Born-global firms: the case of Argentine videogame SMEs

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Introduction

In 2018, the first national survey of the Argentine Video Game Industry was conducted. Within it, a section was added to identify companies that present the characteristics of a born global (BG) company, knowing a priori that the technology sector, with strong innovation and entrepreneurial components such as the videogame industry, tends to favor the generation of this type of companies.

The present work proposes to incorporate the born global theory to the study of SMEs in an industry that has not been highly researched in our country and that has taken greater relevance with the passage of time, both nationally and internationally. It is believed that, under the strong national policy of promoting exports that is currently being promoted in Argentina, the born-global approach can shed light on the differential aspects of the videogame industry in particular and, thus, give way to proposals for policies for the development of video game and software SMEs in our country.

Theoretical framework

The born global companies (BG) have been studied since the 1990s (Mcdougall, Shane, & Oviatt, 1994, McKinsey and Company & Australian Manufacturing Council, 1993). Since then numerous works have been proliferating that study this type of companies and their particularities. Examples of this are studies that have focused on the study of BG SMEs, where features such as innovation and entrepreneurship are usually fundamental for the rapid insertion in a global market in this type of companies (Knight & Cavusgil, 2005; Mcdougall & Oviatt, 2000). In particular, in this work we define BG companies as those that before two years of their conception are inserted in the international market looking for the development of competitive advantages (Freeman, Edwards, & Schroder, 2006; McKinsey and Company & Australian Manufacturing Council, 1993).

At the same time, it has been studied that the characteristics of the industry where the company is located will play an important role in promoting the generation of BG. In particular, the technology sector encourages the emergence of BG due to its development in a dynamic environment, with easy access to information and communication technologies (ICTs), and a strong innovation component (Nardali, 2017), fundamental characteristics of BG firms (Knight & Cavusgil, 2004).

Our work focuses on SMEs in the videogame industry; industry characterized by being knowledge intensive, where the low marginal costs of replicating a product such as software enable the rapid insertion of small companies in the international market (Lopez, Kundu, & Ciravegna, 2009). Likewise, the size of the company has also been studied in the literature on BG (Mcdougall et al., 1994) and, in particular, it has been found that SMEs can react more quickly and efficiently than large companies in order to exploit the opportunities of an international market (Freeman et al., 2006; Knight & Cavusgil, 2004; Zhou, Wu, & Luo, 2007).

While there are several studies on BG companies within the technology industry, to date there are no studies that relate the BG literature with the video game industry in particular. The videogame industry has acquired particular importance in the last decade, due in part to the fact that since 2010 it generates higher revenues than the music and film industries combined (Newzoo, 2018).

Methodology

The information provided for the present work was collected from the First Survey of the Video Game Industry conducted by the Observatory of the Argentine Video Game Industry (2018), located at the National University of Rafaela (UNRaf), in collaboration with the Association of Videogame Developers of Argentina (ADVA).

Through ADVA connections, the largest possible number of video game studios in Argentina was identified. The survey reached a total of 39 studies, considered by ADVA a high proportion of all videogame studios established in the country. As a collection instrument, a questionnaire was used with closed questions, formulated in a clear, concrete and precise manner (Gil, 2008).

The questionnaire focused on several aspects, including consulting about human capital of videogame studios. Knowing that human capital, partly due to the intellectual capital they entail, is crucial for the good performance of an organization (Stewart & Ruckdeschel, 1998) and plays a critical role in companies that are rapidly internationalized (Onkelinx, Manolova, & Edelman, 2016), we inquired about the number of employees, dedication and type of work they perform. In this regard, those hired on a freelance basis were also identified, knowing that internationalized technology companies often use this modality obtaining greater competitive advantages (Acs, Morck, Shaver, & Yeung, 1997).

