exporters over night by virtue of developing and maintaining a website. He argues that developing an export-specific infrastructure is challenging and costly. International marketing also involves a wide range of considerations including meeting local product standards, target market pricing and competitive factors, legal and regulatory considerations etc.

Furthermore he argues that a sustainable competitive advantage cannot be solely derived from access to the Internet or the development of a website. As an increasing number of firms acquire the necessary skills and technology to connect to the Internet, competitive advantage is acquired through the skillful and proprietary ways in which the technology is deployed (Samiee 1998).

According to Samiee (1998) Internets applications include both being a vehicle enabling more efficient processes of conducting international business and a tool for promotion, information and communication. He suggests the use of the Internet may enable business processes, which are typically performed manually to be automated. Bidding, purchasing, inventory management, and order/shipment tracking are examples of processes that have the potential of being automated through the Internet in an international setting. The Internet can also be employed as a vehicle for revenue enhancement, for example, direct sales, promotion, and as a communications tool (Samiee 1998).

According to Samiee (1998) regular or active exporting firms are best positioned to take advantage of the full potential of the Internet for revenue generating activities such as market research, promotional activities, and sales. To reap the benefits of these activities, he believes high commitment is needed in order to develop an Internet infrastructure including the staff to maintain the firm's multi-language sites for all of its intended target markets.