

The Relevance of “Born Global” Definition in the Research Process

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Abstract

Purpose of the article: The purpose is to create a new definition of a Born Global (BG) company, more relevant to contemporary global business situation. BG companies are the phenomenon which contributes to national economic development by fostering innovation, creating stocks of skills and knowledge, supporting industrial growth. It would be a right decision to study the options to develop BG companies in Latvia, as a small number of export-capable sectors represent a factor that renders the Latvian economy sensitive to any changes in the external environment. Developing standard definitions helps to increase the research clarity as well as the comparability of firms across regions, countries and specific industries.

Methodology/methods: The research is conducted through literature reviews, case studies, survey studies, and modelling. The focus group discussion was organized to clarify the standard definition of the BG with the aim of using this definition as a basis for further research.

Scientific aim: The newly created definition of born global companies is based on scientific justification for all the features it contains. The authors would like to base the justification on the causation and effectuation theories which include all the features associated with orientation to revenues and international market capacity.

Findings: The authors highlight the role of defining and predicting of the opportunities for a company to become a BG. The theories help to justify an inclusion of all the corresponding components in the definition. This theoretical justification could serve as the basis for the further investigation of the relationship between effectual conditions and the outcome (potential to be a born global company).

Conclusions: Before studying the options to develop BG companies as the growth patterns in Latvia, it is necessary to find the most appropriate definition of the BG. The newly created definition is justified by causation and effectuation theories.

Keywords: born-global company, business environment, entrepreneur, globalization, internationalization, national economy

JEL Classification: F23, F62, H50, M21

Introduction and relevance of the topic

The changing organizational, environmental and strategic factors of the global world are likely to foster continued internationalization (Zahra, George, 2002), in addition to falling costs related to trade liberalization, dismantling of regulatory barriers and technological progress (Cavusgil, Knight, 2015). The new trend of the era – “born global” has been facilitated by globalization, the Internet, and other communications and innovations (Knight, Cavusgil, 2004; Eurofound, 2012), which have reduced the cost of internationalization, fostering foreign expansion of smaller, resource-poor companies (Oviatt, McDougall, 1994; Eurofound, 2012). The emergence of BG firms might represent a shift from a focus on the large, well-established multinational enterprises applying a logic of monopolistic or oligopolistic rents, efficiency-seeking, and power, to a logic of young, resource-constrained firms emphasizing a logic of profit, opportunity creation, and resourceful innovativeness (Zander *et al.*, 2015). BGs are not just small variants on large MNEs; BGs are structurally different and they behave differently, as they differ in the scope of business functions they undertake (Buckley, Strange, 2011) although some BGs evolve into large MNEs but many do not, and the new ones internationalize through marketplace strategies (Knight, Liesch, 2016). Born global firms, a concept introduced in a McKinsey study in the early 1990s, however, adopt global patterns of internationalization from their very inception (Braunerhjelm, Halldin, 2019). In recent decades, the number of born global studies has grown; and at the same time, the volume of research should be more significant. Born global action requires the entrepreneur to make decisions under conditions of high uncertainty against a rapidly changing backdrop (Sarasvathy, 2001; Stroe *et al.*, 2018). The particular situation requires the ability of the entrepreneur to distinguish between

decision-making logics that focus on prediction and those that focus on non-predictive control.

The objective of our study is, first of all, to examine the existing definitions of the BG in terms whether they include all the above-mentioned characteristics and create a new definition of the BG, more relevant to contemporary global business situation.

1. Theoretical framework and research propositions

The main characteristics of “born global” companies mentioned in the literature sources are: serving clients worldwide, providing new, innovative products and services and often acting as game-changers in their respective fields of expertise; competing in the global market right from the start or often creating completely new markets; introducing totally new ideas or by creating niches in the market by combining existing ideas with new solutions, having an international focus and an innovative product or service; seeing their growth potential above all abroad; they think big; seeing the whole world as their market; already enjoying considerable success; their exceptional performance as innovation leaders is also raising an international profile of a business location; succeeding with truly innovative products and services; a strong focus on the demands of global customers; above all, seizing business opportunities at an impressive speed; and incorporating globalisation into their business strategies from the very beginning (Advantage Austria, 2018).