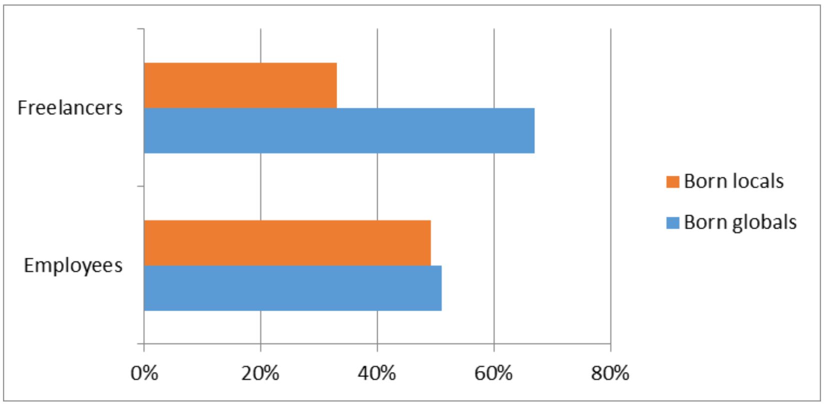
We also consulted about billing amounts, as measures of company performance (Palepu, 1985); and on export barriers, both internal and external (Buckley, 1989), due to its possible impact on the export behavior of companies, whether measured objectively or as a measure of subjective perception (García Pérez & Avella Camarero, 2007, Milanzi, 2012).

Findings

Of the total number of video game studios surveyed, 69% make exports either of services with revenue share, services without revenue share or sale of their own video games. The largest proportion of exports are concentrated in the regions of the United States and Canada, and Europe. In turn, of these export companies, 61% are BG companies, that is, they were inserted in the international market between the first two years after their creation. We will call the remaining companies born locals (BL).

On average, the companies started their activities in 2013, being the year of incorporation of the oldest BG company in 2005, and of the BL in 2002. Regarding the number of employees, the BG companies proved to have a greater number of employees in relation of dependency and freelancers, the latter being a difference of approximately double (Fig. 1).

Fig. 1. Percentage of employees and freelancers



We also consult on the professional role of the worker within the company, distinguishing between employees and freelancers. In the case of employees (Fig. 2), BL companies outnumber BGs in almost all cases, with the greatest differences in administrative epmloyees, programmers and graphic artists. In the case of freelancers (Fig. 3), the BG companies are the ones that outperform the BL in the majority of cases, with the biggest differences in the roles of programmers and graphic artists. Comparing both figures, we observe a clear tendency of the BG to hire freelancers in contrast to the BL to hire employees.

