

# OVERCOMING EFFECTS OF ECONOMIC RECESSION WITH BORN GLOBAL INNOVATION

## ABSTRACT

**Purpose:** The study aims to explore the mechanisms through which the international entrepreneurial culture is implemented in born global firms. Based on the findings, the entrepreneurial capability of born globals is discussed, as well as the ways in which this capability can help them and other SMEs to overcome results of an economic recession.

**Methodology:** A single in-depth case study of a Latvian born global firm is used as the critical and revelatory case for a close-up exploration of the organizational capability.

**Findings:** Guided by Drucker's (1985) framework of entrepreneurial management, the study highlights the aspects of the framework that are applicable to born globals. The entrepreneurial capability of born globals rests on the entrepreneurial organizational culture instilled by the founder, the practices of continuous entrepreneurial search, specific staffing practices, professional trust among the management to enable fast decision making and flexibility, and close focus on the markets and networking to sense arising opportunities.

**Originality / Value:** This is one of the first studies to explore the mechanisms, through which the international entrepreneurial culture is implemented in born globals. The study is also among the first to study the effects of an economic recession on born globals and the capabilities, which can help the firms to overcome these effects.

**Theoretical contribution:** I attempt to develop the international entrepreneurship theory and discuss implementation of the international entrepreneurial culture through organizational capabilities.

**Practical contribution:** The study should provide useful insights to managers of born globals and other SMEs as for organizing entrepreneurial processes in their organizations.

**Key words:** International entrepreneurship, born globals, organizational capabilities

**Classification:** Research paper

Rapidly internationalizing new ventures have become an integral part of the international business landscape. Propelled by the globalization and technological development forces, born globals represent a new type of economic actors, which from their very establishment consider the international business landscape instead of their home country, as their potential market and the space for setting up their value chains (Oviatt & McDougall, 1994; Rennie, 1993; Knight & Cavusgil, 2004). These firms employ the latest advances in technology and communications (Freeman et al., 2006), as well as the international business and international experiences of their founders to find international partners (Burgel & Murray, 2000; Shrader et al., 2000), to promote themselves to customers all over the world, and set up international sourcing and outsourcing chains for their products and services. In short, born globals have changed our entire understanding of operations of a newly established venture and have challenged the established gradual internationalization theories (Oviatt & McDougall, 1994; Madsen & Servais, 1997).

Entrepreneurship and innovation are inherent qualities of born globals. Being young, small and hence, normally poor in tangible resources, born globals develop a unique set of intangible knowledge-based organizational capabilities which support their international performance. These capabilities engender rapid internationalization and enables sustainable and successful performance of born globals in foreign markets (Knight & Cavusgil, 2004; Autio et al., 2000). The youth of born globals and their strong international vision from the inception enables them to develop the organizational culture and routines necessary for operations

in diverse international markets, and for learning from these operations and moving on to new markets. This culture and capabilities serve as strong competitive advantage over the firms that are originally domestically oriented: born globals develop the flexibility necessary in seeing and tackling the opportunities in international markets and employing the first-mover strategies (Freeman et al., 2006). Among the capabilities of born globals discussed in the literature are the dynamic networking and alliance building capability (Mort & Weerawardena, 2006; Freeman et al., 2006), their international marketing orientation (Knight & Cavusgil, 2004) and marketing competences (Knight et al., 2004; Gabrielsson, 2005). International entrepreneurial orientation (Knight & Cavusgil, 2004) and international entrepreneurial culture (Dimitratos & Plakoyiannaki, 2003) were found to be the enabling factors for the very existence and successful international operations of born globals.

International entrepreneurship is “an organizational-wide process which is embedded in the organizational culture of the firm and which seeks through the exploitation of opportunities in the international marketplace to generate value.” (Dimitratos & Plakoyiannaki, 2003:189). It is a process that stretches to all hierarchical levels and geographic boundaries of the firm, empowering all levels of the organization with the entrepreneurial posture; it is embedded into the organizational culture of a firm (ibid.). Although the entrepreneurial aspects of organizational culture of born globals have been discussed in detail and are generally well understood, the discussion remains on the level of organizational culture – which is a set of cognitive elements, such as values beliefs, norms and assumptions, which determine the thoughts, feelings and action of organizational members (Dimitratos & Plakoyiannaki, 2003, ref. Sackmann, 1991, Pettigrew, 1979). The mechanisms, through which the international entrepreneurial culture is implemented in organizations, interestingly, has not been discussed. Once born globals pass the size of a micro-firm with 2-3 founding members, the organization grows and acquires departments and structures, which need to function together and preserve the internationally-oriented entrepreneurial spirit and organizational flexibility. The literature does discuss that born globals develop particular processes for knowledge integration that enable the firms’ entrepreneurial behaviour (Knight & Cavusgil, 2004), but what these processes are, how they are organized, which structures permit this organization, has not been discussed. In other words, the entrepreneurial capabilities of born globals have not been conceptualized.

On the other hand, it is well known that actual entrepreneurial management is necessary for firms of all sizes and in all industries to remain continuously innovative and competitive (Drucker, 1985; Stevenson & Jarillo, 1990). Companies need entrepreneurial management to closely monitor markets, realistically assess the position of their products in their life cycles, and continuously innovate in order to keep their leading market positions. In today’s rapidly and continuously changing international marketplace, products, technologies, processes, have rather short life cycles. Therefore, companies must have ongoing entrepreneurial processes and search for new projects, products, technologies, in order to fill the gaps once their current products, services or technologies become obsolete (Drucker, 1985). Drucker argued that “Innovation .. is organized, systematic, rational work” (p. 44), which must be managed, just like any other process. Without the proper policies, structures and processes, any firm, no matter how successful it may be today, will go out of business, since today’s market realities are highly volatile, with a large number of daring competitors looking for entrepreneurial opportunities every day.

The recent, and in some places still ongoing, economic recession has exacerbated the market conditions for many firms, and has been particularly hard on many smaller players. Many born globals had to face the slowing markets without the funds, assets and brand names that helped many larger organizations to weather and manage effects of the recession. Some of the developing countries, such as Latvia and Ukraine, were among the hardest hit by the recession, the economies were literally saved from the government’s default by the IMF and other international loans. Born globals coming from such markets, or those with a large portion of revenue coming from operations in such developing countries, were heavily affected. Therefore, based on the above discussion and considering the new market conditions and requirements brought about by the recession, in this study I aim to:

- 1) Explore the mechanisms through which international entrepreneurial culture is implemented in born global firms;
- 2) Based on the findings, start a discussion on the entrepreneurial capability of born globals;
- 3) Explore how this capability can help born globals to overcome results of an economic recession.

I will be building on the literature on born globals, the entrepreneurship literature, and the knowledge-based organizational capability framework.

To my best knowledge, this is the first study that attempts a close-up explorative study of the entrepreneurial practices / capability of born globals. Classical entrepreneurial literature (e.g., Drucker, 1985) explore entrepreneurial practices in the more traditional organizations – both large and small, but does not touch

upon the issue of rapid internationalization, since this phenomenon is rather recent. Born globals carry out a unique set of strategies and operations by entering and operating in numerous international markets simultaneously, with rather limited resources. Therefore, they face unique challenges, and the exploration of their entrepreneurial capability – policies and processes, should yield unique findings and learnings for further development of international entrepreneurship theories.

## **METHODOLOGY**

To address my research purposes, I have utilized a single longitudinal in-depth case study of a Latvian born global company, Vivax Communications Group (VCG). Although some authors call for multiple case studies in order to achieve statistical generalizability of findings (Eisenhardt, 1989), others (Yin, 2003) describe the importance of a single case, which can be a critical case used to test an existing and well-formulated theory; or a revelatory case, where the researcher has an opportunity to study a phenomenon that was previously inaccessible to scientific investigation. Both of these characteristics apply to my case study, and the findings allow for analytical generalization (Yin, 2003).