The above-mentioned characteristics usually implies the readiness to take additional risks, to aim at faster growth, to deploy necessary resources, to quickly adapt to new markets, and to develop advanced managerial skills. For the further analysis, it is necessary to assume characteristics of BGs firm level factors interacting with the firm’s

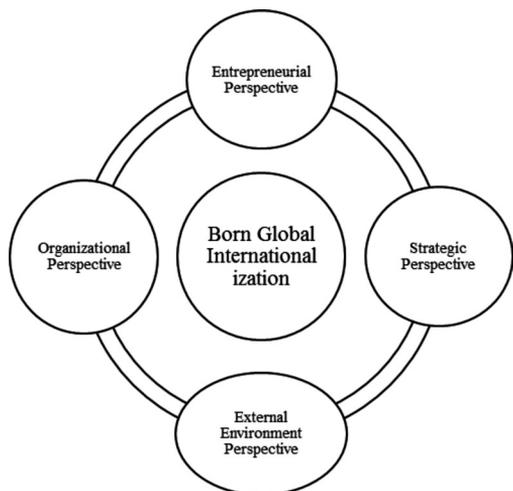


Figure 1. Firm level factors of Born Global.
Source: Efrat, Shoham, 2012.

external environment as a common ecosystem (Figure 1).

Considering Figure 1, it may be concluded that entrepreneurial processes of BG firms (entrepreneurial perspective, strategic perspective and organizational perspective), i.e. the set of the top factors influencing the emergence and internationalization of BG

firms and nowadays justified by effectuation and causation theories, are in close interaction with the external environment perspective as the industry condition, geographic location and government policies. The entrepreneurial perspective is in the top position. For born global firms, it appears that the entrepreneurial activities are essential to develop international business and some of them present a relational nature. The entrepreneurial perspective includes the following components: international vision; international experience; international knowledge; education background; entrepreneurial cognition; and ability personal network.

Theories on which BG studies are based, just like a snowball, have been supplemented with the results of the next research phases until the modern BG set of features based on causation and effectuation logics has formed (Figure 2).

The 1990s networks theory, emphasizing the role of networks and alliances in small firm internationalization, focuses on the role of network relationships, alliances, and other social capital in BG internationalization

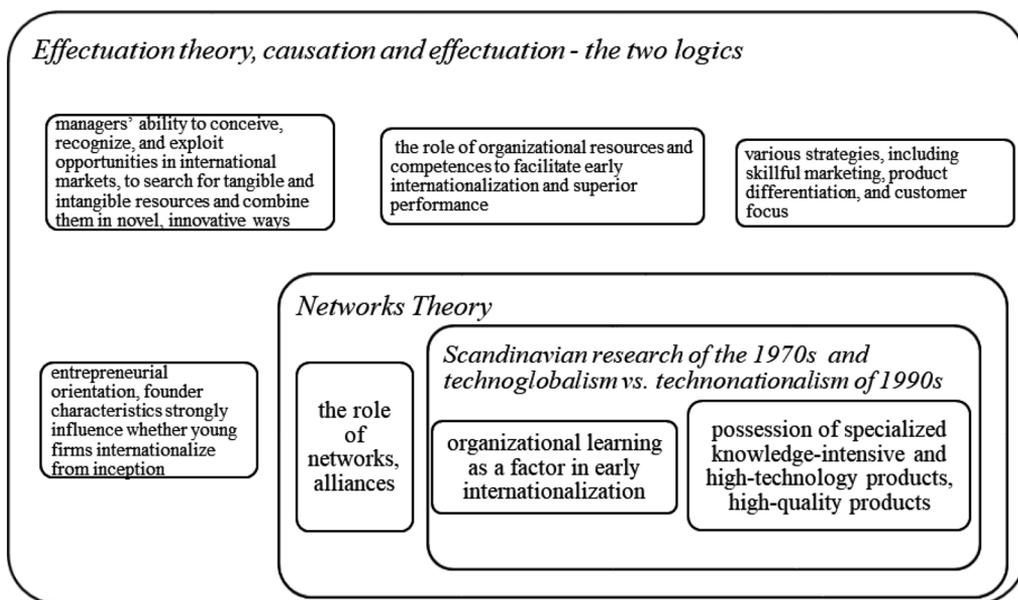


Figure 2. The main BG characteristics, their formation through different reserach stages.
Source: Authors' elaboration.

and international performance (Cavusgil, Knight, 2015; Schwens, Kabst, 2009). The causation and effectuation theories of the current period, based on the research of different authors, explain entrepreneurial processes in BG companies.

