

# IMPACT OF EXTERNAL BUSINESS ENVIRONMENT FACTORS ON INTERNATIONALIZATION OF LITHUANIAN BORN GLOBAL COMPANIES

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**Abstract.** *The paper examines the external factors that influence the internationalization of the Born Global firms in Lithuania. The identification of such factors is based on M. Porter's National Diamond model. Theoretical analysis of the model enabled us to distinguish 23 factors as potentially influencing the internationalization of firms. The impact of these factors on Born Global firms was explored upon performing a survey of 50 Lithuanian firms of this sort. The survey results have revealed seven factors as having a positive effect on the internationalization of Lithuanian Born Global firms.*

**Key words:** *Born Global companies, internationalization, the Porter National Diamond model, external business environment*

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## Introduction

Over the past few decades, the international business environment has changed dramatically: the development of the transport infrastructure, improvements in the manufacturing process, reduced trade barriers, more effective business communication, an increased number of people with international business experience, etc. (Gabrielsson et al., 2004; Madsen, Server, 1997; Oviatt, McDougall, 1994). All these changes have improved access to international markets and their localization, which led to the emergence of Born Global companies (Madsen, Servais, 1997; Oviatt, McDougall, 1994; Rasmussen, Madsen, 2002). In academic papers, these companies are often called the phenomenon of internationalization, because they are exceptional, disproving the hitherto prevailing perception that a firm should gradually carry out internationalization only after a relatively long time upon developing a strong position in the local market (Gabrielsson, Sasi et al., 2004; Rasmussen, Madsen, 2002). In other words, rapid and extensive internationalization is seen as the principal feature of the Born Global companies.

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Academic articles emphasize also some other features of these companies:

1. Innovation performance, namely investment in innovation and the use of modern technologies which enable the market to offer a unique, innovative, extremely specialized (Gabrielsson et al., 2008; Madsen, Servais, 1997) products of a high value-added (Bell, McNaughton, 2000).
2. Competition not by price, but by unique knowledge, competences and technology (Kudima et al., 2008; Madsen et al., 2000).
3. Operation in the market niches of the industries that require “high tech” and specific knowledge (Gabrielsson et al., 2004; Rialp et al., 2005; Lampa, Nilsson, 2004; Luostarinen, Gabrielsson, 2006); however, other authors believe that these companies operate in both “high tech” and “low tech” business sectors, particularly in cases when a company is established in a small-market country (Rialp et al., 2005; Lampa, Nilsson, 2004).
4. The founders and / or managers are entrepreneurs who are not afraid of taking risks and who are innovative and proactive (Gabrielsson et al., 2008; Bell, McNaughton, 2000).
5. The global vision and presentation of the company to the world as one big market from the very beginning (Gabrielsson et al., 2008; Luostarinen, Gabrielsson, 2006; Rasmussen, Madsen, 2002; Oviatt, McDougall, 1994).
6. Facing difficulties in getting financial resources due to the small size of a company and the high degree of risk; the risk decreases with the maturity of the company (Gabrielsson, Kirpalani, 2004; Lampa, Nilsson, 2000; Gabrielsson et al., 2004).

However, the external business environment is important to the Born Global companies not only for the changes that have determined their emergence, but also for its direct impact on business strategy formulation (Porter, 1980, 1985; Barney, 1991; Rao, 2005) “<...> as the whole of forces that operate outside the company and have a direct or indirect impact on the company’s activities and its decisions, which the company cannot control” (Kotler et al., 2002, p. 166). In other words, the external business environment is one of the factors that influence the emergence of every company, including the Born Global ones; therefore, every government has to strive to create and maintain the most favourable external business environment possible.

