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## BORN GLOBAL: INTERNATIONALIZATION OF BULGARIAN YOUNG INNOVATIVE FIRMS

*The paper explores internal driving forces and success factors in internationalization of four Bulgarian non-IT firms. It contributes to wider geographical and sector coverage research on born-global firms as a country-specific study. Entrepreneurial behaviour and global vision of founders as well as creative products that satisfy the needs of the global market niches are the major reasons for the success of the four firms in question.*

*Keywords:* born-global firms; success factors; internationalization; Bulgaria.

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## НАРОДЖЕНІ БУТИ ГЛОБАЛЬНИМИ: ІНТЕРНАЦІОНАЛІЗАЦІЯ МОЛОДИХ ІННОВАЦІЙНИХ ФІРМ У БОЛГАРІЇ

*У статті досліджено внутрішні рушійні сили та фактори успіху при виході на міжнародні ринки на прикладі 4 болгарських фірм, поза сектором ІТ. Стаття є болгарським національним доповненням до досить широкого кола міжнародних досліджень стосовно початково міжнародних фірм. Доведено, що підприємницька поведінка та глобальне бачення засновників бізнесу, а також креативність запропонованих ними продуктів допомагають цим фірмам впевнено зайняти унікальну нішу на світових ринках.*

*Ключові слова:* початково глобальні фірми; фактори успіху; інтернаціоналізація; Болгарія.

*Табл. 2. Літ. 43.*

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## РОЖДЁННЫЕ БЫТЬ ГЛОБАЛЬНЫМИ: ИНТЕРНАЦИОНАЛИЗАЦИЯ МОЛОДЫХ ИННОВАЦИОННЫХ ФИРМ В БОЛГАРИИ

*В статье исследованы внутренние движущие силы и факторы успеха при выходе на международные рынки на примере 4 болгарских фирм, вне сектора ИТ. Статья является болгарским национальным дополнением к широкому кругу международных исследований изначально международных фирм. Доказано, что предпринимательское поведение и глобальное видение основателей бизнеса, а также креативность предлагаемых продуктов помогают данным фирмам прочно занять уникальную нишу на мировых рынках.*

*Ключевые слова:* изначально глобальные фирмы; факторы успеха; интернационализация; Болгария.

**Introduction.** The number of studies on born-global firms is growing fast since the beginning of the 1990s. The reason for this is the development of numerous international ventures across the world (Cavusgil et al., 2009). Various aspects of their success factors, business environment impact, industry structure, strategy, organisation, technology and long-term growth are researched in (Madsen et al., 1997; Andersson et al., 2014; Hagen and Zucchella, 2014; Knight, 2015). Regional, country and sectoral approaches are also explored with a particular focus on emerging and transition economies by (Baum et al., 2011; Karlsen et al., 2012; Sass, 2012; Novinski et al., 2013; Paweta, 2013; Danik et al., 2015; Caputo et al., 2016). However, less attention

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has been given to the study of Bulgarian young firms' internationalization and especially those outside the IT sector. The existing studies' emphasis is primarily on the unfriendly entrepreneurial environment (Manev et al., 2010; Andonova et al., 2016).

The aim of the present paper is to explore internal driving forces for internationalization of four Bulgarian non-IT firms. Thus, it contributes to wider geographical and sector coverage research on born-global firms as a country-specific study. Various terms like "international new ventures", "global start-ups" (Oviatt et al., 1994, 2005), "early internationalizing firms" (Rialp et al., 2005) and "born global firms" are used for describing this phenomenon. Different definitions do not allow direct comparison of the studies in various regions and sectors (Karlsen et al., 2012; Danik et al., 2016). However, they reveal common trends. For the purpose of the present paper early internationalizing or born-global Bulgarian firms are considered to be mainly small and medium sized enterprises that pursue a competitive advantage by selling their unique products and services at international markets no later than the third year of their establishment. The export share in their total turnover is constantly increasing.

The paper reviews literature on developed and transitional economies regarding the success factors of firms internationalization since their launch. Then it presents the data on four Bulgarian non-IT innovative firms for further cross-case analysis of their international achievements.