Numerous authors agree on viability of the case study approach to studying born globals as a relatively new phenomenon (Rialph et al., 2005). Authors (Melin, 1992; in Zahra et al., 2005) also call for the need of longitudinal, process research in international entrepreneurship in order to understand the intent and motivation of various factors involved in the international entrepreneurship process, their various roles, incentives and dynamics of their relationships; as well as to enhance our understanding of how entrepreneurial opportunities are identified and pursued. Longitudinal case study approach allows for rich data collection and correlation of it with the contextual factors (Yin, 2003), which is critical in conceptualizing organizational capabilities (Weerawardena et al., 2007).

Through my ongoing learning partnership project, where through my part-time work as the marketing communications coordinator for a Danish firm, I closely collaborate with the Latvian creative agency VCG. Over 2.5 years of our collaboration, I have been able to get closely acquainted with VCG's operations and organization. Focused in-depth interviews with the firm's founder & managing director (MD) and a creative director were carried out particularly for this study. The interviews lasted from 0.5 to 2 hours, were carried out in Russian, which was a language that the interviewees were most comfortable with than English, and later translated and transcribed by me (Russian is my native language). The idea of the article came from our discussions about the firm's struggle with the harsh effects of the recession in Latvia and their creative solutions to the situation.

In this study, I applied abductive reasoning or systematic combining (Dubois & Gadde, 2002) where the author goes back and forth between the data and theory, and both simultaneously evolve and develop.

## **CONCEPTUAL FOUNDATIONS**

### **Born globals**

The widespread appearance of born globals is attributed to the all-encompassing and highly interrelated globalization forces and technological development. The numerous factors comprising these forces (Oviatt & McDougall, 1994; Axinn & Matthyssens, 2001) have enabled small and young firms to participate in international business nearly from their establishment and for the founders to build international market strategies, unrestrained by the young firms' limited resources. Born globals are defined 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" (Knight and Cavusgil, 2004:124). As an operational definition: these are firms less than 20 years old that have internationalised within two to six years of founding and generate at least 25 percent of their sales from abroad (Knight et al., 2004; Oviatt and McDougall, 1994; Freeman & Cavusgil, 2007).

Born globals are described as being highly flexible and lacking deeply embedded administrative routines which restrain the flexibility and quick market responsiveness of the larger, established organizations (Knight et al., 2004; Knight & Cavusgil, 2004; Autio et al., 2000). Born globals are said to possess an international marketing orientation (Knight & Cavusgil, 2004) and being highly networked (Mort & Weerawardena, 2006; Freeman et al., 2006). They often prefer hybrid governance structures, such as alliances, to rapidly access markets and resources (Mort & Weerawardena, 2006; Coviello & Munro, 1995). Many born globals are

technology-based; they most often pursue niche market strategies (Aspelund et al., 2007; Shrader et al., 2000) and thus sustain operations in numerous markets with limited resources. The founding entrepreneur / top manager of born globals is said to play the central role in strategy formulation, development and growth of the newly established ventures (Gabrielsson & Kirpalani, 2004; Aspelund et al., 2007).

The literature also discusses that firms in the smaller countries, such as the Scandinavian countries, Israel, or New Zealand often have to internationalize rapidly in order to find markets for their products, particularly if these products are technology-based (Luostarinen & Gabrielsson, 2002). Educational systems in the developed countries produce entrepreneurial professional with outstanding engineering and business skills, but the home markets are too small to provide large enough markets for the resource-demanding technology-based products or services (ibid.). Furthermore, the high-tech markets are international and clustered in particular areas of the world, which encourages a high-tech entrepreneur to plan for an international business from the beginning.

### **Born globals and the organizational capability approach**

The organizational capability approach has been found particularly suitable to studying born global firms (Rialph et al., 2005; Knight & Cavusgil, 2004), since being typically poor in tangible resources, they leverage unique, idiosyncratic *intangible knowledge-based capabilities* in order to rapidly internationalize and stay competitive in their diversified markets. Knowledge is said to be a firm's single most critical resource (Grant, 1996a). Hence, in the Knowledge-Based View:

*Integration of specialist knowledge to perform a discrete productive task is the essence of organizational capability, defined as a firm's ability to perform repeatedly a productive task which relates either directly or indirectly to a firm's capacity for creating value through effecting the transformation of inputs into outputs. Most organizational capabilities require integrating the specialist knowledge bases of a number of individuals. (Grant, 1996:377)*

There is a sufficient discussion, as well as confusion, about definitions of an organizational capability in the literature (e.g., reviews by Dosi et al., 2000; Hallberg, 2008). For example, Winter (2003) defines capabilities as:

*An organizational capability is a high-level routine (or collection of routines) that, together with its implementing input flows, confers upon an organization's management a set of decision options for producing significant outputs of a particular type. (2003:991)*

Some authors (Prahalad & Hamel, 1990) write about competences of organizations rather than capabilities, or these two being separate concepts (Sanchez, 2004); while others (Grant, 2008; Dosi et al., 2000) use the terms interchangeably. However, after a thorough literature review of the frameworks underlying the capability concept, I have chosen to follow Grant's (1996, 1996a) framework, since it is in line with numerous other definitions and captures the essence of competitive advantage of organizations in a way that is closest to my own understanding, arrived at after extensive empirical work on and with born globals.

Born globals are inherently entrepreneurial and innovative firms that possess an innovation culture, which also facilitates the acquisition of knowledge, leading to capabilities that drive organizational performance. These firms display a specific pattern of knowledge and capabilities that enable early internationalization and sustainable, superior performance in foreign markets (Knight & Cavusgil, 2004; Knight et al., 2004). From their very establishment, born globals develop the organizational culture and routines suitable for acting in diverse and changing environments. This initial international orientation provides born globals with a strong competitive advantage over the more established firms in the born globals' flexibility and quick responsiveness to international market opportunities (Freeman et al., 2006). Embedded structures of established firms tend to constrain strategic choice. The companies that venture abroad late in their development must unlearn the routines rooted in them for domestic operations before acquiring routines for internationally-oriented operations. In contrast, born globals from their early days build an organizational culture and structure appropriate for dynamic international operations (Knight & Cavusgil, 2004; Autio *et al.*, 2000).

### **International entrepreneurship & born globals**

The quick spread of rapidly internationalizing ventures across countries and industries has propelled the establishment of a new academic field of international entrepreneurship, which seeks to combine the knowledge from the fields of international business, entrepreneurship, strategy, and others (Oviatt &

McDougall, 2000). Zahra & George define international entrepreneurship as “the process of creatively discovering and exploiting opportunities that lie outside a firm’s domestic markets in the pursuit of competitive advantage (2002:261). Dimitratos & Plakoyiannaki (2003) define it as “an organization-wide process which is embedded in the organizational culture of the firm and which seeks through the exploitation of opportunities in the international marketplace to generate value.” (p.189). Innovativeness is an inherent characteristic of international entrepreneurship: a firm requires innovativeness in the way it discovers and/or exploits opportunities (ibid.). The adjective “inherently entrepreneurial” is firmly attached to born globals (e.g., Knight & Cavusgil, 2004; Knight et al., 2004), they are described throughout the literature as young, entrepreneurial start-ups, and nearly every study on these firms includes a discussion of their entrepreneurial nature.

Numerous studies have explored the aspects of entrepreneurial culture of born globals (Mort & Weerawardena, 2006; McDougall & Oviatt, 2000; Madsen & Servais, 1997). Dimitratos & Plakoyiannaki (2003) discuss the international entrepreneurship (IE) as a process that stretches to all hierarchical levels and geographic boundaries of the firm, empowering all levels of the organization with the entrepreneurial posture. IE, therefore, is not an individual entrepreneurial event, notwithstanding the important effect of the founding entrepreneur / managers on the firms’ entrepreneurial pursuit. IE is a process – which means that it embraces a dynamic and evolving development, which involves integrated decisions, and the outcomes may be attained over a long term. IE is embedded in the organizational culture of firms. Organizational culture is a set of cognitive elements, namely values, beliefs, norms and assumptions, which determine the thoughts, feelings and action of organizational members (ibid., ref. Sackmann, 1991, Pettigrew, 1979). The authors discuss a firm’s international entrepreneurial culture as “that organizational culture which facilitates and accommodates the entrepreneurial activities of the firm in the international marketplace.” (p. 193) They find that a firm’s international entrepreneurial culture consists of six dimensions: international market orientation, international learning orientation, international innovation propensity, international risk attitude, international networking orientation and international motivation.