Fig. 2. Professional role of employees

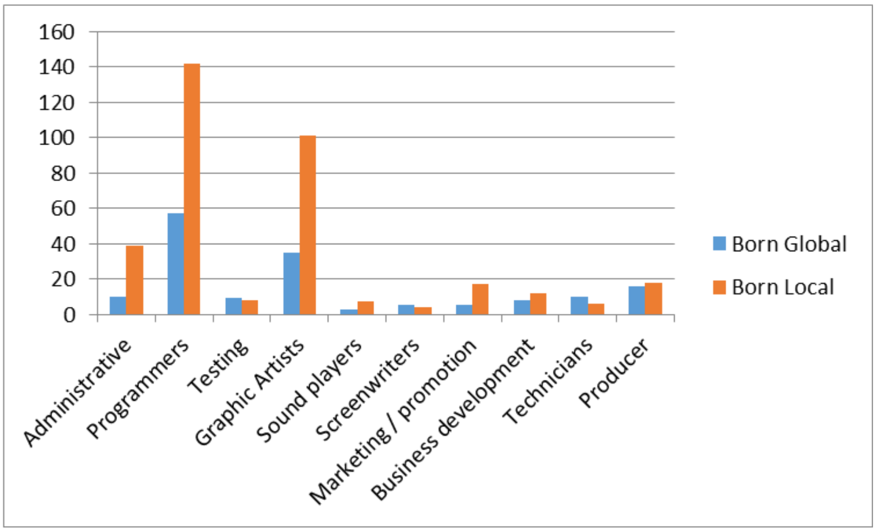
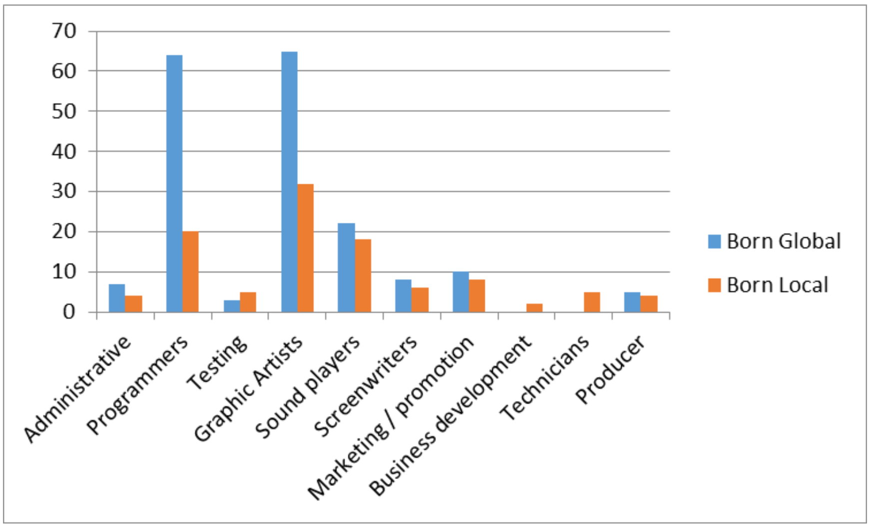


Fig. 3. Professional role of freelancers



Likewise, if we look at the turnover volume (Fig. 4 and 5), the BG companies have in proportion a greater number of companies that invoice larger amounts, however, within the BL we find the maximum billing values of this sample. In addition, if we classify companies in the SME category according to the billing amount according to Resolution 154/2018 of the Ministry of Production[1] (Fig. 6), we observe minimum differences

[1] In: https://www.argentina.gob.ar/noticias/nuevas-categorias-para-ser-pyme

between born global and locals and their percentage share in each of the sizes by SME category. It was also asked what were the expectations of variation in its turnover for the following year, it is observed that the BG companies were more optimistic, foreseeing an average positive variation in their turnover of 119%, against a variation in the same direction of 76% for the BL.