2. Defining born globals in relation to the theories

Over the past 25 years, several terms have been used in the literature to qualify this new generation of SMEs: “Born Global” (Rennie, 1993), “International New Ventures (INV)” (Oviatt, McDougall, 1994), “Global start-ups” (Oviatt, McDougall, 2005) or “Born Internationals” (Johanson, Martin, 2015). The most commonly accepted term of born global

firms defined by (Knight, Cavusgil, 2004) as “business organizations that, from or near their founding, seek superior international business performance from the application of knowledge-based resources to the sale of outputs in multiple countries” (Loufrani-Fedida *et al.*, 2019). The definition of born globals aims to capture a unique type of an export firm with an accelerated export process, in contrast with the traditional internationalization process whereby firms build up a customer base in the domestic market and then gradually expand internationally (Bilkey, Tesar, 1977; Johanson, Vahlne, 1977).

As mentioned above, there have been attempts to combine different qualities, principles, or features in the definitions of BG firms. About 28 definitions were created during the period from 1993 to 2012.

Table 1. Characteristics of born global definitions.

Period	Number of newly created definitions	Common features of definitions	Distinct features of definitions	Authors of definitions
1993–2012	28	<p>A business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries.</p> <p>Other essential characteristics: multiple entry modes in different combinations and different markets; innovative products with global market potential; global mindset of management; competitive advantage from the international use of resources or international sale; young enterprises, not older than 6 years.</p> <p>Small size (less than 500 employees and annual sales of less than \$100 million), reliance on cutting edge technology in the development of “relatively” unique product or process or product innovations’</p> <p>The firm must operate in at least one foreign country, it should sell at least one product or service, should have begun to export early in its lifecycle.</p>	<p>Inception is not clearly defined within any of the literature, so to find the meaning of inception it is necessary to visit a dictionary.</p> <p>Period until internationalization (possible options): not specified; 2 years; 3 years; 4 years; 5 years; 6 years; 10 years... .</p> <p>Minimum share of foreign sales as a % of total sales (possible options): 20%; 25%; over 50%; 65%; 75%; 80%.</p>	Rennie, 1993 Knight, Cavusgil, 2004 Zhou <i>et al.</i> , 2007 Mascherpa, 2012

Source: Authors’ elaboration.

Table 1 reflects the results of the content analysis which was carried out to verify the content of the information contained in the definitions. Some definitions, for example, (Knight, Cavusgil, 2004) emphasize young companies, the firm as the unit of analysis, and primarily outward internationalization. A significant number of scholars use the criteria of three years and 25 percent to operationalize early internationalization. There are some critical views that, in reality, these definitions are relatively arbitrary.

The BG definitions considered relatively acceptable for many years are as follows: Knight, Cavusgil (2004) defined the BG as "entrepreneurial start-ups that, from or near their founding, seek to derive a substantial proportion of their revenue from the sale of products in international markets". International new ventures are similar to BGs (Oviatt, McDougall, 1994; McDougall, Oviatt, 2000). Oviatt, McDougall (1994) defined international new ventures (INVs) as "business organizations that, from inception, seek to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries". According to Shapiro, Von Glinow, Xiao (2007), the definition does not adequately account for context, which is particularly relevant in international research. In agreement with this conclusion, the authors decided to hold a focus group discussion to confirm the most appropriate BG definition.

3. Focus group discussion to create a new definition for born global

To answer the question about which of the mentioned above definitions provide information that meets the needs of nowadays global market, the authors first of all learned about the principles of building the definition provided by the Cambridge and Oxford Dictionaries and AkadTerm database of the Terminology Commission of the Latvian

Academy of Sciences.

Based on the "definitions of definitions", the author found the following definition of the BG, based on the ideas of (Oviatt, McDougall, 1994; McDougall, Oviatt, 2000; Knight, Cavusgil, 2004) as valid:

Born global company

Business organization that at least three years after inception into the international market has derived some sort of competitive advantage and has become competitive from the use of resources and the sale of outputs in multiple countries.

The definition was presented by the authors to the participants of the focus group discussion.

The Focus Group Discussions

Two (2) focus group discussions of experts were organized: the discussion of 6 December 2018 and discussion of 18 January 2019.

The groups were moderated by the authors of the research.

The 6 December 2018 group was conducted with six (6) experts.

The 18 January 2019 group was conducted with six (6) experts.

The Focus Group Findings

Participants of the first Focus Group discussion came to the new version of definition:

Born global:

A company oriented to earning of revenues from international market, capable of the market offering that meets the needs of the international market customers; the company uses modern technologies.