In their study of international marketing strategies of born globals, Knight & Cavusgil (2004) found that the born globals’ international entrepreneurial and international marketing orientations are the aspects of organizational culture that underlie and enable successful internationalization and international performance of these firms. International entrepreneurial orientation reflects the born globals’ overall innovativeness and proactiveness in the pursuit of international markets. It is a result of having unique entrepreneurial competences and outlook, which, combined with other resources and capabilities such as strong marketing skills, allows them to see and exploit opportunities in foreign markets. International marketing orientation, in turn, is the managerial mindset that emphasizes the creation of value for foreign customers (ibid.). The urge to continuously provide superior value to customers drives born globals to create and maintain the business culture that fosters the requisite business behaviours. This is a must for international success due to the more competitive international marketplace that has emerged as a result of the globalization forces and removal of many trade barriers (ibid.).

Another stream of literature explore the various organizational capabilities that enable successful international operations of born globals (Gabrielsson & Kirpalani, 2004; Coviello & Munro, 1995; 1997; Oviatt & McDougall, 1994). Mort & Weerawardena (2006) discuss the *dynamic networking capability*, which is “the capacity of the firm to develop a purposeful set of routines within its networks, resulting in the generation of new resource configurations and the firm’s capacity to integrate, reconfigure, gain and release resource combinations.” (p. 558). The dynamic networking capability plays a central role in born globals’ internationalization, in developing knowledge-intensive products, international market performance, and helps the firms to reduce risk in international market entry decisions. The internationally oriented entrepreneurial founder/owner/managers plays a central role in developing the networking capability and, in turn, in rapid internationalisation of the born global firm (ibid.). A similar discussion is found in Freeman et al. (2006): three constraints to the rapid internationalization of SMEs had been identified in the literature: lack of economies of scale, lack of financial and knowledge resources, and aversion to risk taking. Freeman et al. (2006) discuss how these are overcome through network development and alliance-building capabilities, technology advantage, and multiple market entry modes.

A number of studies discuss the marketing-related competences and organizational culture aspects of born globals. Besides the discussion of Knight’s & Cavusgil’s (2004) above, authors (Knight, 2001; Knight et al., 2004; Gabrielsson & Gabrielsson, 2003; Gabrielsson, 2005) discuss that market orientation, marketing competences and other marketing –related activities engender superior organizational performance of born globals in their diverse markets. These firms are strongly market-driven, this focus being set by the more competitive international marketplace, rapid changes in technology, shortened product life cycles, and the mediocre financial performance of many firms.

The founder / owner / manager characteristics have been widely discussed as being crucial to the establishment and successful international performance of the young internationalizing ventures (Gabrielsson & Kirpalani, 2004; McDougall et al., 1994; Aspelund et al., 2007; Shrader et al., 2000). The founders' / managers' knowledge about international markets and operations, and the efficiency, with which such knowledge is acquired, is a critical determinant of the international performance of firms (Autio et al., 2000). International managerial vision is the basis for founding a born global (Knight & Cavusgil, 2004). "At the organizational culture level, international entrepreneurial orientation reflects an innovation-focused managerial mindset that appears to lead born globals to pursue a collection of strategies aimed at maximizing international performance." (ibid., p. 136) Founders of rapidly internationalizing ventures are entrepreneurial individuals who are alert to combining resources from different markets. They possess a rather unique mix of competences due to their previous international experience, knowledge and access to international networks (McDougall et al., 1994) The founders realize that they must create international business capabilities and international entrepreneurial culture in their firms from their very establishment (McDougall et al., 1994; Knight & Cavusgil, 2004).

To sum up, the literature on born globals abundantly highlights the international entrepreneurial nature of born globals and the international vision and knowledge of the founders as a pre-requisite for founding and managing a rapidly internationalizing venture (Freeman & Cavusgil, 2007). However, I have not been able to locate any studies that focus on the actual implementation of the entrepreneurial culture in born global firms – normally achieved through policies, processes and structures, which enable the born globals' entrepreneurial posture and flexibility. Once a born global is larger than a micro-firm, it acquires organizational structures, which must function in ways that address the needs of the diverse and changing international environment, as well as the economic cycles. In fact, authors (Rialph et al., 2005) call for deep explorative research based on case studies in order to enhance our understanding of the nature and processes of early internationalizing firms, as well as the organizational structures and designs appropriate for such businesses (Rialph et al., 2005:162). In this respect, I find Peter Drucker's (1985) framework of *entrepreneurial management* to be particularly relevant. Drucker did not highlight the aspects of international entrepreneurship in his framework, but I believe, the core policies and processes of his framework can be applied to international entrepreneurial practices as much as to domestic entrepreneurship. Drucker provides frameworks for both an existing business and a new venture. In this paper, I focus on the implementation of entrepreneurial practices for sustained and successful performance of born globals, some of which are new, and some – existing successful businesses. Therefore, below I discuss and apply both of the complementary frameworks.

## **Entrepreneurial management**

Drucker (1985) calls for the necessity of *entrepreneurial management* in a company and argued that only this type of management ensures long-term competitiveness of a business. The company must implement a particular management structure within its organization in order to closely monitor the market, look for entrepreneurial and innovation opportunities for the business, and take advantage of both unexpected successes and failures of its products or services in order to ensure that it never becomes complacent and arrogant. Innovation, which is the core of the entrepreneurship process, must be taken seriously and be truly embedded into the firm's structure, where particular managers are to be assigned to develop innovations and entrepreneurial opportunities. Drucker's main thesis is that "Innovation .. is organized, systematic, rational work" (p. 44), which must be managed, just like any other process. Without the proper entrepreneurial policies and processes, any firm, no matter how successful it may be today, will go out of business, since today's market realities are highly volatile, with a number of daring competitors looking to seize entrepreneurial opportunities every day. The key to a firm's continuous innovativeness and hence, its sustained competitive advantage, is not in the founder's unique entrepreneurial abilities (in fact, Drucker criticizes the literature that focuses solely on entrepreneurs as a special breed of people), but in embedding the entrepreneurial management structures into a business, so that when it starts to grow, and when the founder is no longer with the firm or cannot control all of the firm's operations, the business will continue innovating. Below I (concisely) explain Peter Drucker's (1985) framework.

Entrepreneurial management requires policies and practices in four major areas:

1. Entrepreneurial climate needs to be developed in the organization, the firm needs to become receptive to innovation. Managerial vision must be set to opportunity; policies and processes must be implemented in order to empower the organization to carry out continuous entrepreneurial search and renewal. The specific *policies* include:
  - 1.1. A systematic policy of abandoning whatever is outworn, obsolete, no longer productive, as well as failures and misdirected efforts. Around every three years, the firm must put every product, process,

technology, market, distributive channel, and internal staff activity on trial. The question should be asked, "Would we go into this product /market/distributing channel/technology *today*?" If the answer is No, the object should either be discontinued, or if not possible, resources should no longer be spent on developing it. Organization's best performers and financial resources must be directed at innovation, rather than at keeping the dying alive or saving the 'near misses' (Drucker, 1985).

- 1.2. The business needs to be made 'greedy for new things' – that is, face up to the fact that all existing products, markets, distributive channels, processes and technologies have limited, and normally very short, lives.
- 1.3. Systematic appraisal of existing businesses to discover the position of each product/service in its lifecycle and establish where the firm will be in the future if it successfully manages what it already has. This helps the firm to establish the gap that must be filled in order to stay competitive in the future. This gap is only the minimum measure: the risk of failure in entrepreneurial actions is high, therefore the firm should have under way at least three times the innovative projects that are necessary to fill the gap.
- 1.4. The first three policies enable the firm to create the *entrepreneurial plan* with clear objectives for innovation and deadlines. Accordingly, the budget and sufficient human resources need to be dedicated.