Born Global firms and their emergence in Lithuania are a particularly important issue not only in the theoretical aspect due to the lack of scientific publications, but also from the practical side. First, given the fact that Born Global firms get most of their revenue from foreign countries, we can conclude that the emergence of such companies can positively influence Lithuania’s foreign trade deficit. Second, Born Global firms are mostly small and medium-sized enterprises, and such enterprises (SMEs) play an important role in the Lithuanian economy, because SMEs are “<...> one of the key factors of the economic growth with a substantial effect on the development of the Lithuanian economy, job creation and social stability; therefore, their development is one of Lithuania’s most

important economic policies” (Matekonienė et al., 2010, p. 1). Considering the benefits of the Born Global companies’ emergence in Lithuania, the authors raise the question which factors of the Lithuanian external business environment lead to the emergence of Born Global businesses in Lithuania.

The efforts to answer this question are based on two presumptions:

1. Since Born Global companies are the companies that perform internationalization immediately after their establishment or after a certain time, it is concluded that the external business environment factors that develop internationalization are most important for the emergence of Born Global companies.
2. The external business environment of the Lithuanian Born Global firms will be analysed on the basis of M.E. Porter’s National Diamond model which explains the impact of the peculiarities of the external business environment of the home country on the companies, aiming at the sustainable competitive advantage (Rugman, D’Cruz, 1993). M.E. Porter’s National Diamond model is suitable also due to the fact that, firstly, it is based on the analysis of the home country’s external business environment, which consists of the factors that influence the acquisition and maintenance of the international competitive advantage of companies (Grant, 1991, p. 537), while Born Global companies, like any other company, acquire their competitive advantage in the foreign markets only if the external business environment is favourable for doing business (Kudima et al., 2009); secondly, Porter’s National Diamond model is designed for the analysis of the competitiveness of a country or a particular industry, while the Born Global companies often operate in a specific place – global “high tech” market niches.

The methods and statistics used in the present work are the following: analysis of the literature, primary data collection through a quantitative study using the questionnaire method, and the initial analysis of data by methods of statistical analysis: frequency tables, Student’s t criterion, Pearson’s correlation coefficient, comparison of several groups’ averages, and Cronbach’s alpha coefficient.

### **Business environment factors promoting internationalization**

According to the National Diamond model, the competitiveness of a particular country or a particular industry depends upon four factors of the external business environment, operating individually and together as a system (Porter, 1990): factor conditions, demand conditions, presence of related and supporting industries and business strategies, structure and competition in industry or country, as well as two secondary factors influencing the pattern of all four main factors: the government and random events (see Fig. 1).

Identification of the factors of the external business environment, which promote the start-up of Born Global firms, is based on the presumption that the external business environment favourable to internationalization is also favourable for the emergence of Born Global companies.

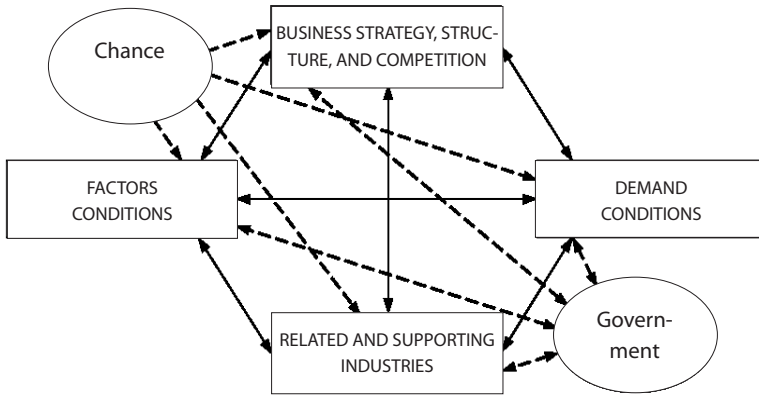


FIG. 1. "National Diamond" model

Source: Porter, 1990.

### Factor conditions

Factors conditions are divided into five broad categories: human, physical, knowledge, financial capital resources, and infrastructure, but the particularity of Born Global companies enables distinguishing certain groups of factor conditions, which are of a greater or lesser importance to the phenomenon of internationalization (see Fig. 2).