Fig. 4. Billing volume born global companies

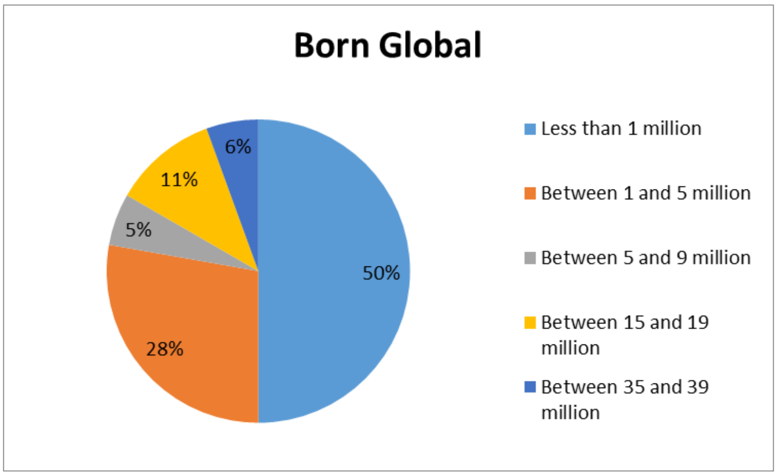


Fig. 5. Billing volume born local companies

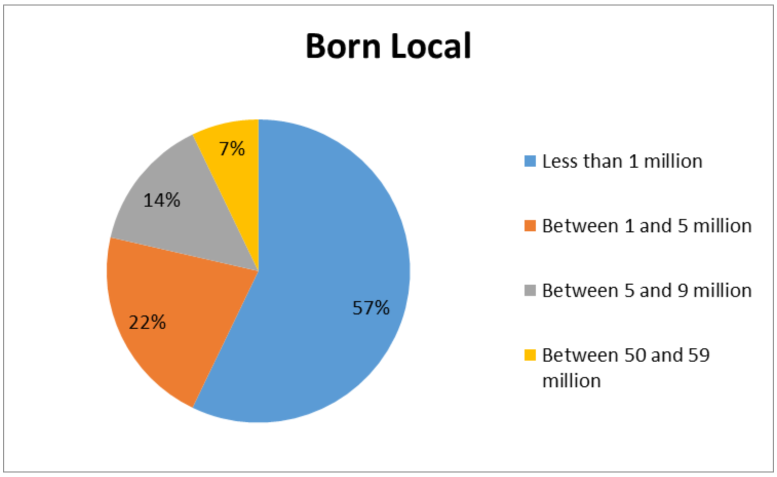
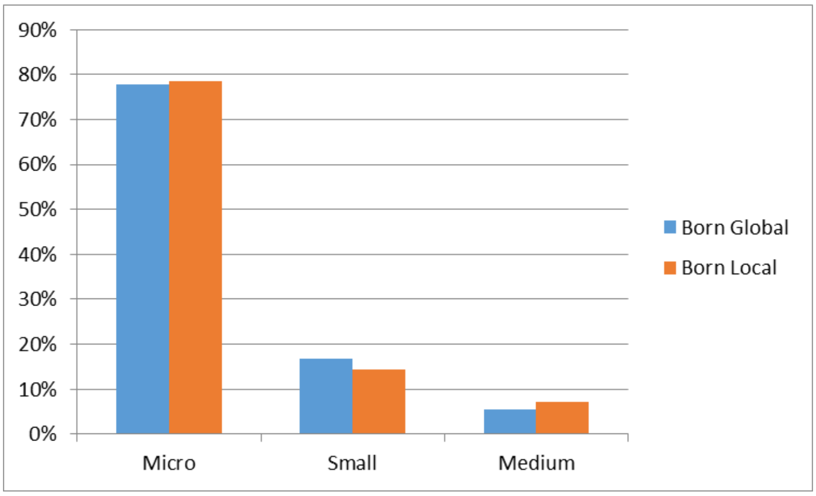
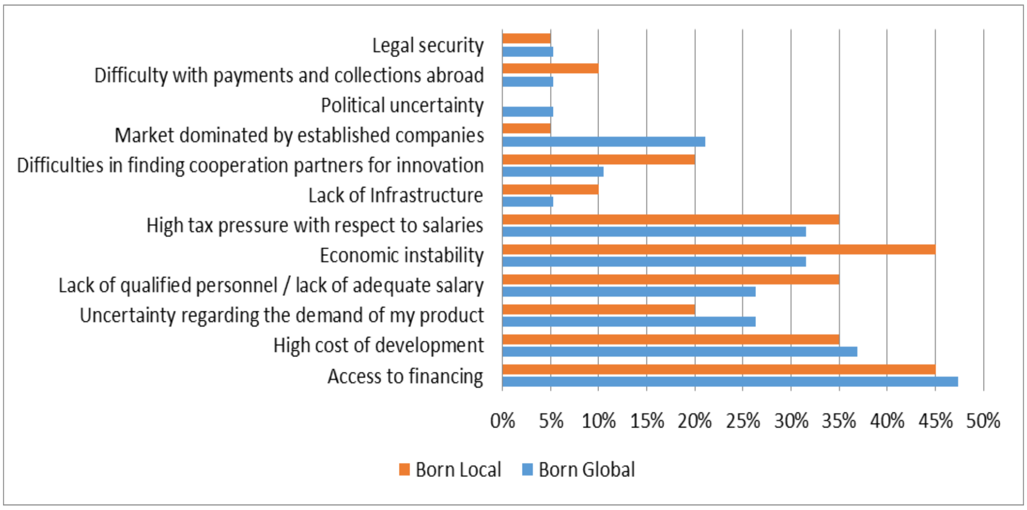