**Literature review.** The reasons for the increased firms' participation in international activities and their attainments are extensively researched in developed economies and to some extent in emerging and transitional economies. B.M. Oviatt and P.P. McDougall (1995; 2005) argue that their success is due to the global vision and international experience of their managers, involvement in international networking, product uniqueness and profound market knowledge. S. Cavusgil and G. Knight (2009) emphasize the importance of innovation culture, foreign market understanding and organization's competence. S.A. Zahra and G. George (2002) developed three-factor model that influence international entrepreneurship: with strategic, organisational and environmental factors. Similar approach is taken by N. Karra and N. Philips (2004) who group success factors as environmental and internal ones.

Most of the researchers agree that the reasons both outside and inside firms are important for international success. But they structure them in a different way. According to N. Evers (2011) internal factors can be clustered into objective and subjective competences of an entrepreneur and firm's ability to adapt to customer requirements and offer well targeted niche product. Internal success factors have different impact on business internationalization in various regions of the world. Recent research on Chinese firms by S. Andersson, M. Danilovic and H. Huang (2015) reveals that though internal strengths are important, governmental support through export tax rebate or international promotion are also crucial for success. In Vietnam the major success factor is the founder and his personal characteristics. Owners/managers that look for opportunities everywhere prosper, though they may not have the global vision at the start (Thai et al., 2008).

The research on Central and Eastern European countries is based on literature and the study approaches that have been implemented in developed economies. W. Nowinski and A. Rialp (2013) divide the drivers for internationalization and suc-

cess factors as connected to the background, personality and social capital of an entrepreneur and firm's strategy. The study of L. Danik and I. Kowalik (2014) on what makes Polish born-global firms successful reveals that the major factor is internal strategic decisions. Good knowledge of customer needs, high quality of products and flexible pricing are decisive for competitiveness at international market.

M. Musteen et al. (2014) research on internationalization of Czech firms has identified that the involvement of SMEs managers in international networks prior to the very internationalization process and good foreign market knowledge are important success factors. They can be described as pertaining to entrepreneur's personal characteristics. The study of S. Zapletalova (2015) on the models of Czech internationalization concludes that most of the firms prefer to follow the stage model of internationalization and born-global firms examples are less. Comparison between Polish and Czech firms highlights common traits and differences in the speed, scope and innovativeness of international ventures. It concludes that Czech firms rely more on innovativeness while there are more Polish "instant internationalisers" (Danik et al., 2016).

M. Sass (2016) claims that in particular sectors like medical precision instruments firms have higher than average level of internationalization in the case of Hungarian firms. Crucial success factors for becoming leaders in the global market niche segments are innovativeness and constant improvement. Basign on literature research and empirical study the author draws the conclusion that post-communist economies "can also be homes" for born-global firms. O. Lamotte and A. Colovic (2015) comparative study on early internationalization of firms in transitional economies came to the conclusion that important internal success factors are the level of entrepreneur's education the as well as employees' involvement in international networks. Niche strategy is also often pointed out as an important internal success factor.

The study on long-term growth and success of born-global firms also requires a reliable framework for structuring the factors. B. Hagen and A. Zucchella (2014) suggest 4 variables: capabilities of an entrepreneur, firms' internal and external environment and its internationalization behaviour. The first 3 factors are quite similar to those identified by other researchers as success factors of initial internationalization.

**Problem statement and research objective.** The paper explores the driving internal forces for internationalization of 4 Bulgarian non-IT firms. Born-globals gain competitive advantage as compared to large players by application of new technologies to develop new products or new ways of doing business (Junkkari, 2000). The aim of this study is to figure out to what extent this conclusion can be driven in the case of Bulgarian young innovative firms. The methodology is based on qualitative methods for data collection on internationalization factors well described in born-global literature. Data collection includes various sources of unbiased secondary information like articles, websites, company documents and semi-structured interviews with experts and consultants. Case study method is used because it allows exploring the phenomenon by answering the questions "why and how" Bulgarian non-IT firms are successful at international markets from their inception. As one of the most famous case study researchers R. Yin (2014) points out "how" and "why" questions are likely

to favour in a case study. Case study is an appropriate research method because a contemporary phenomenon is discussed and diverse sources of validation can be used. Cross-case analysis provides the research opportunity to identify common trends and highlight differences in firms' practices.