Drucker suggest the following specific *entrepreneurial practices* aimed at developing the entrepreneurial culture throughout the entire organization:

- 1.5. Focusing managerial vision on opportunity. Drucker suggests holding two types of periodic meetings on operating results: one focused on problems, and one focused on opportunities.
  - 1.6. Generate the entrepreneurial spirit throughout the entire management group through specific and regular meetings and reports, where best entrepreneurial practices are shared and learned from colleagues.
  - 1.7. Regular (although not frequent) meetings between the top managements and junior specialists aimed at empowering upward communication and letting entrepreneurial ideas of junior specialists be heard. The suggested ideas are followed by preparation of project plans / working papers by the initiators.
2. Systematic measurement or at least appraisal of the firm's entrepreneurial and innovation-related performance, and built-in learning for improving the performance. Specific procedures include:
    - 2.1. Feedback from each innovative project on the quality and reliability of both the innovative plans and the innovative efforts.
    - 2.2. Systematic review of the firm's innovative efforts altogether, done every few years.
    - 2.3. Judging the company's total innovative performance against the company's innovative objectives, against its performance and standing in the market, and against its performance as a business altogether (every few years).
  3. Specific practices pertaining to the organizational structure, staffing and managing, as well as compensation, incentives and rewards. The structures necessary to enable a business to innovate must enable people to be entrepreneurial, and must devise relationships that centre on entrepreneurship. Specifically:
    - 3.1. The new entrepreneurial projects has to be organized separately from the existing operations.
    - 3.2. There must be dedicated locus of control for the new projects, rather high up in the organization (need not be a full-time job). Managers of the new entrepreneurial projects should report directly to the 'executives in charge of innovation', rather than to managers down the hierarchy; and never to line managers in charge of regular operations. The best, and perhaps the only way to avoid killing a new project by sheer neglect is to set it up as a separate business from the start.
    - 3.3. The innovative efforts require different policies, and rules as for the financial performance and compensation for the key people, than the existing operating units.
    - 3.4. A person or a group should be held clearly accountable for the performance of the new entrepreneurial projects.

#### 4. The DON'Ts of entrepreneurial management:

- 4.1. Entrepreneurial projects/business units should never be included into existing managerial component. Neither can a business become entrepreneurial without changing its basic policies and practices.
- 4.2. A business should only innovate in its own business areas. Diversification or acquisition are not a potentially effective ways to innovate.

In respect to newly established ventures, Drucker named four aspects of entrepreneurial management:

5. Focus on the market, which calls the firm to be alert to both market successes and failures, and start with an assumption that the business' services or products will most likely find customers in segments other than those originally planned. It requires considering both the unexpected success and the unexpected failure as distinctive opportunities and experimentation with product applications in unexpected markets.
6. Financial foresight, especially planning for cash flow and capital needs. Growth of the new venture must be financed, and the finances must be managed.
7. Building a top management team in advance, long before the new venture actually needs or can afford it. Teams require long periods before they can effectively function, collaboration requires mutual understanding and trust, which take years to build. Otherwise, the business risks a management crisis once it starts growing quickly.
8. The founding entrepreneur must decide, which area he/she can contribute best.
9. The entrepreneur(s) need to have external, independent advisors to consult with as for the firm's strategy and challenge the founder's appraisals and decisions.

I argue that Peter Drucker's framework can be applied as a way of implementing the international entrepreneurial culture in born global and other small firms. The arguments for the need of this culture stand today as much as they stood when Drucker wrote his "Innovation and Entrepreneurship" (1985): the markets change very quickly, disruptive technologies change structure of markets and the hierarchies of market players in a matter of months or couple of years. Therefore, no company, no matter how large it is and how safe its financial condition is today, can afford to be reluctant and arrogant toward new market players. The recent (and in places, still ongoing) recession has strengthened these arguments. Born globals and other SMEs have the same need to innovate and renew themselves as any large company, hence, entrepreneurial management structures must be implemented in the smaller and younger companies as much as they need to be in larger organizations.

In my empirical study, I explore how a born global firm has been able to implement aspects of entrepreneurial management, developed mostly by experiential learning. These processes have enabled the firm to survive the harsh effects of the world economic recession, felt particularly hard in a developing Eastern European country.

#### **EMPIRICAL STUDY**

I will first introduce the case company and its businesses, will move on to discussing the effect of economic recession on the country that the firm originates from, Latvia, and the effect of the recession on the firm. Afterwards, I will discuss the actions that the firm took to overcome effects of the recession. In the Analysis section that follows, I will analyze the firm's entrepreneurial management practices following Drucker's (1985) framework and will attempt to formulate the firm's entrepreneurial capability.

VCG (Vivax Communications Group) is a successful Latvian 'one-stop' creative agency and a born global. The company was founded in 1999 and within several years, became one of the leading creative and web design agencies in Latvia, where the market of creative agencies was around 20 at the time. VCG received its first foreign customers from other Baltic countries within two years of establishment, and a customer outside the Baltics – within four years. The success of the firm, according to the founder, lied in the firm's different approach to the creative task: not only meeting the marketing communications needs communicated by the customer, but helping customers solve their *business* needs or tasks. They analyzed the customer's business problem / task first, and then tied to come up with a solution, such as optimization of particular processes through a software solution, positioning the brand more clearly, or other.



*We tried to do thing differently from what was being offered on the market. We set higher goals for ourselves, oriented our work at the international level. We tried to do not only pretty websites, but started making (software) solutions which would help to optimize a firm's business. We talked to firms and asked them, which business processes in their organizations we could help optimize. (Dmitry Holomyov, founder, interview, 16.10.2009)*

VCG's was continuously expanding its portfolio of services with the objective of becoming a "one-stop creative agency". Having started from a small graphic, web design and software development shop, the founder continuously looked for people with particular capabilities within the field of creative services, i.e. event management, interior design, and hired them to acquire those capabilities into the company.

This qualitatively new approach to the standard 'network' international agencies, where each function of the creative process and implementation is separated into a separate sub-company (and thus making more money for the holding), has been very effective for VCG. After having obtained several local Latvian and Pan-Baltic customers, VCG began acquiring positive reputation in the markets for its highly professional and integrated services, short project completion times, and competitive prices. As a result, Pan-Baltic offices of multinational companies began switching to VCG from the renowned networked agencies (a customary practice is that MNCs have an international network agency leading all or most of its brands). VCG's integrated approach to business has brought it another strong advantage over competitors: flexibility and the ability to fulfil, virtually, any customer need within the field of creative services, brand management and business systems and analytics software development, be it branded merchandise, event management, website development, intra- or extranet development, or an advertising campaign.

*We tried to make solutions as we would have done for ourselves. The most important commandment: "do unto others and you would have them done unto you." We try to apply it to our customers. Try to think, what kind of treatment the customer would like. This helps us to talk the language of the customer and solve their problems. Also, we are highly flexible, as compared to other: flexible in payment terms, flexible in delivery times, in developing complex solutions. People can approach us with a burning project, and we finish it in time. We will work day & night, we will work with sub-suppliers, but we will do everything to have the project delivered in time. (D. Holomyov, founder, interview, 16.10.2009)*

Through building its professional network, VCG has managed to develop close working relationships with a number of suppliers, further increasing the firm's flexibility and enabling shorter project completion times.

VCG has been growing organically by continuously adding new capabilities to its portfolio, being very sensitive to the market needs and opportunities. The development of VCG's service portfolio over its history is presented in Figure 1. Currently, the firm has a high number of Pan-Baltic and Western European customers, operations for many of which the firm manages in several countries. Among its largest customers are Volvo Cars' operations in 7 markets, Wolfson Tool (UK), Bang & Olufsen ICEpower (DK), Kraft (several European markets), and a number of other companies. The founder and managing director (MD), Dmitry Holomyov, is the single owner of most of the businesses in the Group.

*[Figure 1. Evolution of VCG's service portfolio over its history]*

### **Latvia and VCG during the economic recession**

Latvia was among the countries worst affected by the recession: GDP fell from several years of 10+ percent growth to an estimated 18 percent decline in Q1, 2009. In December 2008, the European Union (EU), the IMF, the World Bank, and the Nordic countries backed Latvia's adjustment policies with financing worth €7.5 billion (\$10.5 billion) (IMF, 2009).