The explanation of the term included in the definition based on the Cambridge and Oxford Dictionaries:

Revenue: *The income generated from sale of goods or services, or any other use of*

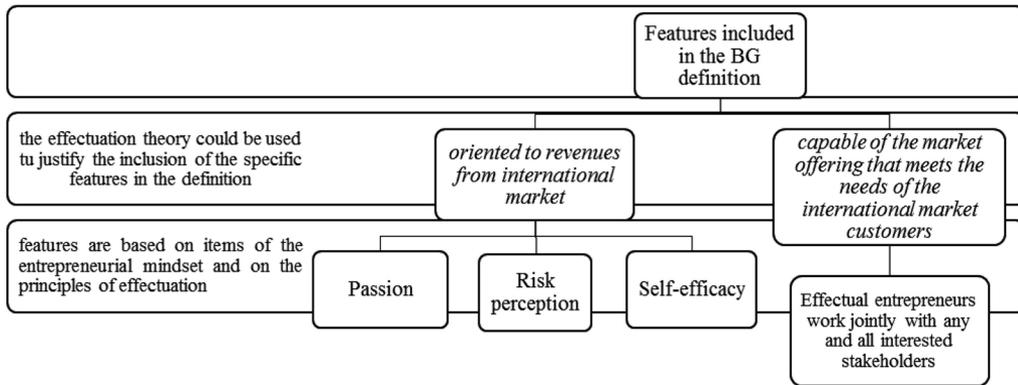


Figure 3. An analysis of BG definition. Source: Authors' elaboration.

capital or assets, associated with the main operations of an organization before any costs or expenses are deducted. Revenue is shown usually as the top item in an income (profit and loss) statement from which all charges, costs, and expenses are subtracted to arrive at net income.

International: involving more than one country

Market: An actual or nominal place where forces of demand and supply operate, and where buyers and sellers interact (directly or through intermediaries) to trade goods, services, or contracts or instruments, for money or barter. Markets include mechanisms or means for (1) determining price of the traded item, (2) communicating the price information, (3) facilitating deals and transactions, and (4) effecting distribution. The market for a particular item is made up of existing and potential customers who need it and have the ability and willingness to pay for it.

Offering: something that you give or offer to someone

Needs: to have to have something, or to want something very much, require (something) because it is essential or very important rather than just desirable

The result of the second focus group discussion consisted in the conclusion to include in the new definition the following features:

oriented to earning revenues from international market and **capable of the market offering that meets the needs of the international market customers**. The authors would like to justify the new definition with the causation and effectuation theories, which include all the features associated with orientation to revenues and international market capacity (Figure 3).

Why causation and effectuation theories application is relevant? In an effort to disentangle entrepreneurial decision-making, researchers have conceptualized two main decision-making strategies: causation and effectuation. Causal decision-making relies on systematic processing modes and consists of predictions based on existing information. Effectual logic is a set of rationales alternative to causation, oriented toward on action and control. Causal or predictive framing refers to discovering and exploiting current opportunities in a prearranged problem space, whereas effectual, non-predictive logic focuses on rearranging the problem space and restructuring current realities into new opportunities (Wiltbank *et al.*, 2006). Causal and effectual decision-making logics differ in terms of various heuristic principles that are applied in the new venture creation process.

Since effectuation and causation have different effects on the structure and functioning of new ventures (Table 2) (Sarvasvathy,

Table 2. *Conceptualization of causation and effectuation as strategic decision-making logics.*

Effects of the causal strategic decision-making logic	Effects of the effectual strategic decision-making logic
Defining goals (target effects)	Defining means
Focusing on expected returns	Focusing on affordable loss
Engaging in planning activities	Leveraging contingencies
Emphasizing competitive analysis	Seeking pre-commitments and strategic partnerships

Source: Authors' elaboration.

2008), their innovativeness (Brettel *et al.*, 2012), and their success, a better understanding of the determinants of these two decision-making strategies is needed. Effectuation was introduced as a theory of entrepreneurial expertise (Sarasvathy, Dew, 2008; Stroe *et al.*, 2018).

Explanation of the definition

Phrase: **For orientation to earning revenues from international market** (Figure 3):

An effectual process starts from the entrepreneur's resources, and focuses on increasing and optimizing performance using these resources (Sarasvathy, 2001; Sarasvathy, Dew, 2005). Effectuation, on the other hand, is an adaptive process whereby entrepreneurs seek out and incorporate external feedback. This flexibility allows effectual decision-makers to use unforeseen events to the emerging firm's advantage (Chandler *et al.*, 2011).

