ENTREPRENEURSHIP

The Global Entrepreneur

A new breed of entrepreneur is thinking across borders—from day one.

by Daniel J. Isenberg

Originally published in December 2008

FOR A CENTURY and more, companies have ventured abroad only after establishing themselves at home. Moreover, when they have looked overseas, they haven't ventured too far afield, initially. Consumer health care company Johnson & Johnson set up its first foreign subsidiary in Montreal in 1919—33 years after its founding in 1886. Sony, established in 1946, took 11 years to export its first product to the United States, the TR-63 transistor radio. The Gap, founded in 1969—the year Neil Armstrong walked on the moon—opened its first overseas store in London in 1987, a year after the *Challenger* space shuttle disaster.

Companies are being born global today, by contrast. Entrepreneurs don't automatically buy raw materials from nearby suppliers or set up factories close to their headquarters. They hunt for the planet's best manufacturing locations because political and economic barriers have fallen and vast quantities of information are at their fingertips. They also scout for talent across the globe, tap investors wherever they may be located, and learn to manage operations from a distance—the moment they go into business.

Getty Images

Take Bento Koike, who set up Tecsis to manufacture wind turbine blades in 1995. The company imports raw materials from North America and Europe, and its customers are located on those two continents. Yet Koike created his globe-girding start-up near São Paulo in his native Brazil because a sophisticated aerospace industry had emerged there, which enabled him to develop innovative blade designs and manufacturing know-how. Tecsis has become one of the world's market leaders, having installed 12,000 blades in 10 countries in the past decade and racked up revenues of $350 million in 2007.

Standing conventional theory on its head, start-ups now do business in many countries before dominating their home markets. In late 2001, Ron Zwanziger, David Scott, and Jerry McAleer teamed up to launch their third medical diagnostics business, even though Zwanziger lives in the United States and Scott and McAleer live in England. They started Inverness Medical Innovations by retaining the pieces of their company that Johnson & Johnson didn't acquire and immediately gained a presence in Belgium, Germany, Ireland, Israel, the United Kingdom, and the United States. The troika didn't skip a beat. In seven years, they wanted to grow the new venture into an enterprise valued at $7 billion and believed that being born global was the way to do it. They're getting there: Inverness Medical's assets were valued at $5 billion as of August 2008.

Today's entrepreneurs cross borders for two reasons. One is defensive: To be competitive, many ventures, like Tecsis and Inverness Medical, have to globalize some aspects of their business—manufacturing, service delivery, capital sourcing, or talent acquisition, for instance—the moment they start up. That may sound obvious today, but until a few years ago, it was standard practice for U.S. venture capitalists, in particular, to require that the companies they invested in focus on domestic markets.

How Diaspora Networks Help Start-Ups Go Global

Many entrepreneurs have taken advantage of ethnic networks to formulate and execute a global strategy. The culture, values, and social norms members hold in common forge understanding and trust, making it easier to establish and enforce contracts.

Through diaspora networks, global entrepreneurs can quickly gain access to information, funding, talent, technology—and, of course, contacts. In the late 1990s, for instance, Boston-based Desh Deshpande, who had set up several high-tech ventures in the United States, was keen to start something in his native India. In April 2000, he met an optical communications expert, Kumar Sivarajan, who had worked at IBM's Watson Research Center before returning to India to take up a teaching position at the Indian Institute of Science in Bangalore. Deshpande introduced Sivarajan to two other Indians, Sanjay Nayak and Arnob Roy, who had both worked in the Indian subsidiaries of American high-tech companies. The trust among the four enabled the creation of the start-up Tejas Networks in two months' time. Deshpande and Sycamore Networks, the major investors, wired the initial capital of $5 million, attaching few of the usual conditions to the investment. Tejas Networks has become a leading telecommunications equipment manufacturer, generating revenues of around $100 million over the past year.

The research that my Harvard Business School colleague William Kerr and I have done suggests that entrepreneurs who most successfully exploit diaspora networks take these four steps:

Map networks. The members of a diaspora often cluster in residential areas, public organizations, or industries. For instance, in Tokyo, Americans tend to work for professional service firms such as Morgan Stanley and McKinsey, live in Azabu, shop in Omotesandō, and hang out at the American Club.

Identify organizations that can help. Many countries have offices overseas that facilitate trade and investment, and they open their doors to people visiting from home. These organizations can provide the names of influential individuals, companies, and informal organizations, clubs, or groups.

Tap informal groups. Informal organizations of ethnic entrepreneurs and executives are usually located in communities where immigrant professionals are concentrated. In the United States, for instance, they thrive in high-tech industry neighborhoods such as Silicon Valley or universities like MIT.