The years following Latvia's independence from the Soviet Union its acceptance to the EU, experienced a huge economic boom. During these years, large imbalances in the internal banking system and the economy overall were building up. Latvia's economy, still young from the central planning routines, experienced the loss of competitiveness. A lot of the capital inflows that drove economic growth went into non-tradable sectors, such as real estate, retail, and financial services. The country was hit by a high inflation rate (ibid.) The situation was added by instability in the government. An IMF survey states:

*Continued strong credit growth, with bank credit to the private sector reaching 95 percent of GDP last year, double-digit current account deficits, peaking at 25 percent of GDP in 2007, and a large buildup of private external debt amounting to about 130 percent of GDP, made Latvia extremely vulnerable to the credit crunch. When the global crisis erupted last year, resulting in a sudden stop of the capital inflows that had financed the boom, these vulnerabilities created a perfect storm (IMF, 2009).*

In the conditions of budget deficits, high inflation and problems in the government, the market conditions for creative service businesses, and for all other businesses, rapidly changed and still remain unpredictable. Marketing budgets were among the first expenses to be slashed by businesses, according to our interviewees. For VCG's operations, its home market operations accounted for about 60 of its overall revenue during the years of economic growth. This market fell by ca. 50 percent from mid-2008. The small increase in foreign operations was not sufficient to cover the loss of revenue from the home market, and VCG faced the threat of significant downsizing. Instead, the firm utilized several opportunities that came out during its ongoing and continuous entrepreneurial management practices.

Since its very establishment, VCG was always in the state of continuous entrepreneurial search. The founder and the managers were always on the lookout for new project opportunities, many of which came up during discussions with customers or partners. The firm quickly grew not least due to the word of mouth reputation that it was quickly acquiring in Latvia and in other Baltic countries. According to the interviewees, the firm always has several new business directions or new projects being offered or discussed with them, and they decide which projects to pursue based on the current resource situation.

As part of its interior design projects, VCG had made several unique furniture and home accessory items, and put them on their website to add to the display of the firm's capabilities. Unexpectedly, a lot of positive feedback from people, literally, all over the world began coming in, often with requests to purchase the furniture. The media in different countries picked up on VCG's furniture and began including them into their ratings. One of the publications named VCG's furniture 'a new movement in Art Deco'. During the difficult recession time, VCG followed this market pull and chose to enter a completely new business of furniture design and development by spinning off its interior and industrial design departments into a new firm, Katz, which designs and manufactures innovative, premium furniture and home accessories – the market that has been contracting under the recession.

The new business clearly required a set of new skills and setting up a new value chain. A manufacturing processes manager was hired, and furniture manufacturing was set up in Latvia, with the deep involvement of Katz' managers into the process due to the complexity of furniture items. Manufacturing of home accessories was set in China. Development of the highly complex mechanisms for Katz' unique wall clocks is outsourced to the specialist firms, such as Seiko in Japan.

Katz was fully financed by VCG from the profits earned through other VCG's operations. The key designer Stanislav Katz, a former VCG employee, was offered a share in Katz to secure his commitment to the new firm. Katz is benefitting from being a part of the Group of creative companies: it shares graphic and interior design resources with VCG. The Group's administrative, financial services, HR and IT resources also cover Katz. Furthermore, Katz is greatly benefitting from the core capabilities of the mother company, which is brand building and management. The Katz brand is being built in a professional manner. Marketing channels for the new firm are being built at international trade fairs and through direct contact with potential importers worldwide. Organization structure of Katz is presented in Figure 2.

*[Figure 2. Organization of the spin-off born global Katz Ltd.]*

Katz is a born global in the purest sense: following the international market pull, the founder has established the business aimed at international (not only Triad) markets, with the sourcing, manufacturing and marketing channels located internationally.

### **Other VCG activities during the recession**

Besides Katz, VCG has established an additional new service aimed at the domestic market – the service of collecting market intelligence for customers. As with Katz, other VCG's capabilities supported the development of the market intelligence department. First of all, this service was a rather logical / organic addition to the rest of VCG's marketing services. Secondly, through VCG's programming capabilities, the new department is supplied with a work flow optimization system, which helps the people in the field to input

their information directly into the databases, significantly shortening the project completion times. The new services serves as an additional to VCG's wide array of marketing and creative services, and is highly welcome by the customers. The new department was launched in 2008 and has become a successful new source of revenue.

## ANALYSIS

In this section, I will discuss the entrepreneurial management practices of the firm, which I have researched using Peter Drucker's (1985) framework as a guide. As discussed, my approach to this study was abductive: I had been prepared with the literature, but when I collected my empirical data, I looked for further theory to support my findings. It was becoming clear that the case firm is implementing many of the practices recommended by Drucker, without knowing his teachings. This is why I used his framework to collect additional data and see how entrepreneurial management can be exercised in born globals ventures, and which aspects are added to the framework by international entrepreneurship. My analysis is presented in Table 1 (the aspects of Drucker's framework are repeated briefly).

**Table 1. Relating the findings from the case study to Peter Drucker's framework of entrepreneurial management (1985)**

<b>Entrepreneurial management for established ventures:</b>	
1. Entrepreneurial climate, managerial vision set to opportunity, and policies, structures and processes must be implemented for continuous entrepreneurial search and renewal.	
Entrepreneurial policies:	
1.1 A systematic policy of abandoning the obsolete. Trial of every product, process, technology, market, distributive channel, internal staff activity for life	<p>VCG abandons unprofitable or potentially unprofitable projects as soon as it shows to be unprofitable or potentially unprofitable (no interested customers in a project / service close to its launch). The managers have an estimate of how long after launching a new service it should start bringing revenue, and when it should become profitable. If this does not happen, the project is discontinued.</p> <p>The firm has thus discontinued its concert organizing department. Besides, the event management department is no longer a separate unit since organization of events has not been in demand since the beginning of recession.</p>
1.2 Business made 'greedy for new things', understand that all existing products, markets, distributive channels, processes and technologies have limited lives	<p>Continuous entrepreneurial search was always a part of VCG's organizational culture. The culture has been developed by the founder, reflected in the type of people he hires. The firm's founder and managers are always on the lookout for new entrepreneurial possibilities, brought in either by the founder, or arising in the conversations with customers. Many new business offers are brought to VCG by people due to the word of mouth reputation that VCG has built for itself in Latvia and other Baltic countries. Others arise during the projects that VCG completes for the customers.</p> <p>The founder tells that his approach to hiring peoples rests on two guiding principles. First, he tries to create a 'family'. The business they work in requires close team work and collaboration, instead of advancement of individuals and autonomy. Secondly, the founder always demands high ambitions, professionalism and continuous development from all of his specialists and managers in their own fields. This is also one of the reasons why the firm's portfolio is constantly being expanded: the specialists need a space to grow in their fields.</p> <p>In the first years of the company's establishment, the entrepreneurial culture might have been the result of the founder's and the team's ambitions and the desire to prove to the Western companies and</p>

customers that they could do as good of a job as the Western creative agencies, and even pose serious competition to them. In the years of recession, however, the highly uncertain and insecure conditions of the home market became the main driver. VCG's creative director explains:

*There is the reality of life. There is the money that the company makes. The money can be distributed as salaries or whatever else, which would not allow the company to develop. Alternatively, they can be invested into developing the firm, which will ensure the future flow of orders. So if we simply 'eat up' the profits, one day they can simply run out – especially considering the current market conditions. In the unpredictable market conditions, our task is to continuously search for new opportunities, because one of them will help us develop the company and carry us out from difficult times, should they arise. Factually, this is risk management. (Gregory Rozanov, VCG creative director, interview, 22.12.2009)*

Each opportunity is carefully considered by leaders of the relevant teams. The VCG creative director tells that he does not remember that even one business opportunity was turned down without consideration and a discussion with relevant specialists as for the project's viability.