A non-probability judgmental sample is used in order to focus the research on innovative Bulgarian non-IT young firms. The choice of Walltopia, Ltd., Roo'Bar, Ltd, Aleks 1977, Ltd. and SmallFoot, Ltd. was based on their expressed desire to compete with other Bulgarian firms for the innovation awards in the country in 2012–2015. The research objective is to study the well-described in literature internal factors of internationalization and to investigate their role in these 4 cases. Non-IT Bulgarian firms have been selected in order to get knowledge on early internationalization of less researched economic sectors like entertainment and sport, cosmetics, natural food supplements and healthy food. Firms from the IT sector were not included due to the fact that by its very nature this sector is to a large extent internationalized and many Bulgarian firms become international from the outset.

The framework of this study is based in general on the division of internal factors into entrepreneur-specific and company characteristics. This approach is followed in many studies on international ventures in developed and former centrally planned economies. Details on both groups are summarized in Table 1. The objective features of an entrepreneur are his/her education, international experience and vision, social capital and international networking. The subjective ones are his/her proactive personality or entrepreneurial mind. Company's features for success encompass business strategy based on product uniqueness and strong R&D, appropriate for the resources entry mode, creation of a niche at global markets and customer-centric approach.

*Table 1. Internal success factors of born-global Bulgarian firms, author's*

| <b>Entrepreneur</b>                         | <b>Firm</b>  |
|---|--|
| Education and readiness to learn            | Business idea and strategy   |
| International experience and vision         | Strong R&D   |
| Social capital and international networking | Creation of global market niche (segment)                                |
| Entrepreneurial behaviour                   | Resilient customer-centric approach and collaboration in the value chain |

*External factors* that provide opportunities for internationalization of these 4 Bulgarian firms are similar and therefore are not studied separately in our case. The internal market provides good opportunities for business due to the fact that the country has one of the most favourable tax regimes in the EU. Corporate income tax rate and personal income taxes are 10%. Labour cost is also one of the lowest in the region. However, with the population of approximately 7.2 mln people and the lowest GDP per capita in the EU (Eurostat, 2016) the local internal market cannot provide rapid growth. The conclusion that firms in small nations are more inclined to internationalize because of the limited domestic market is quite valid in case of Bulgarian firms (Andersson et al., 2015). Nonetheless, many Bulgarian small and medium-sized firms do not take the risks of internationalization because of higher uncertainty at international and global markets. Older firms often prefer to start internationalizing from neighbourhood markets.

**Case reviews.**

*Walltopia, Ltd.* was founded in 1998 by two climbers Ivaylo Penchev and Metin Musov who turned their hobby into a business. The company is a global leading manufacturer of artificial climbing structures. It has the world biggest factory for climbing walls in the town of Letnitsa. In 2012 the company received the Bulgarian innovation award for market leader with two innovative products "Self-transforming climbing walls" and special flooring for climbing centres "One More Life" which reduces the resistance during fall from over 3 metres height (ARC Fund, 2012). Currently the company operates on 6 continents. It expands its business and attracts venture funds. Its business grew by 30% in 2015 as compared to 2014. Walltopia, Ltd. exports in 50 countries and claims that it has 50% market share in design and construction of climbing wall sector in the USA. Amusement or theme parks are their main target markets. Walltopia expanded its business with interactive walls for children, artificial caves, rope parks and Rollglider which integrates free falling and hang gliding. Its daughter company Adventure Facility Concepts and Management operates and consults sports and amusement facilities. The company franchises climbing centres for adults and children. Currently franchise centres are operating in Canada, Israel and the USA. In 2016 the company entered the escape room business in partnership with Digital Netlork (Kozbunarova, 2016). The number of employees is constantly growing. Walltopia organises free climbing courses in order for them to understand the products and the services the company provides.