Identify the influentials. It can be tough to identify people who have standing with local businesses and also within the diaspora network. A board member or coach that both respect is an invaluable resource for a would-be entrepreneur.

The other reason is to take the offense. Many new ventures are discovering that a new business opportunity spans more than one country or that they can use distance to create new products or services. Take RacingThePlanet, which Mary Gadams founded in 2002 to stage marathons, each 250 kilometers long and lasting seven days, in the world's most hostile environments. Her team works out of a small Hong Kong office, but the company operates in the Gobi Desert in Mongolia, the Atacama Desert in Chile, the Sahara Desert in Egypt, and Antarctica. Distance has generated the opportunity: If the deserts were accessible, participants and audiences would find the races less attractive, and the brand would be diluted. RacingThePlanet isn't just about running; it's also about creating a global lifestyle brand, which Gadams uses to sell backpacks, emergency supplies, clothing, and other merchandise, as well as to generate content for the multimedia division, which sells video for websites and GPS mapping systems. The company may be just six years old, but brand awareness is high, and RacingThePlanet is already profitable.

In this article, I'll describe the challenges start-ups face when they are born global and the skills entrepreneurs need to tackle them.

Key Challenges

Global entrepreneurs, my research shows, face three distinct challenges.

Distance. New ventures usually lack the infrastructure to cope with dispersed operations and faraway markets. Moreover, physical distances create time differences, which can be remarkably tough to navigate. Even dealing with various countries' workweeks takes a toll on a start-up's limited staff: In North America, Europe, China, and India, corporate offices generally operate Monday through Friday. In Israel, they're open Sunday through Thursday. In Saudi Arabia and the UAE, the workweek runs Saturday through Wednesday, but in other predominantly Muslim countries like Lebanon, Morocco, and Turkey, people work from Monday through Friday or Saturday.

A greater challenge for global entrepreneurs is bridging what the British economist Wilfred Beckerman called in 1956 "psychic distance." This arises from such factors as culture, language, education systems, political systems, religion, and economic development levels. It can heighten—or reduce—psychological barriers between regions and often prompt entrepreneurs to make counterintuitive choices. Take the case of Encantos de Puerto Rico, set up in 1998 to manufacture and market premium Puerto Rican coffee. When founder-CEO Angel Santiago sought new markets in 2002, he didn't enter the nearby U.S. market but chose Spain instead. That's because, he felt, Puerto Ricans and Spaniards have similar tastes in coffee and because of the ease of doing business in Spanish, which reduced the psychic distance between the two countries. When two years later, Encantos de Puerto Rico did enter the United States, it focused initially on Miami, which has a large Hispanic population.

Context. Nations' political, regulatory, judicial, tax, environmental, and labor systems vary. The choices entrepreneurs make about, say, where to locate their companies' headquarters will affect shareholder returns and also their ability to raise capital. When the husband-and-wife team of Andrew Prihodko, a Ukrainian studying at MIT, and Sharon Peyer, a Swiss-American citizen studying at Harvard, set up an online photo management company, they thought hard about where to domicile Pixamo. Should they incorporate it in Ukraine, which has a simple and low tax structure but a problematic legal history? Or Switzerland, where taxes are higher but the legal system is well established? Or Delaware, where taxes are higher still but most U.S. start-ups are domiciled? Prihodko and Peyer eventually chose to base the company in the relatively tax-friendly Swiss canton of Zug, a decision that helped shareholders when they sold Pixamo to NameMedia in 2007.

Some global entrepreneurs must deal with several countries simultaneously, which is complex. In 1994, Gary Mueller launched Internet Securities to provide investors with data on emerging markets. Three years later, the start-up had offices in 18 countries and had to cope with the jurisdictions of Brazil, China, and Russia on any given day. By learning to do so, Internet Securities became a market leader, and in 1999, Euromoney acquired 80% of the company's equity for the tidy sum of $43 million.

Customers expect start-ups to possess the skills and deliver the levels of quality that larger companies do.

Resources. Customers expect start-ups to possess the skills and deliver the levels of quality that larger companies do. That's a tall order for resource-stretched new ventures. Still, they have no option but to do whatever it takes to retain customers. In 1987, Jim Sharpe acquired a small business, XTech, now a manufacturer of faceplates for telecommunications equipment. Initially, the company made its products in the United States and sold them overseas through sales representatives and distributors. However, by 2006, Cisco, Lucent, Intel, IBM, and other XTech customers had shifted most of their manufacturing to China. They became reluctant to do business with suppliers that didn't make products or have customer service operations in China. So Sharpe had no choice but to set up a subsidiary in China at that stage.