Based on their specialized experience, the founder together with the team leaders discuss: (1) which resource endowments and from which departments development of this new business direction would require; (2) how much potential, in their view, the business has, and (3) whether the potential profitability of the new business is worth the investment. *This evaluation process is not formal, no special reports are created. The expert opinions are trusted and acted upon instead.*

*Continued in point 1.4*

<p>1.3 Systematic appraisal of existing businesses to discover the position of each product/service in its lifecycle. Establishment of the necessary gap to fill. Ca. 3 times the amount of innovative projects should be under way.</p>	<p>This process does not happen formally, but rather organically. Once a department or a unit ceases to be profitable, it is discontinued and the resources are distributed among other departments.</p>
<p>1.4 Creation of the <i>entrepreneurial plan</i> with clear objectives, deadlines + the budget and sufficient human resources.</p>	<p>If it is decided that the new business direction is to be pursued, particular people are made responsible for the new department or business unit, resources are committed and if necessary, new resources are hired or acquired. The early period of operations of the new business or department creates a little 'bend' on the operations of other departments, since some of their resources are being used. But the 'bend' is soon fixed following business priorities.</p> <p>With the launch of the new market intelligence service, it took VCG only 4-5 months from the initial idea to launching the new functional department.</p> <p>No formal entrepreneurial plan is created. However, according to the interviewees, the firm normally has more new business or project offers or ideas that it can handle with the limited resource, so it has to choose the projects to pursue based on its current resource availability.</p>

Entrepreneurial practices:		
1.5	Focusing managerial vision on opportunity. Two types of periodic meetings on operating results: one focused on problems and one focused on opportunities.	Ongoing problems are decided in the 'working mode' between the people involved, they are not brought up at common meetings. The common meetings are focused on opportunities and new projects being developed.
1.6	Regular meetings and reports discussing best entrepreneurial practices and learning from colleagues.	Such meetings happen ad hoc.
1.7	Regular (not frequent) meetings between top managements and junior specialists to empower upward communication. Suggested ideas followed by working papers by the initiators.	This procedure was necessary when VCG did not have a team / department structure. Since then, any issues are discussed between the specialists and team leaders. If the MD's attention is needed, he is contacted directly – the advantage of a small company.
2.	Systematic measurement or at least appraisal of the firm's entrepreneurial and innovation-related performance, as well as built-in learning for improving the performance. Specific procedures:	
2.1	Feedback from each innovative project on quality and reliability of both innovative plans and innovative efforts	No formal assessment is made. However, as discussed, if by the time a new project / service / business is to be launched, there are no customers or partners interested in it, the project is not launched. According to the interviewees, this does not happen often since the team does its 'homework' – assesses the market, talks to customers & partners, before initiating new services or businesses.
2.2	Systematic review of the firm's innovative efforts altogether (every few years)	Not done formally. This evaluation is done mostly by the founder 'in his head', as he explains.
2.3	Judging the company's total innovative performance against the company's innovative objectives, against its performance and standing in the market, and against its performance as a business altogether (every few years).	Not done formally. Once again, done mostly by 'in the founder's head'.
3.	The structures necessary to enable the business and the people to be entrepreneurial: specific practices re. organizational structure, staffing and managing, compensation, incentives and rewards	
3.1	New entrepreneurial projects have to be organized separately from existing operations. Best approach: setting up the new projects as separate firms.	New projects are separated either into new departments or new businesses altogether (as with Katz, and other company in the group HostHub).
3.2	Dedicated locus of control for the new projects high up in organization. Managers of entrepreneurial projects report directly to 'executives in charge of innovation'; never to managers of regular operations.	The locus of control of new project normally lies with the founder / MD. All other involved managers and specialists report directly to him.

3.3 Different policies & rules for evaluating financial performance of and compensation for the key people, than for existing operating units.	Evaluation is done based on profitability (or negative profitability) figures of departments and business units for all ongoing operations.
3.4 A person or a group held clearly accountable for the performance of new projects.	<i>See point 1.4</i>

4. The DON'Ts of entrepreneurial management:

4.1 Entrepreneurial projects/business units should never be included into existing managerial component. Neither can a business become entrepreneurial without changing its basic policies and practices.	New entrepreneurial projects in most cases are managed by the founder / MD. Since 2010, also a dedicated business development manager has been appointed.
4.2 A business should only innovate in its own business areas. Diversification or acquisition are not potentially effective ways to innovate.	<p>VCG, in contrast, diversifies its services and businesses continuously. The strategy is mostly organic growth, since the new services and businesses are based upon the firms' existing capabilities and skills.</p> <p>All the services and business department before Katz were established in the effort of creating a 'one-stop creative agency', to be able to provide the full scale of marketing, brand management, creative development and related programming services to customers. The services were being created for the existing value chain.</p> <p>Katz, on the other hand, is a different example. VCG diversified into a completely new business that involves industrial design, manufacturing, quality control, and new sourcing, marketing and distribution channels. It requires new competences in skills. At this stage, the Katz' prospects look bright judging by the high demand for its products. But only time will how successful the venture will be in the long run.</p>

**Entrepreneurial management for new ventures:**

5. Market focus, being alert to both market successes and failures	<p>VCG keeps close proximity to the market and effectively responds to the changing market needs by continuously adding and developing the services that customers enquire about, or may be interested in.</p> <p>VCG has also experienced failures when it tried to diversify into unrelated businesses, such as car insurance or construction. The founder quickly learned that simply managing those businesses, without learning them, is not possible, and subsequently quit them.</p>
6. Financial foresight and management	The founder funds business growth from the revenue from ongoing operations. The firm has not borrowed funds over the last several years. As a result, the new business Katz and other of the firm's initiatives are growing rather slowly, according to the founder, but this ensures the firm against economic crises and other conditions of the unpredictable home market. The founder tells, if they had borrowed funds, the company might have not existed today.

7. Building a top management team long before it is needed or can be afforded	The top management team composed of heads of each functional department has existed in VCG since 2005-2006, 6-7 years after the firm's establishment. It is also continuously improved. The latest development has been the appointment of a formal business development manager since January 2010, who is taking the role that has previously been mainly fulfilled by the founder. The top management team has factual decision power as for development of the business.
8. The founding entrepreneur's decision on his/her area of contribution	The founder is a serial entrepreneur, and as the interviews showed, he tried to establish, possibly, too many businesses under one umbrella over the firm's history. However, he has re-established his focus on the core businesses of the Group, which are brand management, creative development and programming services, as well as on developing Katz. His operational role varies according to the current needs, but has mostly been in business development and internal management. Now, that a dedicated business development manager for VCG has been hired – "a very important and long-awaited step", according to another VCG manager, the founder will be able to focus more on developing Katz and managing the Group.
9. Access to independent advice	VCG employs specialized advice as for the new areas it bids for – developing a solution for a medical or an insurance business.  As for business consulting, the founder consults informally with his friends, who are consultants or entrepreneurs. The firm also employs financial consulting of Ernst & Young.

Additionally, I have attempted to investigate the international aspects of entrepreneurship for VCG and how they differ from those in home entrepreneurial efforts. The study has shown that a large portion of the new projects / businesses in the home market come from the networked approach that the firm and other entrepreneurs in Latvia apply. Based on VCG's established and positive reputation in its core businesses, and the large potential basis that these capabilities provide, the firm enters many projects. The skills that the firm lacks for its new ventures are added by hiring of highly qualified specialists. With foreign partners, this is much more difficult. With them, it is the push approach that VCG has to exercise, and projects develop much slower. The firm first has to prove its abilities, gain legitimacy in the eyes of foreign customers. The foreign customers simply do not know VCG or are not aware of the firm's full spectrum of capabilities and the level of quality. VCG is not a price leader in its services due to the Chinese and Indian competitors, but the combination of the high quality, short project completion times and reasonable prices make VCG a very strong competitor. However, it takes a long time to prove this to foreign customers or partners.

Collaborative new projects with partners from the post-Soviet zone happen easier due to the common language and cultural background.

### **The entrepreneurial capability of born globals**

Based on the above discussion, I would like to start a discussion on the entrepreneurial capability of born globals. Building on Drucker's theory (1985), I argue that entrepreneurship is not only an organizational culture, but the culture completed by organizational policies and processes, which comprise the firm's entrepreneurial capability. Born globals are young and small-to-medium firms, which carries both advantages and disadvantages. Small size means limited resources and often strain on existing resources, as well as the lack of funds to withstand possible difficult economic conditions. Flexibility, on the other hand, is a strong advantage, enabled by the lack of deeply embedded administrative routines. Flexibility enables firms to respond quickly to changing market needs and diverse international market conditions. The small size may also often mean lack of formal structures inside a company – which at a reasonable size, allows for flexibility and collaboration of the organizational members, but above a particular size, depending on the firm's business, may prevent it from efficient operations.