Individual-level variables such as passion, entrepreneurial self-efficacy, and risk perception are psychological constructs that are central to our understanding of entrepreneurial drive and behaviour and, by extension, entrepreneurial decision-making. These psychological factors might explain preferences for a predictive versus non-predictive decision-making process. Moreover, these characteristic factors can be attributed to both nascent, and experienced entrepreneurs.

The survey as a research method was used to substantiate the theoretical basis of the definition in practice. The study was focused on the use of causation and effectuation by entrepreneurs – owners of start up companies. This sample was chosen based on

the opinion according to which the start-up companies have a potential early orientation to international born global (Bibua *et al.*, 2016; Zimmermann, 2017). There are about 800 start-up companies listed in Latvia. The owners of start-up companies were contacted through the e-mail and invited to complete the online survey. The response rate was about 20%; the results are as follows.

Passion is an intense, positive feeling toward venture activities, and it develops as a reaction to a distant but desired state of the venture (Cardon, 2005; Vallerand, 2008). Passion's strong motivational force derives from the evaluation of the future venture outcome as highly significant for the entrepreneur's well-being (Cardon, 2005). Affirmative answers regarding this motivational force resulting in average answers rating 3.67/5, using a 5-point scale (1 – completely disagree; 5 – completely agree) (the results processed by VisiDati.lv).

Entrepreneurial self-efficacy as a determinant of effectuation and causation. Entrepreneurial self-efficacy reflects how strongly entrepreneurs perceive that they are able to successfully attain goals associated with the new venture (Chen, 1998).

Table 3 and Table 4 reflect results derived from answers to the question about how entrepreneurs indicate the degree of certainty he/she have in his/her ability to perform the following tasks as establish and achieve goals and objectives and make decisions under risk and uncertainty. The results are following:

The prevailing value is 4 of 5 points, which matches 38.5% of the surveyed entrepreneurs.

Table 3. Measurement of ability to establish and achieve goals and objectives.

Score	Results (%)
1 (completely disagree)	0.0
2	2.6
3	30.8
4	38.5
5 (completely agree)	28.2

Source: Authors' elaboration.

Table 4. Measurement of ability to make decisions under risk and uncertainty.

Score	Results (%)
1 (completely disagree)	0.0
2	5.1
3	15.4
4	43.9
5 (completely agree)	35.9

Source: Authors' elaboration.

Table 5. Interpretation of challenges as opportunities.

Score	Results (%)
1 (completely disagree)	5.1
2	5.1
3	25.6
4	41.0
5 (completely agree)	23.1

Source: Authors' elaboration.

Table 6. Interpretation of challenges as threats.

Score	Results (%)
1 (completely disagree)	10.3
2	28.2
3	30.8
4	20.5
5 (completely agree)	10.3

Source: Authors' elaboration.

The prevailing value is 4 of 5 points, which matches 43.6% of the surveyed entrepreneurs.

Risk perception is a determinant of effectuation. Variation in risk perception,

i.e. the manner in which a person evaluates chance and probability, is a critical factor in the choice between predictive or non-predictive decision-making logic (Saravathy, 2008; Stroe *et al.* 2018). How entrepreneurs respond in a decision context depends on how they interpret signals from the environment. Table 5 and Table 6 reflect how entrepreneurs interpret challenges facing in the international markets.

The prevailing value is 4 of 5 points, which matches 41% of the surveyed entrepreneurs.

The prevailing value is 3 of 5 points, which matches 30.8% of surveyed entrepreneurs.

The affordable loss is the factor that controls the risk for firms and helps firms to make good use of limited resources, which enables them to capture the upsides of uncertainty at low costs. The familiarity with the affordable loss principle could help to determine how much one is willing to lose and leveraging limited means in creative ways to generate new ends as well as new means and to interpret challenges as opportunities.

Phrase: ***To be capable of the market offering that meets the needs of the international market customers*** (Figure 3), it is necessary to work jointly with any and all interested stakeholders. The emergence and development of a network depends on the capability of actors to create new and to maintain existing relations, to exploit relationships, and to manage the networks. The question of visibility is crucial for BGs when expanding the relational network. Visibility allows the company to attract potential foreign partners more easily. When expanding the network, the company must be able to enhance its reputation to speed up the process of making contact and initiating relationships and to know how to identify relevant potential partners (Loufrani-Fedida *et al.* 2019).

