Born Global Firms and the Valuation Effect of Overseas Expansions

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1. Introduction

- Born global firms (BGs)

: the small and medium-sized ones that seek aggressive overseas expansions at or near their inception (Rennie, 1993; Oviatt and McDougall, 1994; Knight and Cavusgil, 1996, among others)

1. Introduction

- The phenomenon of early overseas expansions is directly opposite to the traditional view of gradual internationalization that international businesses have been dominated by large and well-organized multinationals, and spurred an array of studies to identify the success factors of BGs (Madsen and Servais, 1997; Knight and Cavusgil, 2004, Knight and Liesch, 2016).

- Overseas expansions by the firms are not always rewarding because they would inevitably face the liability of foreignness (LOF) because of the environmental unfamiliarity, coordination costs across different geographic regions, and the differences in politics, economy and culture. Although all the firms seeking overseas markets would face some degrees of LOF, <u>the BGs, which are generally lack in financial and human resources, would face higher degree of LOF, and consequently need pay higher costs to overcome the liability than the larger firms do.</u>

1. Introduction

- Especially for the BGs, it would be an empirical question whether or not the overseas expansions would provide a better performance and ultimately lead to higher corporate value.

- It would be an interesting extension of previous studies in that BGs tend to pay higher cost to overcome the LOF than the larger multinationals do, and therefore tend to have higher failure rate (Sleuwaegen and Onkelinx, 2014) and have lower profitability (Kim et al., 2020).

- Therefore, how the market value the early and aggressive overseas expansion is an empirical question.

2. Literature Review

- Born Global Firms

✓ The early and rapid internationalization of BGs have drawn the attention of many studies (Oviatt and McDougall, 1994, 1997; Autio et al., 2000; Andersson and Wictor, 2003; Acedo and Jones, 2007; Onetti and Oderici, 2008; Cha and Kim, 2009; Park and Kim, 2014, Kim et al., 2020 among others). They have explained these firms' success with the factors such as entrepreneurship, organizational nature, and external environment.

✓ The role of entrepreneur in pursuing overseas penetration is well recognized in the literature especially for the BGs, which are generally small with limited resources. Entrepreneurial character and experience are important in the process of internationalization because they see opportunities in foreign markets, and thus are willing to take the risk of overseas expansions.

✓ One of the important external environment factors for the BGs is the host government's policy about ventures and overseas investments (Bell et al., 2003, Liu, 2017). The condition of domestic market such as excessive competition and diminution of domestic market is also key external factor for the BGs to seek the rapid internationalization and to achieve higher performance (Moen, 2002 Fan and Phan, 2007, Taylor and Jack, 2016).

2. Literature Review

- Overseas Expansion and Valuation

✓ Stock market-based measures represent the value of a firm in terms of its equity price, which is what investors care about (Christpohe and Lee, 2005; Lee et al, 2015). Thus, these measures posit that all business activities and the value of firms' assets are ultimately reflected in stock prices under the assumption of Fama's (1970) efficient market hypothesis.

✓ Recently, some studies have provided empirical evidence that BGs tend to show higher growth potential but their profitability is not high enough compared to their non-BGs counterparts.

✓ Accessing the stock market evaluation of BGs would be an interesting extension of previous studies of the value relevance of overseas expansion, which are mainly focused on the large multinational firms.

3. Research Model and Data

- Research Model

  ✓ $$MV_{i,t+1} = \beta_0 + \beta_1 BPS_{i,t} + \beta_2 EPS_{i,t} \quad (1)$$

where $MV_{i,t+1}$ is the market value of a firm i at time $t+1$, $BPS_{i,t}$ is the net book value of assets per share of firm i at time t, and $EPS_{i,t}$ is the earning per share of a firm i at time t.

✓ $$MV_{i,t+1} = \beta_0 + \beta_1 BPS_{i,t} + \beta_2 EPS_{i,t} + \beta_3 v_{i,t} \quad (2)$$

✓ $$MV_{i,t+1} = \beta_0 + \beta_1 BPS_{i,t} + \beta_2 EPS_{i,t} + \beta_3 OE_{i,t} + \epsilon_{i,t} \quad (3)$$

3. Research Model and Data

- Data

✓ The sample in this study includes manufacturing firms included in venture section of KODAQ as of the end of 2019. Among the listed firms we classified the BGs as the firms that have started their overseas operations within three years from the inception of the firm and achieved at least 25% of the sales from the overseas businesses.

✓ Their share prices, book values of net assets per share, earnings per share, foreign sales and foreign assets are obtained from the KisValue, a database of listed Korean firms. The share prices are those at the end of March of the following year because the share prices of t+1 based on Ohlson's model (Equation 3) are included in analysis.

4. Expected Contribution

- This paper would provide a unique evidence by studying the internationalization and valuation from the perspective of BGs which are different from the large multinational firms in many aspects including size, financial and human resources, and the time and scope of internationalization.