ARTICLE

AT A GLANCE

THE IDEA IN BRIEF

- More and more start-ups are being born global.
- By tapping resources or serving customers across nations, entrepreneurs can take on larger rivals, chase global opportunities, and use distance to create new products or services.
- Distances, differences in cultural contexts, and paucity of resources are the main challenges new ventures face.
- Successful entrepreneurs are clear in their purpose, strike alliances from positions of weakness, are able to manage global supply chains, and can establish multinational organizations from the outset.

Competencies Global Entrepreneurs Need

All entrepreneurs must be able to identify opportunities, gather resources, and strike deals. They all must also possess soft skills like vision, leadership, and passion. To win globally, though, they must hone four additional competencies.

Articulating a global purpose. Developing a crystal clear rationale for being global is critical. In 1999, for example, Robert Wessman took control of a small pharmaceuticals maker in his native Iceland. Within weeks, he concluded that the generics player had to globalize its core functions—manufacturing, R&D, and marketing—to gain economies of scale, develop a large product portfolio, and be first to market with drugs as they came off patent. Since then, Actavis has entered 40 countries, often by taking over local companies. Wessman faced numerous hurdles, but he stuck to the strategy. Actavis now makes 650 products and has 350 more in the pipeline. In 2007, it generated revenues of $2 billion and had become one of the world's top five generics manufacturers.

Alliance building. Start-ups can quickly attain global reach by striking partnerships with large companies headquartered in other countries. However, most entrepreneurs have to enter into such deals from positions of weakness. An established company has managers who can conduct due diligence, the money to fly teams over for meetings, and the power to extract favorable terms from would-be partners. It has a reasonable period within which to negotiate a deal, and it has options in case talks with one company fail. A start-up has few of those resources or bargaining chips.

Start-ups also have problems communicating with global partners because their alliances have to span geographic and psychic distances. Take the case of Trolltech, an open-source software company founded in 1994 in Oslo by Eirik Chambe-Eng and Haavard Nord. In 2001, the start-up landed a contract to supply a Japanese manufacturer with a Linux-based software platform for personal digital assistants (PDAs). The dream order quickly turned into a nightmare. There were differences between what the Japanese company thought it would get and what the Norwegian supplier felt it should provide, and the start-up struggled to deliver the modifications its partner began to demand. Suspecting that Trolltech wouldn't deliver the software on time, the Japanese company offered to send over a team of software engineers. However, when it suggested that both companies work through the Christmas break to meet a deadline—a common practice in Japan—Trolltech refused, citing the importance of the Christmas vacation in Norway. The relationship almost collapsed, but Chambe-Eng and Nord managed to negotiate a new deadline that they could meet without having to work during the holiday season.

Supply-chain creation. Entrepreneurs must often choose suppliers on the other side of the world and monitor them without having managers nearby. Besides, the best manufacturing locations change as labor and fuel costs rise and as quality problems show up, as they did in China.

Even start-ups can thrive by using distance to gain competitive advantage.

Start-ups find it daunting to manage complex supply networks, but they gain competitive advantage by doing so. Sometimes the global supply chain lies at the heart of the business opportunity. Take the case of Winery Exchange, cofounded by Peter Byck in 1999. The California-based venture manages a 22-country network of wineries and breweries. Winery Exchange works closely with retail chains, such as Kroger, Tesco, and Costco, to develop premium private-label products, and it gets its suppliers to produce and package the wines as inexpensively as possible. The venture has succeeded because it links relatively small market-needy suppliers with mammoth product-hungry retailers and provides both with its product development expertise. In 2006, Winery Exchange sold 2 million cases of 330 different brands of wine, beer, and spirits to retailers on four continents.

In addition to raw materials and components, start-ups are increasingly buying intellectual property from across the world. Hands-On Mobile, started by David Kranzler, is a Silicon Valley–based developer of the mobile versions of Guitar Hero III, Iron Man, and other games. When the company started in 2001, the

How Social Entrepreneurs Think Global

Atsumasa Tochisako is an unlikely entrepreneur. When he was in his mid-fifties, he left a senior position at the Bank of Tokyo-Mitsubishi to set up Microfinance International, a global for-profit social enterprise (FOPSE, for short), based in Washington, D.C. Having also been stationed in Latin America for many years, Tochisako had observed the large cash remittances coming from immigrants in the United States, as well as the exorbitant charges they paid commercial banks and the poor service they received. Sensing a business opportunity and the chance to do some good, he decided to provide immigrant workers with inexpensive remittance, check-cashing, insurance, and microlending services.

MFI was international from its birth in June 2003, with operations in the United States and El Salvador. Since then, it has expanded into a dozen Latin American countries and further extended its reach by allowing multinational financial institutions, such as the UAE Exchange, to use its proprietary Internet-based settlement platform.