Estimating that the affordable loss does not depend on the venture but varies from entrepreneur to entrepreneur and even across his or her life stages and circumstances, the

Table 7. *Necessity of collaboration with business enterprises.*

Score	Results (%)
1 (completely disagree)	0.0
2	5.1
3	12.8
4	35.9
5 (completely agree)	46.2

Source: Authors' elaboration.

entrepreneur then should use the very process of building the venture to bring other stakeholders on board and creatively leverages slack resources available in the world (Dew, Sarasvathy, 2009). The affirmative answers of the surveyed entrepreneurs to the question related to the choice of the information and communication technologies as an enabler in global markets research and in bringing other stakeholders resulting in average answers rating 3.97/ 5, using a 5-point scale (1 – completely disagree; 5 – completely agree) (the results processed by VisiDati.lv). The answers related to the knowledge of foreign languages as the key factor of global markets research and learning showed the average affirmative answers rating 4.21/5, using a 5-point scale (1 – completely disagree; 5 – completely agree) (the results processed by VisiDati.lv).

The research also focussed on the type of stakeholders with whom the representatives of the surveyed target group would be happy to cooperate: business enterprises, business incubators, governmental organizations, and non-governmental organizations. Table 7 reflects how many surveyed entrepreneurs agree with the importance of collaboration with business enterprises.

The prevailing value (Table 7) is 5 of 5 points, which matches 46.2% of the surveyed entrepreneurs. The necessity of collaboration with business incubators, governmental and non-governmental organizations was rated on average by 3 of 5 points.

4. Discussion, limitations, and contributions

The features included in the newly created definition were analysed focusing on affective and perceptual individual antecedents of decision-making logic, on the antecedents of effectuation and causation based on roots in cognitive science, which emphasizes the relevance of entrepreneurial framing.

Based on the definition, it is possible to continue BG research from another perspective. Future studies could focus on the presence of dynamic capabilities to be a prerequisite for early entry into international markets (Gabrielsson, Gabrielsson, 2013; Weerawardena *et al.*, 2019). Dynamic capabilities produce new knowledge configurations enabling the focal firm to pursue its competitive strategies (Weerawardena *et al.*, 2019). Research on collective competencies should not be neglected because collective competences are the combination of individual competencies in a collaborative work environment or a team (Arnaud, Mills, 2012). The collective competence can be defined as “a group of ability to perform together towards a common goal, which results in the creation of a collective outcome that could not be accomplished by one member due to its complexity” (Loufrani-Fedida *et al.*, 2019) and refers to the ability of team members to combine their individual competencies and solve problems together. It includes a combination of learned skills, working routines, and processes, as well as thinking chains and reasoning. The interpersonal competence refers to the ability of team members to interact and collaborate with other members while accomplishing the team's tasks (Ruska, Robin, 2009; Loufrani-Fedida *et al.*, 2019).

Due to the fact that companies that begin to expand their activities abroad are eager to replicate their success on new markets and expand their networks by initiating new relationships, it is also important to investigate

the ability of BGs to get involved in the relational network, as visibility allows the company to attract potential foreign partners more easily. In terms of visibility, the BGs frequently focus more on learning how to mobilize formal (the Internet or trade shows) than informal channels (personal relationships). When expanding the network, the company must be able to enhance its reputation to speed up the process of making contact and initiating relationships, network expansion will involve a reflection on the methods already used by the company to initiate such relationships (Loufrani-Fedida *et al.*, 2019).

The entrepreneurial perspective is the part of the BG ecosystem, although it is in close interaction with other components of this ecosystem, it would be valuable to investigate the factors in the firm's external environment thought to drive early internationalization, including the liberalization of international markets, advances in information and communications technologies, and the emergence of the Internet that are in close interaction with external environment perspective as industry condition, geographic location and government policies.

Conclusion

The very contemporary phenomenon of born global companies contribute to national eco-

nomie development by fostering innovation, creating stocks of skills and knowledge, supporting industrial growth, and enabling and promoting high-value-added activities. Before studying the options to develop born global companies as the growth patterns in Latvia, the necessity number one turned out to be finding the most appropriate definition of born global companies. The newly created definition was justified by causation and effectuation theories which include all the features associated with orientation to revenues and international market capacity. These theories have served as the basis for investigation of the relationship between effectual conditions (harmonious passion, obsessive passion, entrepreneurial self-efficacy, and risk perception) and the outcome (potential to be a born global company) which are rooted in the perception of entrepreneurs regarding various determinants of causation and effectuation. Conducting this research, the authors highlight the role of defining and predicting the opportunities for a company to become born global. The need to justify the truthfulness of the information included in definition has led to familiarising with the causation and effectuation theories. Both of the theories help to justify an inclusion of all the corresponding components in the definition and associated with the orientation to revenues and international market capacity.

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