Figure 2 shows that three groups of factor conditions are important to Born Global companies. First, it's the knowledge resources, which encourage companies to perform internationally by using their knowledge-based competitive advantage. Second, Born Global companies have problems with getting financial resources for their business and international development; therefore, the financial capital available in the country and the possibility to get it are also considered as factors encouraging internationalization. Third, the country's business infrastructure: for the Born Global companies that operate internationally or globally, the transport system facilitates the logistics and distribution of goods, business travels, and the telecommunications network can be used not only for communication, but also for doing business in general. Such factor conditions as physical and human resources as increasingly unimportant had not been attributed to very important factors for Born Global

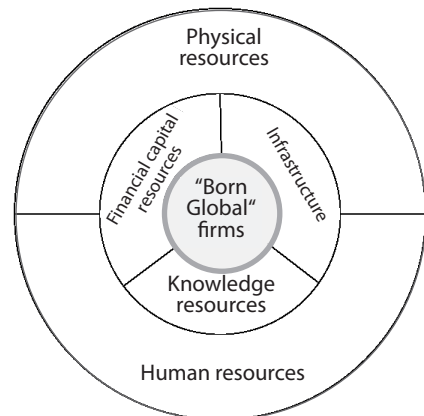


FIG. 2. Factor conditions which are important for the phenomenon of internationalization

Source: authors

companies, because they perform an auxiliary role in creating the competitive advantage of the companies.

### **Demand conditions**

According to M.E. Porter's "National Competitive Advantage of Nations", demand conditions are characterized by three extensive features: 1) size of demand and growth rate, 2) composition of demand, and 3) internationalization of demand.

The emergence of Born Global companies, like of all other businesses, requires demand; however, this case manifests the distinctiveness of Born Global companies: operating in small niche markets, these companies face a complete absence of demand in some market niche in their home country; therefore, the lack of demand or its total absence, which may be caused by an early saturation of the market, is the business environment factor that facilitates the implementation of internationalization (Nilsson, 2004). Another factor of the external business environment, facilitating the emergence of Born Global companies, is early demand, because these companies arise from the demand of small niche consumers-innovators. These consumers-innovators facilitate the introduction of brand-new or modified products into the market and also enable to foresee the new needs that will be shared among many consumers (Porter, 1990, p. 95–96). However, it should be noted that the level of demand, its growth and a large number of independently acting buyers are not attributable to the factors of external business environment facilitating the emergence of Born Global companies, because:

1. The extent of demand mainly influences the companies that are particular about their size and growth; however, this paper analyses the emergence of Born Global enterprises rather than their growth and expansion.
2. The extent of demand affects innovation performance, but this factor of the external business environment is important to the companies which carry out innovations in order to compete with other companies, while Born Global companies innovate for the non-competitive purposes but in order to avoid direct competition.

Given the fact that Born Global companies are mainly oriented towards the "high-tech" markets and seek to meet the needs of niche consumers which, due to their specificity, are not covered by traditional enterprises, it can be concluded that Born Global companies often have demanding customers marked by their specific needs, – the so-called "professional" consumers. "Professional" consumers force companies to maintain a high product quality, high performance and service standards, and also allow to foresee the new needs that are going to be shared by a great many of consumers and to provide the market with innovative and improved products, i.e. "professional" consumers are often innovators-users (Porter, 1990, p. 89–92).

Finally, the demands of foreign countries' consumers and satisfying these demands make an integral part of these companies, so it is understandable that the more open is

the economy of a country, the more it favours the emergence of Born Global companies, because an open economy reflects the degree of a country's openness to foreign markets, i.e. the level of the trade barriers that are used.

### **Related and supporting industries**

Each company, creating and maintaining horizontal and vertical relationships with related and supporting industries, can benefit greatly from exchange of information and technologies or get better terms from suppliers, etc. (Porter, 1990, p. 100–103). Since Born Global companies often face the lack of expertise and resources in certain areas which hinder the implementation of internationalization, it is very important for these companies to be in networks (or business clusters) with the companies of related and supporting industries, thus gaining strong business partners. In this context, the internationally competitive related and supporting industries mean the internationalization of business by encouraging the implementation of external business environmental factors, because it allows a Born Global company to gain strong international business partners.