Fig. 6. SME classification according to billing



We asked the videogame studios what they consider to be the main obstacles to their activity (Fig. 7). On the one hand, BG companies differed from the rest by highlighting the following difficulties: market dominated by established companies, uncertainty regarding product demand, and political uncertainty. On the other hand, the BL companies highlighted as main obstacles: economic instability, the lack of qualified personnel, and difficulties in finding cooperation partners for innovation.

Fig. 7. Main obstacles



If we only concentrate on the analysis of BG companies, we see that in its first year of operation, companies exported an average of 73.11% of their production, where 47% of BG companies exported all of their production in that first year. In addition, it is interesting to note that 68% of BGs firms had the United States as their first foreign country of destination.

Analyzing in greater depth, we observe that, in addition to the United States, the first countries of destination of the video game BG companies are from Europe, such as England, Germany and Spain. Canada also appears on some occasions and, to a lesser extent, some bordering countries, such as Brazil, Chile and Uruguay.

Finally, the companies were also asked about the main determinants when carrying out their first operation abroad. On the part of the BG companies, the main outstanding determinant was the ability to have trained human resources in operations in external markets, followed by low legal entry barriers in the country of destination and, thirdly, the support of public policies. As for the rest of the exporting companies, but which are not within the BG, the main determining factor was the need to search for a larger market, followed by the product or service was originally intended for an external market, and the low legal entry barriers of the destination country in third place.

Implications

It has been observed that there are indeed differences between videogame BG and BL companies. Through the interpretation of the collected data, various issues have come to light that could be investigated in greater depth. Next we will mention some of those most relevant characteristics observed.

In relation to the obstacles, the ones highlighted by the BL are those that can usually be overcome as long as one is inserted in an international market. For example, the effects of local economic instability can be neutralized if the company's market goes beyond the local borders; and, on the other hand, the lack of qualified personnel, as well as the difficulty in finding cooperation partners for innovation, may not be a problem for those companies that since its conception observe the rest of the world not only as a market, but as an important opportunity for the development of networks and the search for human resources with capacities that are not found at the local level. This last point also coincides with the largest number of freelancers hired by BG companies (Fig. 1).

When the first foreign destinations of the BG companies were studied, it is observed that, unlike the findings of other works of similar industries (Lopez et al., 2009), the bordering countries or countries in that region are not the main markets of destination. This may be due to the fact that, in the video game industry, what is commercialized is mainly software, so that, since it is not a physical asset, the transportation cost limitation is significantly reduced. Therefore, this may promote the possibility of videogame company to focus on markets with greater purchasing power and with greater possibility of value appropriation, despite the cultural distance. On the other hand, since these firms also provide services, developed countries tend to outsource services to countries where labor is qualified but less expensive, as in the case of Argentina.

Within the determinants of the BG at the time of entering the external market for the first time, it is worth noting that the companies differentiated the importance of specialized human resources in exports, and the support of public policies. These two points have policy implications for a country like Argentina, which has recently established the development of its exports as a priority goal.

The objective of this work was to conduct a first exploratory approach to the Argentine video game industry in relation to the BG research literature. A high percentage of BG companies have been found in this particular industry and data has been collected that opens up several future research lines. One of them is the possibility of delving into the investigation of possible differences between video game BG and BL firms in performance issues. On the other hand, Argentine SMEs tend to be companies more sensitive to economic cycles compared to large companies; a time series study could gather information on differences between internationalized companies and local companies in terms of resilience, in order to test whether the promotion of BG companies in an economy like ours is a plausible policy to reduce the failure rate of SMEs firms.

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