In the knowledge-based view (Grant, 1996), the critical source of competitive advantage is knowledge integration, rather than knowledge itself. "The processes which firms integrate specialized knowledge are

fundamental to their ability to create and sustain competitive advantage.” (ibid., p.364)<sup>1</sup> The mechanisms for knowledge integration and formation of organizational capabilities are: (i) *Direction*, identified as the principal means by which knowledge can be communicated at low cost between specialists and the large number of other persons who either are non-specialists or are specialists in other fields. Direction involves codifying tacit knowledge into rules and instructions, in order to increase the efficiency of integration. (ii) *Organizational routines*, which provide mechanisms that are not dependent upon the need for communicating knowledge in explicit form. Below, I attempt to conceptualize VCG’s entrepreneurial capability.

In small organizations, direction elements are not necessarily always written down, as the case with VCG shows. Most of their policies and the ways, in which the firm operations, are formal, but not written down. They are communicated directly by the founder / MD to the team leaders, and thereafter – to the specialists. The firm’s small size is thus a large advantage. Furthermore, smooth operations of the firm are grounded in the hiring practices and principles of the founder, where he tries to hire like-minded people with strong team working capabilities and the ambitions to grow professionally, as he does. Therefore, the direction elements in born globals can be expected to be formal, although unwritten – but nevertheless, well understood throughout the organization.

#### *Direction elements:*

- The culture of continuous entrepreneurial search, grounded, first of all, in the firm’s international and excellence ambitions, and secondly, in the ongoing economic recession, which pushes the firm to look for innovations and new adjacent projects and services to offer.
- Continued focus on the market needs and opportunities.
- The culture of deep professional trust, both among colleagues and between the founder and the managers. The expert opinions are trusted when evaluations of new opportunities are made, without the request of formal reports, estimation of market potential and formal references. Trust is an important direction element, since it enables the flexibility and quick responsiveness of the firm to the emerging entrepreneurial opportunities. This working culture also saves a lot of scarce labour hours, which are put directly into completing projects, instead of creating long market studies.
- The practice of hiring professionals with strong team working abilities and the ambition to excel in their specialized fields.
- The strategy of related diversification, which in most cases, creates organic growth for the firm. Each new business project is closely related to the firm’s existing competences, and can either benefit from them, or enrich them. In this way, the Group is able to serve as an incubator for its new businesses or departments, as well as optimize its overhead expenses.
- The policy of quickly abandoning non-profitable services or businesses.
- Focus on core businesses, and the policy of pulling out of the businesses that cannot be managed within the existing organizational structure.
- The overall supportive and collaborative culture within the firm. It enables the entrepreneurial and other of the firm’s capabilities. It is represented in the departments’ openness to new projects and the supportive culture between departments whenever support with resources is necessary.
- The practice of funding growth from revenue from existing operations, without borrowing external funds.
- The strategy of staying independent, not being bought by another company.

#### *Routines:*

There are several types of routines that are involved in VCG’s entrepreneurial capability:

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<sup>1</sup> Grant defines knowledge “broadly to include both “explicit” knowledge which can be written down, and “tacit” knowledge which cannot. The emphasis is on tacit knowledge since, in the form “know-how”, skills and “practical knowledge” of organizational members, tacit knowledge is closely associated with production task, and raises the more interesting and complex issues regarding its transfer both within and between organizations.” (p. 377)



- The functional services provided by each department and each employee of VCG in a highly professional manner.
- The professional flexibility of each employee in getting involved into diverse projects, and their flexibility as for input of working hours.
- The department's flexibility in reorganizing their resources to support the new departments or business units. These routines are critical during the early period of operations of a new business unit or department, when existing resources are being used for more purposes and workload. This flexibility is also necessary when a service is discontinued and a team's members need to be absorbed by other teams.
- The routines focused on business opportunities among the managers and the founder: searching for opportunities in conversations with customers and partners and bringing them to common discussion (as opposed to missing them due to the overly strong focus on ongoing operations and workload, or simple lack of enthusiasm).
- The routines involved in the evaluation and decision making process regarding new business opportunities. The openness of discussion and the way that specialists challenge new business ideas are the routines developed over the years of such communication and discussions. The trust toward expert opinions is the enabler of these routines.

From my analysis, I believe that VCG's entrepreneurial capability has been the root cause of its continuous success over the 11 years of the firm's history. Besides its strong portfolio of specialized services, this is one capability that has enabled the firm to endure and develop throughout the prolonged economic recession. In contrast, some of VCG's Latvian competitors did go out of business in the last two years. There is always a risk for a successful business to become complacent and continue living off of its existing achievements. My case firm, in contrast, never stopped search for ways of developing its business further, even in the times of very strong economic growth. A lot of this drive comes personally from the founder, but he has also managed to establish an entrepreneurial spirit and practices throughout the management team, and is setting up entrepreneurial practices in the organizational structure and policies. The entrepreneurial practices can be said to be both domestically and internationally oriented, with some of the resulting new services and businesses set up for domestic, and other – for the overseas or even globally located customers.

The study has shown that a lot of entrepreneurial and strategic decisions in the case company are taken based on the 'business feeling' or intuition of the founder and the management team. This may be suitable for their business, but may be a false approach for other, e.g., high-tech businesses. Therefore, the entrepreneurial capability will need to be adjusted for specific businesses. But the underlying principles of managing continuous entrepreneurial search and renewal of organizational capabilities remain the same.

## CONCLUSION

In this article, I have attempted to explore the mechanisms through which entrepreneurial culture is implemented in born global firms. Based on the findings, I discussed the entrepreneurial capability of born globals; and explored how this capability can help these firms to overcome results of an economic recession.

My findings show that implementation of organizational mechanisms aimed at continuous entrepreneurial search and renewal of organizational capabilities is necessary for born globals and other SMEs in order to stay competitive in their domestic and international markets. Principles of classical entrepreneurial management (Drucker, 1985) can be applied in born globals and other SMEs in a modified form suitable for the smaller organizations. In case of born globals, the entrepreneurial elements direction and routines serve as the mechanisms, through which the firm's international entrepreneurial culture and orientation can be implemented.

After having applied Peter Drucker's (1985) entrepreneurial management framework to the practices observed in the case company, I was able to analyze, which of the practices are fulfilled according to the framework (although learned by the firm mostly through experience, rather than theory), and which are not necessarily relevant for a smaller organization. Based on the analysis, I have attempted to formulate the entrepreneurial capability of born globals, which is a set of directions and routines aimed at organizing individual knowledge (Grant 1996) in order to implement entrepreneurial practices in the firm. The directional elements of the capability have shown to be: a) The culture continuous entrepreneurial search, grounded in the firm's international and excellence ambitions, and currently, in the ongoing economic recession, which pushes the firm to look for new services or businesses; b) continued focus on market needs and

opportunities; c) the culture of deep professional trust, both among colleagues and between the founder and the managers. This culture enable quick decision making and flexibility in operations, without the need for time-consuming market studies and reports; d) the practice of hiring like-minded professionals with strong team-working abilities and ambition to excel in their specialized fields; e) the strategy of related diversification resulting in organic growth of the firm; f) the policy of quickly abandoning non-profitable services or businesses; g) business focus, and the policy of pulling out of the businesses that cannot be managed within the existing organizational structure; e) the overall supportive and collaborative culture within the firm, enabling the flexibility in the operations; h) financial foresight represented in the practice of funding growth without borrowing external funds; and j) the strategy of staying independent, not being bought by another company.

The routine elements of the entrepreneurial capability have shown to be: i) The professional, specialized services provided by each department and each employee; ii) The professional flexibility of employees as for getting involved into highly diverse projects, and flexibility as for input of working hours; iii) the department's flexibility in reorganizing their resources to support the new departments or business units.; iv) the routines focused on business opportunities among the managers and the founder; and v) the routines involved in the evaluation and decision making process of new business opportunities based on trust toward the expert opinion of colleagues.