*SmallFoot, Ltd.* was set up in 2012. The idea of its founders was to create "the world's first and only pocket snowshoes". The major target market is sports fans but the shoes can be used by a wider group of consumers. The product is easily attached to different shoe types and helps to walk on any snow surface. It can be used by wider audience of people practicing snowboard, snow kite, paragliding, air boarding etc. and also by the rescue mountain teams. Smallfoot are the first inflatable snowshoes made of high-tech materials. The price for a pair is 250 USD. The founder, P. Dimitrov came up with the idea of this product when he was lost in mountains and struggled to escape from snow. The product is constantly being improved. In 2014 the firm was awarded the Bulgarian innovation award as an innovative start-up (ARC Fund, 2014). In the summer 2016 the model Revolution was granted the Red Dot Award for industrial design (Germany). The firm sells its products in its online shop and through distributors in Europe, Japan, Hong Kong and the USA. Production is outsourced to the factory for children's shoes "Kolev and Kolev", later, a new joint company was established. Designers, producers and marketing experts experience are very important for the SmallFoot growth. By the end of 2016 the firm produced 350 pairs of SmallFoot shoes for the British Army under the contract with the UK Ministry of Defence. SmallFoot shoes became part of the British Army survival kit (Georgieva, 2016). In 2015 the company attracted capital investment through Kickstarter which is the world largest platform for funding of creative projects. Funding is received also under the Operational Programme Competitiveness. Production costs remain high due to limited series of production. Therefore, the company intends to invest in specialized equipment for SmallFoot models that will make production faster and cheaper. The company is also developing a new product to walk easily in mud. Such a product is needed, especially after draughts and other

natural disasters. It has been tested in different countries by rescue teams and there are already preorders from the UK.

*Roo'Bar, Ltd.* was established in 2012 when the young family of founders was looking for a healthy snack for their children. They already had an organic store where the product was tested among friends and customers. Inspired by the feedback the couple joined efforts with the founder of the biggest distributor of organic food in Bulgaria. Roo'Bar products are made in different varieties. 70% of the production is exported to 40 countries in four continents, including Australia. With sales of 1 mln bars per month Roo'Bar is the market leader in the raw food bar category in Europe. The bars satisfy the need for healthy snack. A major challenge is the product shelf life because these bars are natural, without preservatives. The company promotes its product in international tradeshows like Biofach in Germany and thus establishes contacts with new distributors. Roo'Bars is looking to expand its business through project participation and credits from the EBRD. In 2017 the company will finish construction of a new factory (Ignatova, 2017). It has applied successfully for funding under the Operational Programme Competitiveness. Roo'Bars, Ltd. received the innovation award in 2014 in the category "Quality of life" (ARC Fund, 2014). The company organizes and sponsors sport events and healthy eating educational initiatives for children and adults. The founders consider the local market to be underestimated and therefore will work on developing it further.

*Aleks 1977, Ltd.* started business in 2012 after many years of research on the snail extract benefits for human health and anti-aging. Its products are based on high quality purified *Helix aspersa* snail extract and a variety of plant species. Snail extract is the key component of cosmetic and medical products for the digestive system of treatment and skin regeneration (ARC Fund, 2015). The firm is one of the best Bulgarian examples how research results can be commercialized. Production is located in Sofia and the firm has adopted the ISO standards for quality and food safety management. The firm implements an original harmless method to collect snail extract. There are good conditions for snail farming in Bulgaria, more than 200 snail farms in Bulgaria raise snails with strict requirements to production quality. Aleks 1977, Ltd. works with four of them (Georgieva, 2016). The firm received an innovation award in 2015 in the category "Innovation for better life quality". In the same year the firm was awarded the Bulgarian Academy of Science prize as the most successful innovative firm. Aleks 1977, Ltd. products are protected by the registered European trademark "Golden Snail". The company is a typical small company with maximum 15 employees in the peak of the season. Major cost component are the expenses for purification of snail extract. The firm works with hospitals in Germany, Belgium and Italy. 70–80% of its annual production is exported currently to 11 EU countries. In 2016 the company started exporting to the USA, Kazakhstan and Russia, it increases also its workforce. The founder maintains excellent research contacts with the universities in Magdeburg and Tuebingen in Germany, Gent, Belgium and Padua, Italy. It competes for project financing of its research by the National Science Fund and the Operational Programmes.

