

Born Digital. Born Global.

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A firm’s digital capabilities can be critical to its ability to do business abroad. Digital capabilities can include a “combination of manufacturing and service industries that use creativity, talent, and digital skills to transmit, and display data and information electronically”¹. Canadian small and medium enterprises (SMEs) comprise 99.8% of Canada’s business landscape but only 19% of businesses have gone digital in Canada². Therefore, SMEs can be divided into two groups:

- 1** Companies (usually established in traditional industries) that gradually adopt digital capabilities
- 2** Companies that were born digital

SMEs that are born digital typically operate in technology-based industries and are known for shortened life cycles, high R&D costs, and often find an accelerated connection to international markets. On the other hand, traditional industries including manufacturing, construction, resource extraction, and healthcare are often trying to gradually incorporate digital functions into a firm’s existing operations. These gradual-digital firms may face challenges and barriers to adopting digital, and by extension, impeding success in international markets.

Gradual-Digital Firms

Gradual-digital firms may face numerous barriers in adopting digital capabilities. Taking the traditional insurance industry as an example, both small-medium and large Canadian insurers that typically operate in a paper-dominant environment are currently trying to scale their digital capabilities. In order to compete and appeal to a growing geography of customers, insurers are looking to chatbots, digital claims intake, stronger enterprise resource planning (ERP) systems, and data analytics throughout their underwriting and claims processes. This process is expensive and lengthy, requiring capital and talent. The following survey assessed small and medium Canadian insurance firms on their largest barriers to adopting further digital technology.

Canadian insurance-based SMEs most commonly name lack of technical expertise, security concerns, and high costs as barriers to digitization:

Lack of technical expertise and in-house personnel	22.8%
Security concerns	21.8%
Cost of tech and implementation are too high	21.1%
Not enough evidence of strong ROI	19.7%
Unaware of what technologies exist in the market	13.0%
New systems not compatible with existing systems	7.3%

¹ <https://www.ic.gc.ca/eic/site/098.nsf/eng/00024.html>

² <https://www.bdc.ca/en/articles-tools/blog/digital-sme>

Employee resistance to new technology	6.5%
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Table 1 - Small, Canadian insurance firms' barriers to going digital³

Canadian insurance-based SMEs that did make technological investments prioritized the following upgrades:

Any capital expenditure on Information and communications technology in past 3 years	51.3%
Computer hardware	47.4%
Off-the-shelf hardware	32%
Customized computer software	15.6%
Network operating systems	18.3%

Table 2 - Small, Canadian insurance firms' digital investments⁴

Therefore, Canadian SME insurance firms seeking digital investments faced barriers related to talent and cost, however those that made investments sought out hardware to advance digital capabilities. Despite the shifting focus towards digital, born digital firms competing in the same industry may still possess an advantage and enhanced global reach given their unique digital ecosystem based on in-house technical capabilities, digital familiarity, and a robust technical infrastructure of ICT, hardware, and software (as illustrated in the examples below).

Born Digital Firms

When considering a born digital firm, a distinguishing feature is its reliance on an internal digital infrastructure. Born digitals have business models that operate largely in a digital space and can more easily be taken globally due to their technology-based operations and delivery. As such, many born digital firms are essentially born global with the capabilities to join the global market with fewer impediments than traditional, less-digitized firms. There are ample examples of Canadian SMEs also flourishing as born digitals. Medfar, based in Quebec with less than 100 employees, is an electronic medical record (EMR) software provider founded in 2010. Its EMR solution offers digital access to patients' medical records, thus connecting patients, healthcare providers, insurers, and more. Medfar's cloud-based system has easily enabled the solution to expand past Canada to the rest of North America to now operate in three countries⁵. Although Medfar operates in a traditionally manual and paper-based industry, its digital solution has enabled rapid internationalization. Other insurance techs and born digital firms in the insurance and healthcare space are experiencing rapid internationalization to due to existing digital capabilities. Lemonade, a US-based medium-size digital insurance firm allows for digital underwriting and onboarding through an AI-powered chatbot, and leverages machine learning to approve claims. All functions can be executed easily through digital devices and claims decisions and payments can be processed within minutes. As a result, Lemonade has exported its service to Germany, France, and the Netherlands, and



³Statistics Canada. [Table 22-10-0030-01 Barriers to further integrating Information and Communication Technologies \(ICTs\) by industry and size of enterprise, inactive](#)

⁴Statistics Canada. [Table 22-10-0024-01 Capital expenditures on Information and Communication Technologies by industry and size of enterprise](#)

⁵[Clinical Solutions | MEDFAR Solutions Cliniques](#)

plans to expand to the rest of the EU⁶. These examples suggest born digitals can operate nimbly and can leverage their digital capabilities to go abroad.

Accelerators to going global

So what are some key digital capabilities that SMEs can adopt to upscale and internationalize? A recent study conducted by the Government of Canada surveyed over 500 Canadian SMEs and found common themes among SMEs that had gone international: international SMEs had on average a 15% increase of uptake in the areas of information systems, value networks, internal resources, and cybersecurity coverage than domestic SMEs⁷. As such, domestic SMEs seeking a global trajectory may consider the following to enhance their international capabilities.

Use of Customer Relationship Management (CRM), Enterprise Resource Planning (ERP) software, and other technology – International SMEs were 1.35 times more likely than domestic firms to use a CRM software to facilitate customer and supplier relations. International SMEs also leveraged ERP systems at a higher proportion (48%) than domestic firms (25%)⁸. Both CRMs and ERP systems are critical to a growth-oriented mindset that is required to expand globally. High uptake of CRMs demonstrates a focus on strong relationships with customers that facilitate taking business international. ERP software provides better connectivity with customers and suppliers and supports the management of business processes. Additional technologies can be critical to the internationalization process. Effective digital tools may differ by industry, but could include e-commerce platforms, chatbots, customer and supplier portals, analytics, and blockchain.

Increasing internal technology specialists – International SMEs are 1.41 times more likely to employ internal technology specialists than domestic firms, thus enhancing the firms' digital capabilities⁹. Firms striving to scale internationally can benefit from digital capabilities managed by highly-skilled technological talent. However, attracting and retaining qualified workers can be the largest barrier to digitization and thus, internationalization, with some business owners reporting that “finding and keeping qualified personnel to adapt to new processes” was a major hurdle to digital adoption¹⁰.

Increasing service coverage of cybersecurity issues – Finally, 71% of international SMEs regularly patch their operating systems to protect against cybersecurity issues versus 55% of domestic SMEs. One hundred percent of international SMEs experienced service downtime to mitigate cybersecurity issues. Therefore, SMEs considering going global should bear in mind that cybersecurity protection is necessary and must be maintained regularly.

Final takeaways

- Canadian SMEs with international ambitions can either be born digital or adopt digital capabilities into traditional business models
- A firm's level of digitization can be highly influential in its ability to succeed globally
- Viewing digital and non-digital examples across the insurance industry illustrates the connection between digitization and successful internationalization

⁶ <https://www.lemonade.com/?f=1>

⁷ <https://open.canada.ca/data/en/dataset/14a8c4c7-2445-4a49-9b14-f1a86c985473>

⁸ <http://doi.org/10.22215/timreview/1346>

⁹ <http://doi.org/10.22215/timreview/1346>

¹⁰ <https://www.bdc.ca/en/articles-tools/blog/digital-sme>

- Accelerators to the ability to go global may include digital systems like CRMs and ERPs, technologically-skilled talent, and cybersecurity coverage

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