One of the ways to establish and maintain good relations with allied and supporting industries is to participate in a business cluster, which has a threefold impact: it increases the productivity of the cluster participants, stimulates innovations and facilitates their implementation, and promotes formation of new businesses within the cluster (Porter, 1998, p. 80–84). The corporate networks operating within the cluster allow Born Global companies to gain expertise and resources necessary for internationalization; therefore, it can be concluded that the existence of clusters or their formation create favourable conditions for the emergence of Born Global companies.

The emergence of Born Global companies is also influenced by the state of the industry in which the company operates. Two trends are most notable: first, in the priority sectors of the business often work talented, dedicated and most striving authors, and these features are particularly required for the implementation of the complex process of early internationalization; and secondly, the government puts a much higher emphasis on luxury and priority business sectors in the form of investments (Porter, 1990).

### **Corporate strategy, structure and competition**

Since Born Global companies are international or global-scale enterprises, the strategy and structure chosen by the company's founders or management must be adapted to the functioning on the international or global scale. The willingness and ability to operate internationally or globally depends not only on the "National Diamond" factors which have already been analysed, but also on the global orientation of the manager (Porter, 1990). In M.E. Porter's view, the emergence of global orientation depends on two cultural characteristics of a country: first, the inclination of society to travel and, secondly, the language skills of society and its inclination to learn new languages (Porter, 1990, p. 109–110).

The fourth basic factor of the “National Diamond” pattern also includes competition within the business industry, which affects the competitiveness of companies, because (Porter, 1990, p. 118–119):

1. Companies are under great pressure to do business and pursue innovation.
2. Companies facing great pressure due to the lack of demand are being forced to turn to foreign markets, i.e. to promote internationalization.

## **Government**

In each country, the government controls the whole country and the external business environment of individual business sectors through the measures that can be broadly divided into (Kotler et al., 2002):

1. Laws and implementation of regulations, governing commercial activities.
2. Financial and non-financial business support provision.
3. Foreign policies.

Governmental laws and regulations governing the business activities, such as antitrust laws, competition regulation laws, environmental requirements, etc., are not attributable to the external business environment factors that influence internationalization, because they are rather of an administrative character, i.e. intended to regulate the businesses that are not directly related to internationalization. However, a large number of laws and rules regulating companies, and the intricacy of those regulations, i.e. a high level of bureaucracy, can impede business performance and result in the external business environment factor, which is adverse to internationalization.

Another governmental measure that stimulates internationalization is provision of financial support. Businesses often receive financial support through various relief funds, as well as through tax incentives, loan guarantees and insurance, etc., but the research has shown that Born Global companies often face difficulties in obtaining financial support: because of their unique features, Born Global companies do not receive support intended for SMEs, because they do not meet the necessary requirements (Luostarinen, Gabrielsson, 2006, p. 17; Rasmussen, Madsen, 2002, p. 795). In this context, it can be concluded that financial assistance is not a sufficient factor of the external business environment that promotes the emergence of Born Global companies, if the laws and regulations prevent Born Global companies from receiving such assistance.

Non-financial support is another measure used by the government to promote the internationalization of enterprises. Non-financial support is a standard and / or an individually tailored information about home and foreign markets, as well as provision of business consulting and training at various departments, agencies and business incubators.

Both financial and non-financial business support is also provided to business incubators which encourage establishment and development of Born Globals: they act as preferential rent space operators, provide office and business management services, etc.

The third group of external business environment regulation measures is the foreign policy conducted by the government of the country. The internationalization of businesses is facilitated when:

- a country maintains good political relations with other countries of the world (Porter, 1990);
- a country participates in various economic and political alliances and organizations, because this reduces international trade barriers employed by the country, as well as by foreign countries, e.g., the European Union.
- the foreign direct investment (FDI) policies conducted by the country encourage and attract foreign investment.

Despite various efforts of the government to create a more friendly external business environment, the phenomenon of corruption – when public officials abuse the power entrusted to them, with the purpose of personal gain – distorts equal opportunities to compete and has a negative impact on the emergence of Born Global enterprises; therefore, it is clear that the lower the level of corruption in the country, the more favourable external business environment for the emergence of such companies.