Like Tochisako, many entrepreneurs today combine social values, profit motive, and a global focus. Social entrepreneurs are global from birth for three reasons. First, disease, malnutrition, poverty, illiteracy, and other social problems exist on a large scale in many developing countries. Second, the resources—funds, institutions, and governance systems—to tackle those issues are mainly in the developed world. Third, FOPSEs that tackle specific conditions can often be adapted to other countries. For instance, in 2002, Shane Immelman founded The Lapdesk Company to provide portable desks to South African schoolchildren, a third of whom are taught in schoolrooms that don't have adequate surfaces on which to write. The company asks large corporations in South Africa to donate desks—with some advertising on them—for entire school districts. By doing so, these companies are able to meet the South African government's requirement that they invest part of their profits in black empowerment programs. Since then, Immelman has adapted the business model to Kenya, Nigeria, and the Democratic Republic of Congo and has launched programs in India and Latin America.

There are no easy answers to the challenges of managing a start-up in the topsy-turvy world of global entrepreneurship. In some cases, there are contingencies that no textbook provides answers for.

markets for mobile multimedia content were developing faster in Asia and Europe than in the United States, and gamers were creating attractive products in China, South Korea, and Japan. Kranzler realized that his company had to acquire intellectual property and design capacity overseas in order to offer customers a comprehensive catalog of games and the latest delivery technologies. Hands-On Mobile therefore picked up Mobile-Game Korea, as well as two Chinese content development companies, which has helped it become a market leader.

Multinational organization. In 2006, I conducted a simulation exercise called the Virtual Entrepreneurial Team Exercise (VETE) for 450 MBA students in 10 business schools in Argentina, Austria, Brazil, England, Hong Kong, Liechtenstein, the Netherlands, Japan, and the United States. The teams, each composed of students from different schools and different countries, developed hypothetical pitches for Asia Renal Care, a Hong Kong–based medical services start-up, that had raised its first round of capital in 1999. They experienced a slice of global entrepreneurial life in real time, using technologies like Skype, wikis, virtual chat rooms, and, of course, e-mail to communicate with one another. The students learned how to build trust, compensate for the lack of visual cues, respect cultural differences, and deal with different institutional frameworks and incentives—the competencies entrepreneurs need for coordination, control, and communication in global enterprises. The would-be entrepreneurs' emotions ranged from elation to frustration, and their output varied from good to excellent.

Start-ups cope with the challenges of managing a global organization in different ways. Internet Securities used a knowledge database to share information among its offices around the world, increasing managers' ability to recognize and solve problems. RacingThePlanet used intensive training to ensure that volunteers perform at a consistently high level during the events it holds. Trolltech worked round the clock to meet deadlines, passing off development tasks from teams in Norway to those in Australia as the day ends in one place and begins in the other. Inverness Medical hired key executives wherever it could and organized the company around them rather than move people all over the world.

Still, there are no easy answers to the challenges of managing a start-up in the topsy-turvy world of global entrepreneurship. Take the case of Mei Zhang, who founded WildChina, a high-end adventure-tourism company in China, in 2000. Three years later, Zhang hired an American expatriate, Jim Stent, who had a deep interest in Chinese history and culture, as her COO. Zhang moved to Los Angeles in 2004, anointing Stent as CEO in Beijing and appointing herself chairperson. Thus, a Chinese expatriate living in the United States had to supervise an American expatriate living in Beijing. And when the two amicably parted ways in 2006, Zhang started managing the Chinese company from Los Angeles. These are contingencies no textbook provides for.

ENTREPRENEURS SHOULDN'T FEAR the fact that the world isn't flat. Being global may not be a pursuit for the fainthearted, but even start-ups can thrive by using distance to gain competitive advantage.

FURTHER READING

ARTICLE

Priceline's CEO on Creating an In-House Multilingual Customer Service Operation
by Darren Huston
HBR, April 2016
Product no. R1604A
Huston describes how to operate optimally in a global consumer-facing business: Speak the language of your customers, wherever they are.

HBR CASE STUDY

Where to Launch in Africa?
by Eugene Soltes
HBR, July–August 2014
Product no. R1407M
An ambitious executive is about to leave his employer to launch his own Pan-African venture. Should he start up in a rapidly growing but already competitive market or in a series of smaller, untapped markets? Two experts offer commentary.

More Reading @ HBR.org

Daniel J. Isenberg is a professor of entrepreneurship practice at Babson Executive Education in Boston, an adjunct professor at Columbia Business School, and an associate of the Harvard Kennedy School Growth Lab. He is the author of *Worthless, Impossible, and Stupid: How Contrarian Entrepreneurs Create and Capture Extraordinary Value* (Harvard Business Review Press, 2013).

HBR Reprint R0812J