*Internal success factors* concerning the entrepreneurs' objective and subjective characteristics and strategies of these 4 companies are summarized in Table 2.

Table 2. Internal success factors of four companies, author's

|  | Walltopia   | SmallFoot<br>Entrepreneur  | Roo'Bar   | Aleks 1977  |
|--|---|--|---|---|
| <b>Education and readiness to learn</b>            | Strong educational background of the founders. Master's degree in physics. Constant training of employees.                          | Creative designer, extreme sports fan and a tattoo artist. Collaboration with experienced businessmen.                   | All three founders had complementary education and entrepreneurial experience before starting the firm. | The founder has a Master's degree in chemical processes and strong international research background. |
| <b>International experience and Vision</b>         | Lack of initial experience but strong global vision.  | No global vision at the beginning.   | Very good international experience.   | Less experience in international business.  |
| <b>Social capital and international networking</b> | Networking with research institutes, universities, local and international partners.  | Good national networking with production companies.  | Very good networking with Bulgarian and foreign partners.   | The founder is part of European R&D networks.   |
| <b>Entrepreneurial behaviour</b>                   | The founders constantly expand their business into new areas and attract international venture funds to finance business expansion. | Contacts with new companies and institutions. Projects implementation under the Operational Programmes and Horizon 2020. | Looking for new opportunities at both global and local markets.   | The founder takes the risk to commercialize his R&D results and internationalize business.            |

Continuation of Table 2

|   | Walltopia  | SmallFoot Firm   | Roo'Bar   | Aleks 1977  |
|---|--|--|---|---|
| <b>Business idea and strategy</b>   | Innovation is the driving force. Constant improvement, new products and new business models development.   | New product based on consumers' needs and new technologies. Continuous innovation. | Innovative idea for a new bar. The innovation in 2017 will enrich the portfolio to 1000 products. | Innovative natural cosmetics and food supplements. Growing variety.   |
| <b>Strong R&amp;D and IPR</b>   | Close co-operation with research institutes in the Bulgarian Academy of Sciences and Bulgarian universities. New in-house R&D centre. Patents, industrial design and trademarks. | Internal R&D. European and USA patents. Patents in Russia, China and Japan.        | The company creates its recipes with the help of worldwide nutritionists.                         | Strong research capacity based on the founder research and his networking with the EU scientists and research institutes. |
| <b>Creation of global market niche (segment)</b>                                | Targeting the global market niche of theme parks   | Targeting the global niche market of snow sports fans.                             | Targeting the global market niche of healthy food and in particular – nutritional bars            | Targeting gradually a European and then global natural cosmetics niche.   |
| <b>Resilient customer-centric approach and collaboration in the value chain</b> | Complete solutions – from project design to wall assembly, route setting and staff training. Marketing research.   | Testing among potential customers; product adaptation                              | Collecting information from value chain partners and final customers.                             | Gathering data from distributors and personal participation in international trade shows.                                 |



**Results.** The cross-case analysis reveals that the success factors for Bulgarian innovative companies are connected both with founders' personal characteristics and behaviour and firm's strategy. All these founders have excellent educational background. Some of them, like in Roo'Bar case and SmallFoot partnership, have previous business experience that helped them with design, production and distribution. It also contributed to their global vision in business. The founders have entrepreneurial behaviour and look constantly for new business opportunities. They seek a variety of funding options for business expansion like project development for the calls under the Operational Programmes in Bulgaria, venture funds or debt financing. At the end of 2016 Roo'bar received the loan of 2 mln EUR for the construction of new factory (Ignatova, 2016). Other reviewed firms are more conservative and rely mainly on growth based on own funds (Aleks 1977, Ltd.). All four companies are participating in a variety of national and international fora where their products and services competing for various awards.

The hobby and sports (Walltopia, Ltd.), the research activities (Aleks 1977, Ltd.) or education abroad (Roo'Bar, Ltd.) involved the founders into international networks that contribute to their businesses. Good cooperation with local companies contribute to their improved production and market results (SmallFoot, Ltd.). Social capital proves to be an important factor for success of these four Bulgarian firms.