## **Chance**

Chance is a variety of single, unexpected events which have little in common with the existing conditions and do not depend upon the company (Porter, 1990). This factor of the external business environment is not attributed to the factors encouraging the emergence of Born Global companies, because a chance differs from all other factors of National Diamond by its indeterminacy and inconsistency, and by the fact that it is determined only after it has happened.

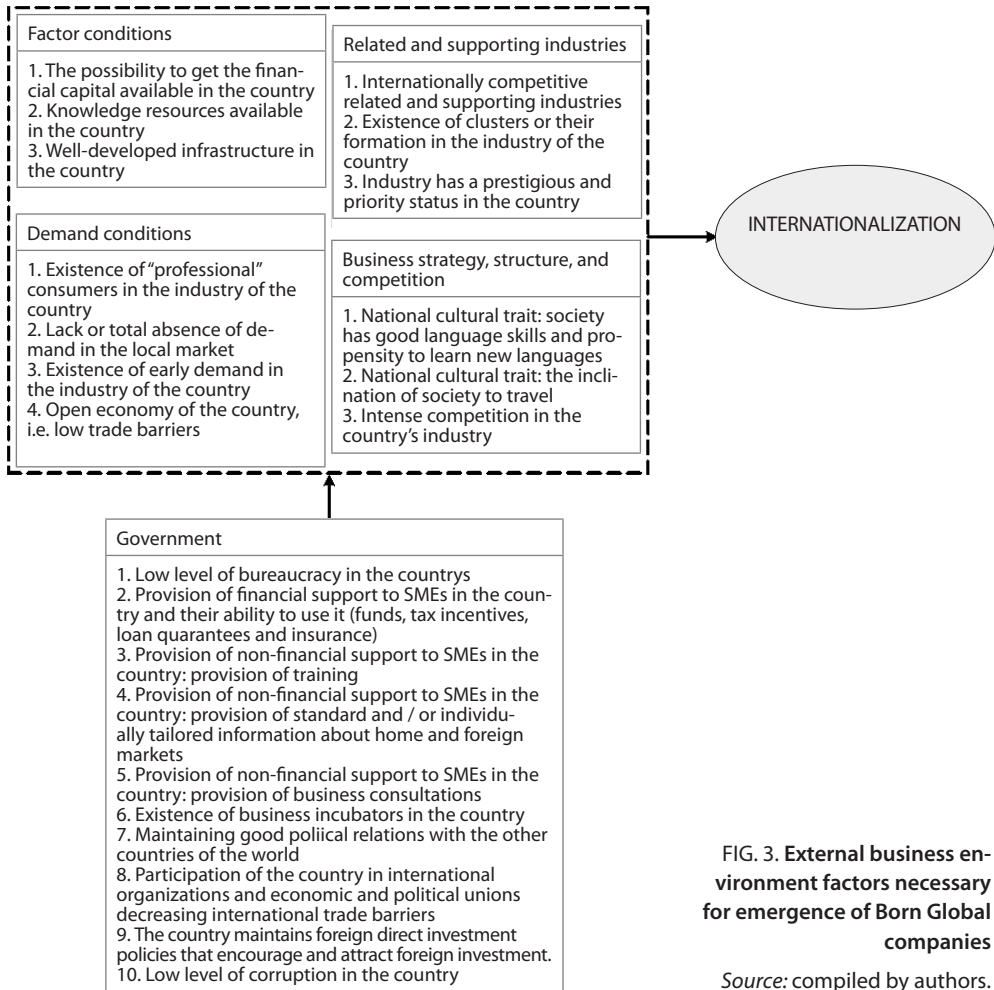
In summary, Porter's National Diamond model has helped to identify 23 factors which promote the implementation of internationalization, i.e. to elucidate the external business environment factors necessary for the emergence of Born Global companies (see Fig. 3).