The capability has shown to be rather complex, but so are everyday operations of organizations. This is also the advantage of the organizational capability approach to studying and analyzing organizations, where the particular competences and mechanisms for organizing knowledge are pulled together and analyzed, instead of focusing on particular departments or functions. The capability approach is particularly suitable for studying born globals, since the functions in these organizations are often fluid, particularly those of managers. Furthermore, born globals often lack the tangible resources, and knowledge-based capabilities become the basis for their competitive advantage (Knight & Cavusgil, 2004).

In the organizational capabilities theory, the principle of equifinality is well known – companies can reach the same outcome through organizing their processes and resources differently (Eisenhardt & Martin, 2000). Certainly, the way I have describe the entrepreneurial capability of a born global firm may be perfectly suitable for my case firm, but may need to be adjusted for other firms. I do not make generalizability claims, but do make analytical claims – the direction and routine elements described in my framework are a good basis for building an entrepreneurial capability in other born globals and SMEs, and many of the elements are found in the entrepreneurship literature (Drucker, 1985; Stevenson & Jarillo, 1990).

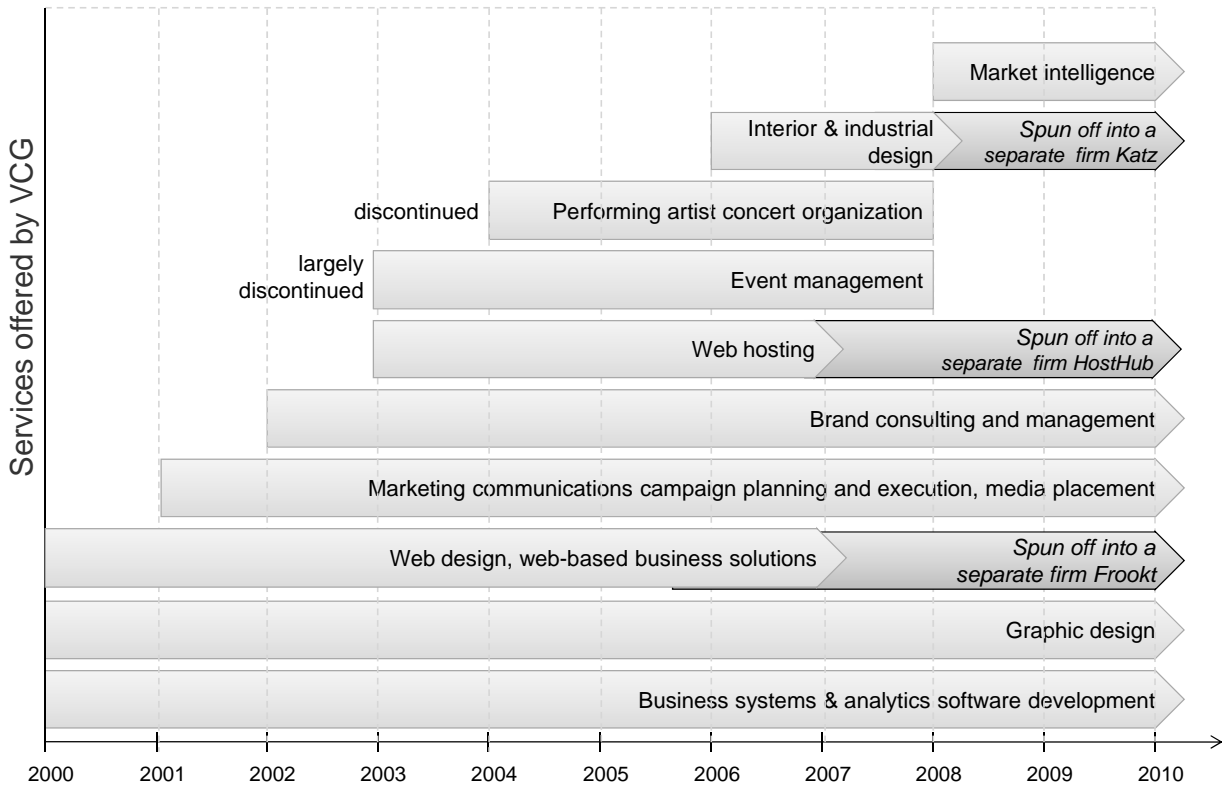
The entrepreneurial capability of the case company has enabled its successful performance throughout its history and has ensured its stable and successful growth. Throughout the market growth years, the firm was able to seize many new opportunities. While in the recession years, it was able to leverage the capability to establish new businesses and thus avoid downsizing or going out of business altogether. Hence, this capability is critical in the sustainable successful performance and growth of firms (cf. Knight & Cavusgil, 2004; Mort & Weerawardena, 2004; Drucker, 1985; Stevenson & Jarillo, 1990).

This study makes two contributions. First, I have done a close-up study of a born globals entrepreneurial practices and organizational culture that support them, and based on the findings and the classic entrepreneurship literature, have formulated the firm's entrepreneurial capability. Existing literature mostly focuses on the organizational culture aspects of entrepreneurship in born globals and lacks exploration of the mechanisms used to implement this culture. Secondly, I have shown how the entrepreneurial capability can help born globals to ensure continuous performance and growth, as well as overcome of difficult economic conditions, such as a prolonged economic recession. This study is one of the first to examine the effects of an economic recession on born globals and their behaviour in a recession. Although my study is based on a single case study, its critical and revelatory qualities, and the methods of in-depth enquiry, allow for analytical generalizability of the findings.

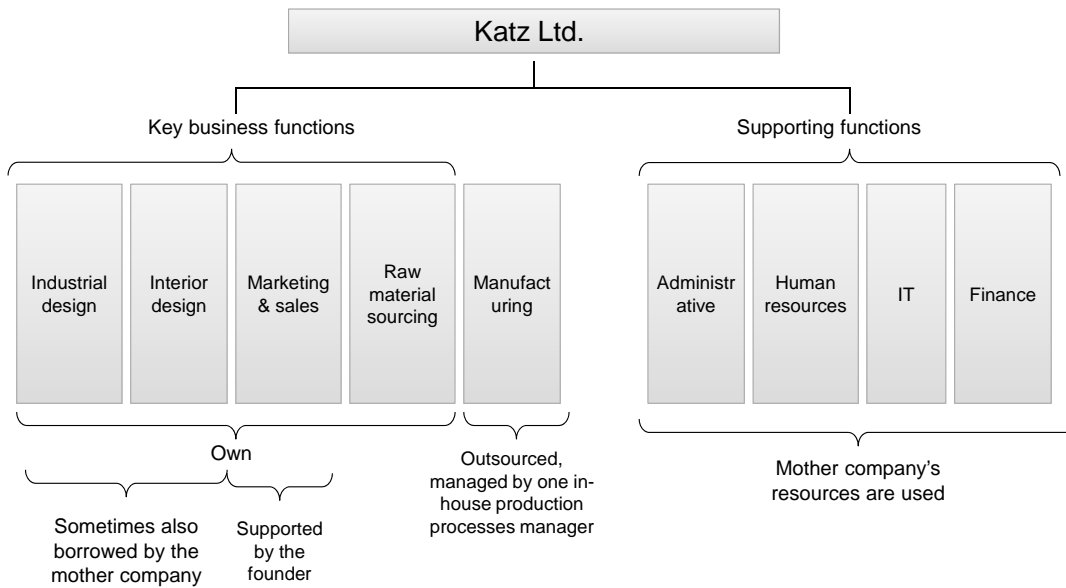
This study should bring useful insights to managers of born globals and other SMEs as for the necessity of establishing ongoing entrepreneurial search policies and processes in their firms. As further avenues for research, I believe, it would be valuable to widen the sample and continue investigating organization of entrepreneurial practices in born globals and their effect on the firms' performance. Furthermore, more studies need to be done on born globals originating from developing countries, since these firms face rather different starting conditions from those from the developed countries due to the different market and institutional circumstances.

**FIGURES**

**Figure 1. Evolution of VCG's service portfolio over its history**



**Figure 2. Organization of the spin-off born global Katz Ltd.**



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