Though it is difficult to separate entrepreneur from his/her strategy and innovative ideas, business strategies of these four companies are worth independent analyses. Innovation is the core of companies' success. The four firms have strong relations with R&D, either through their own research, or combination of in-house research and contracts with university, the Bulgarian Academy of Sciences research institutes (Walltopia, Ltd., Aleks 1977, Ltd.) and world famous researchers and experts (Aleks 1977, Ltd., Roo'Bar, Ltd.). Research activity allows these companies improve continuously their products, technological and managerial processes that make them competitive at global markets. The four companies understand well the business importance of intellectual property rights and protect their assets by patents, trade marks or industrial design registrations. They are pro-active in intellectual property rights defence undertaking actions to sue other companies infringing their rights at global markets (SmallFoot, Ltd.).

Experience of Bulgarian innovative companies confirms the results achieved from the research in other Central and Eastern European countries that targeting the global niche market with a unique product that differentiates company from its competitors is the key contribution to success. All four firms have niche products at very competitive markets. Innovative product features and benefits along with excellent service allow them in a short period of time expand the export territory onto different continents. Based on Porter's types of strategy classification the four companies can be described as implementing the focus strategy (Porter, 1985) or "differentiation strategy in the niche market by product innovation" (Cavusgill and Knight, 2009). Uniqueness of their products allows building barriers at their niche markets.

The entry mode at global markets for these four companies is indirect (through independent distributors) or direct export through own trade companies abroad and also online shops. This is a logical decision due to the fact that production in Bulgaria is competitive because of low-cost skilful labour, lower tax rates and strong local net-

works. Long distance and high transportation costs as well as the specific distribution system in the US market are some of the reasons that encourage innovative Bulgarian companies to look for licensing as an option to expand their business at this huge global market (SmallFoot, Ltd.). It can contribute also to blocking the attempts for intellectual property rights infringement in the USA market tried by a company importing cheap copies of Smallfoot produced in China. In order to overcome the distance and target the exact group of customers SmallFoot started to sell its products online in the most popular snowboard equipment site: [www.blue-tomato.com](http://www.blue-tomato.com). It is also trying to attract additional investment through international projects and try new entry modes. The company is looking for cooperation with big producers at foreign markets with well-established customer relationships. Walltopia uses a combination of international intermediaries in 23 countries and company-owned trade offices abroad.

The four companies have customer-centric focus and their products are tested by the best in the industry. For example, SmallFoot products are tested by the snowboard legend, the Norwegian Terrie Hakonen whose company sells samples in Norway. Walltopia works together with the world best climber Chris Sharma and in 2013 he opened his first signature rock-climbing gym in Los Angeles, California.

Digital marketing and social media presence of these firms allows them expand business further. Walltopia, SmallFoot and Roo'Bar have excellent interactive websites that provide valuable information on mission and vision of the companies, their founders, current projects, media presence ([www.walltopia.com](http://www.walltopia.com); [www.smallfooft.eu](http://www.smallfooft.eu); [www.roobar.com](http://www.roobar.com); [www.golden-snail.com](http://www.golden-snail.com)). The content is enriched with firm's stories, founders' comments, testimonials, videos on products and users, value-chain participants, games etc. More online presence efforts have to be undertaken by Aleks 1977, Ltd. Though the firm's web site is rich in important content about the products and is available in four languages, it is not interactive and could easily bore potential consumers.

**Conclusions.** The analysis of the four Bulgarian innovative companies reveals that a small market as Bulgaria can also be a homeland of born-global companies outside the IT sector. External environment at home and in host countries create conditions for this early internationalization. However, internal factors are crucial. Good knowledge, entrepreneurial spirit and skills needed to interact with networks in research and business across the value-chain are important founders' characteristics. Other success factors with equal importance are the innovative idea that is constantly developed and the customer-centric approach to a global niche market.

**Directions for further investigation.** The research on Bulgarian born-global companies is still very limited. Further research may focus on the barriers for internationalization for companies outside the IT sector and long-term growth of born-global Bulgarian firms. Comparative research on internationalization of the companies with longer life cycle and new international ventures is also a significant area for further studies.

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