## **Methods**

In order to determine the Lithuanian external business environment factors that might lead to the emergence of Born Global companies in Lithuania, the following objectives, instead of a hypothesis to show the research direction, were posed:

1. To determine which external business environment factors, identified by a theoretical analysis as encouraging the emergence of Born Global companies, do not affect the emergence of Lithuanian Born Global companies.
2. To determine which external business environment factors identified by a theoretical analysis as encouraging the emergence of Born Global companies, actually promote the internationalization of Lithuanian Born Global companies.





**FIG. 3. External business environment factors necessary for emergence of Born Global companies**

*Source: compiled by authors.*

- To determine which external business environment factors, identified by the research as encouraging the emergence of Lithuanian Born Global companies, are present or absent in the Lithuanian external business environment.

The study goal and objectives prompted the choice of the quantitative research method – a questionnaire. The questionnaire was distributed by combining the online way with telephone and personal surveys. The questionnaire was disseminated in three stages:

- 1) after the corporate database was made, all the companies received e-mails asking to take part in the questionnaire study and were provided with a link to the online questionnaire;
- 2) after 3–4 days, a company was called to ask whether it had received an e-mail and wished to participate in the study, whether there were any difficulties in filling up

- the questionnaire or it would be more convenient to get the questionnaire by e-mail or delivered directly to the company and then picked-up after a few days;
- 3) two weeks after the call, an e-mail was re-sent as a reminder to take part in the study.

The survey instrument was a questionnaire. The first question of the questionnaire was designed so as to ascertain whether the company could be attributed to the category of the Lithuanian Born Global companies: first, whether the company was registered in the Republic of Lithuania, and second, whether during the first three years after its establishment the company began getting 50% or more of its income from foreign markets. Concerning the second criterion, the more strict criteria had not been chosen because of the fact that the general whole was not known, and a more liberal criterion of 25% of the revenue from abroad was not selected, because the main feature of the Born Global companies is internationalization.

The second question of the questionnaire presented the factors of the external business environment, identified during theoretical analysis, and the respondents were asked to indicate their agreement or disagreement as to whether, first, the external business environment factor encourages businesses to expand into foreign markets, and secondly, whether the external business environment factor is characteristic of Lithuania.

The third, fourth and fifth questions of the questionnaire were aimed to determine whether a company, according to the criteria of the European Union Commission Recommendations (European ..., 2010), was to be classified as micro, small or medium-sized enterprise. The sixth question was aimed to determine the industry in which the Born Global company operates, and the seventh indicated the position of the person who filled in the questionnaire.

The population of the research consisted of all Born Global companies established in Lithuania. Since the exact number of the Lithuanian Born Global companies is unknown and impossible to determine with the help of such business directories as “All Lithuania” or “Lithuanian yellow pages”, the probability sidebar sampling method was used, which led to the statistical non-representability of the research. The sample size was determined by the comparative research method whereby the sample size is determined by a number of respondents in a similar survey. While statistical analysis requires to question at least 30 respondents (Saunders et al., 2007, p. 235), a total of 47 questionnaires were sent to the Born Global companies; the preliminary size of the planned sample was 50 Lithuanian Born Global companies.

## **Results**

A total of 103 completed questionnaires were collected, of which 53 (or 51.46%) were completed by non-Lithuanian Born Global companies and therefore excluded from the further study. In the data collection phase, the Lithuanian Born Global companies proved

to be hard to find; therefore, upon achieving the sample size (50) of the Lithuanian Born-Global companies the data collection was stopped.

### Respondents' profile

According to the criteria of micro, small and medium-sized enterprises set by the European Union Commission Recommendation, out of 50 Lithuanian Born Global companies which participated in this study, 38 companies (76%) were attributed to the very small, small and medium-sized category, while 12 companies (24%) were large enterprises.

The distribution of the Lithuanian Born Global companies according to the dependence to a certain business sector was uneven (Fig. 4).

The questionnaires were mostly answered by owners / shareholders, top- and middle-level managers (66%); therefore, it can be concluded that data on the external business environment of the Lithuanian Born Global companies were collected from competent persons.

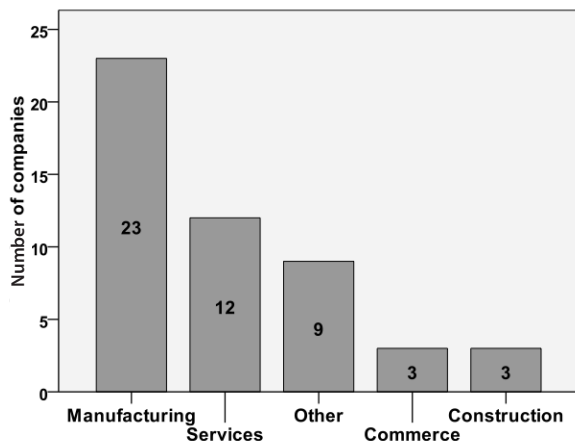


FIG. 4. Distribution of Lithuanian Born Global companies

Source: compiled by authors.

### External business environment of the Lithuanian Born Global companies

Given the fact that a well-designed questionnaire helps to obtain more reliable results of a research, prior to the analysis of survey responses, the internal reliability of the two scales in calculating the Cronbach's alpha coefficient – whether the given external business environment factors promote internationalization and whether they are characteristic of Lithuania – had been validated. After the calculations, the internal reliability of scales proved to be rather high: the Cronbach's alpha coefficient of the first scale was 0.887 and of the second scale 0.833.

The first objective of the study was to determine which external business environment factors, identified during theoretical analysis as promoting the emergence of Born Global companies, do not affect Lithuanian Born Global companies at all. The implementation of this task required to calculate the percentage of the respondents who chose the response option “has no impact” in relation to each factors of the external business environment (Fig. 5).

These calculations showed that the largest number of respondents who have chosen the response option “has no impact” was at the knowledge resources: 10 (or 20%) respondents believed that this external business environment factor has no impact on internationalization (Fig. 5). These findings suggest that the majority of the Born Global companies that took part in the survey considered the external business environment factors listed in the questionnaire as having an impact on the emergence of their company.

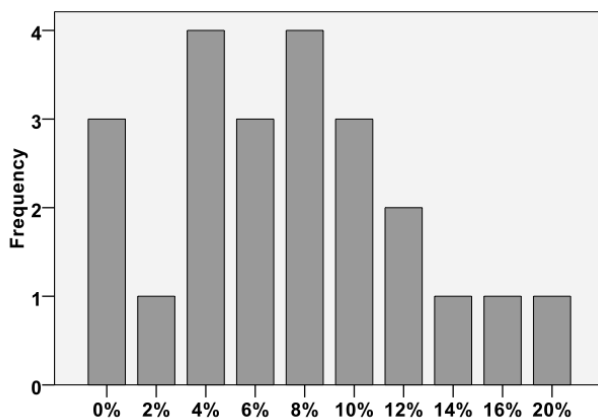


FIG. 5. Distribution of respondents who chose the response option “has no impact” in relation to each factors of the external business environment

Source: compiled by authors.

The second objective of the study – to determine which external business factors identified in the theoretical study as promoting the emergence of Born Global companies encourage the promotion of the Lithuanian Born Global companies that participated in the survey – required the calculation of the respondents’ answers by the arithmetic average of the Likert scale, and in order to find out whether the average values differ from the median values of the scale of measurement 3, the Student’s t statistic criteria with the significance level 0.05 was used.

The results of the survey have shown that, with 95% of reliability, all the external business environment factors identified during the theoretical analysis as promoting the emergence of Born Global companies encourage the internationalization of Lithuanian

Born Global companies, i.e. the mean of the responses in relation to each external business environment factor was higher than 3, and  $p \leq 0.05$ .

The third objective of the study – to determine which external business environment factors identified in the theoretical study as promoting the emergence of Lithuanian Born Global companies are present or absent in the Lithuanian external business environment – required to carry out the same calculation as in the analysis of the external business environment factors that promote the internationalization of Lithuanian Born Global companies.

The results of the survey have shown that, with 95% of reliability, seven from the 23 external business environment factors identified in the theoretical analysis as promoting the internationalization of Lithuanian Born Global companies are characteristic of Lithuania (mean  $> 3$ ,  $p \leq 0.05$ ) and six are not (mean  $\leq 3$ ,  $p \leq 0.05$ ) (Fig. 6).

As to the remaining 10 external business environment factors promoting the internationalization of Lithuanian Born Global companies, it is impossible to say whether a certain external business environment factor is characteristic of Lithuania’s external business environment, because no statistically significant difference was found between the mean and median values of the scale of measurement 3 of the respondents’ answers.

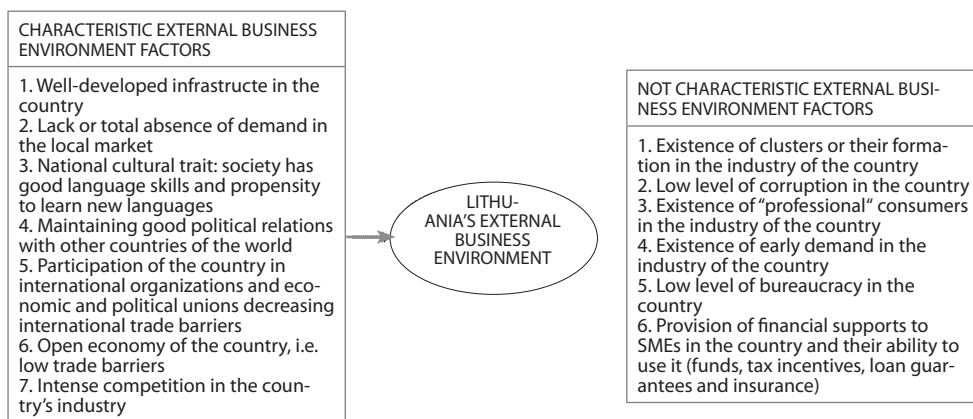


FIG. 6. External business environment factors promoting the internationalization of the Lithuanian Born Global companies

Source: compiled by authors.

## Conclusions

The empirical research has also led to the following conclusions:

1. All the external business environment factors identified during the theoretical analysis based on Porter’s National Diamond model, as promoting the emergence of Born Global companies, are external business environment factors promoting the emergence of Lithuanian Born Global companies.

2. According to the Lithuanian Born Global companies that participated in the study, the Lithuanian external business environment is characterized by seven external business environment factors promoting the internationalization of the Lithuanian Born Global companies: 1) well-developed infrastructure of the country, 2) the lack or a total absence of demand in the local market; 3) a national cultural trait: society has good language skills and a propensity to learn new languages, 4) maintaining good political relations with the other countries of the world, 5) participation of the country in international organizations and economic and political unions decreasing international trade barriers, 6) the open economy of the country, i.e. low trade barriers, 7) intense competition in the country's business.
3. According to the Lithuanian Born Global companies that have participated in the study, the external business environment in Lithuania is characterized by the absence of the following six external business environment factors promoting the internationalization of the Lithuanian Born Global companies: 1) existence of clusters or their formation in the industry of the country, 2) the low level of corruption in the country; 3) existence of "professional" consumers in the industry, 4) existence of early demand in the industry, 5) the low level of bureaucracy, 6) provision of financial support to SMEs and their ability to use it (funds, tax incentives, loan guarantees and insurance).

The results of the empirical study serve as a basis for the following proposal: creation of a more favourable external business environment in Lithuania requires, first of all, the presence of the external business environment factors that are not yet characteristic of the Lithuanian external business environment. Secondly, it is very important that the external business factors that promote the emergence of the Lithuanian Born Global companies remain stable in the Lithuanian external business environment.

Despite the fact that the study results cannot be applied to the general whole, the study itself is of considerable practical importance, because, first of all, the external business environment of Born Global companies is a new, not yet explored topic in Lithuania; therefore, this study provides the framework and serves as a reference point for future exploration; second, governmental institutions of the Republic of Lithuania can use the results of the study in searching for the ways to create favourable external business environment conditions enabling the emergence of the Born Global companies in Lithuania; and, after a certain period of time, the re-testing might allow to compare changes in the Lithuanian external business environment in relation to the emergence of Born Global companies.

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