
Hidden Champions of Latvia

Arnis Sauka

Overview

Official name: Republic of Latvia
Type of government: Parliamentary Democratic Republic
Population in 2010: 2,058,184
Land area: 62,200 km²

History

- 1918 After the end of the First World War on November 18, 1918, Latvia is proclaimed an independent state for the first time in its history.
- 1920 Peace treaty signed with Russia. Some 200,000 refugees return to Latvia. The Latvian economy begins to grow, focusing mostly on the export of agricultural products.
- 1937 Latvia has repaid all its external debts and deposited 6 tons of gold in various banks in the United Kingdom, Switzerland and the United States, during its economic boom.
- 1940 (June 17th) Latvia is completely occupied by the Soviet Union. The “Sovietization” of Latvia (i.e. transformation of Latvia into a Soviet republic) begins.
- 1941 Holocaust on the territory of Latvia: some 70,000 Jews are murdered. Latvians are recruited in the army of the Soviet Union as well as the German SS legion. Some 200,000 Latvians perish on both sides.

A. Sauka (✉)

Business and Management Department, Ventspils University College, Ventspils, Latvia

Business and Management Department, Stockholm School of Economics in Riga, Riga, Latvia
e-mail: arnis.sauka@sseriga.edu

- 1944/1945 Renewed Soviet occupation causes mass inflow of inhabitants from other republics of the Soviet Union to Latvia (i.e. mostly Russians, Ukrainians, and Belarusians).
- 1949 To prevent resistance from the local intelligentsia and workers in the rural areas to collectivism (establishment of the kolkhoz), a large deportation of Latvians is implemented in March, 1949, when 42,125 Latvians are shipped to Siberia and the Far East. Large factories are also constructed during this period. The chemical industry, machinery manufacturing, textiles, production of building materials, pharmaceuticals, electrical and electronic industries are all represented on the relatively small territory of Latvia. In addition to this, there is development in the agricultural sector.
- 1985 With the start of perestroika, the idea of independence becomes more popular in Latvia.
- 1991 (August 21) Latvia regains independence (Parliamentary Democratic Republic). The transition from socialism to a market economy starts with the implementation of various reforms, the collapse of most large factories, and a reorientation to a service economy.
- 1994 Bank crisis in Latvia.
- 1998 The Russian crisis hits the economy.
- 2001/2007 Years of rapid economic growth. Latvia, Lithuania and Estonia are labeled the “Baltic Tigers”.
- 2004 (March 27) Latvia joins NATO and the European Union.
- 2008 Latvia is hit hard by the world financial crisis.
- 2010 The recovery of the Latvian economy begins with a 3.3 % GDP growth forecast in 2011.

1 Introduction: Context

Latvia, often perceived as being part of a common economic area, the Baltic States,¹ is located in Northern Europe on the coastline of the Baltic Sea. Extending over an area of 64,589 km², and bordered by Estonia, Lithuania, Russia and Belarus, the country has approximately 2.1 million inhabitants. The economy of Latvia is dominated by the service sector, accounting for approximately 70 % of 2010 GDP.² GDP per capita in Latvia was \$ 11,476 in 2009. The main sub-sectors are retail and wholesale trade, real estate, renting, and business activities, whereas manufacturing comprises only approximately 10 % of 2010 GDP. More information on Latvia’s core economic indicators are available in Exhibit 1.

¹ Consisting of three countries: Latvia, Lithuania and Estonia

² The data in this paragraph are from various Internet sources.

Exhibit 1 Core economic indicators of Latvia

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
GDP per capita (current \$US)	3,048.98	3,300.93	3,529.94	3,983.02	4,810.67	5,950.13	6,973.16	8,713.07	12,638.15	14,857.89	11,475.69	10,723.36	12,726.35
GDP per capita growth (annual %)	5.55	7.70	8.87	7.22	7.81	9.27	11.19	12.85	10.55	-3.82	-17.55	0.36	6.37
Long-term unemployment (% of total unemployment)	53.80	57.20	59.10	42.30	45.10	44.60	46.00	36.50	26.40	25.70	26.70	45.00	n/a
Foreign direct investment, net inflows (% of GDP)	4.77	5.27	1.59	2.72	2.71	4.63	5.06	8.54	9.43	4.26	-0.17	1.80	5.32
GDP (current \$US m)	7,288.52	7,833.07	8,313.05	9,314.78	11,186.45	13,761.57	16,041.84	19,935.05	28,765.69	33,669.37	25,875.78	24,009.68	28,252.50
Exports of goods and services (current \$US m)	2,942.24	3,261.83	3,456.35	3,807.39	4,706.24	6,049.61	7,675.88	8,947.72	12,181.12	14,415.86	11,356.22	12,919.97	16,758.17
Exports of goods and services (% of GDP)	40.37	41.64	41.58	40.87	42.07	43.96	47.85	44.88	42.35	42.82	43.89	53.81	59.32

(continued)

Exhibit 1 (continued)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Merchandise exports (current \$US m)	1,723.09	1,868.47	2,000.71	2,285.13	2,892.52	4,009.17	5,161.29	6,154.81	8,308.35	10,144.11	7,702.09	9,532.58	13,160.52
Merchandise exports to high-income economies (% of total merchandise exports)	78.54	80.28	75.45	77.07	78.87	74.35	74.41	66.22	64.02	59.67	58.74	58.30	n/a
Merchandise exports to developing economies in Europe & Central Asia (% of total merchandise exports)	19.63	16.27	18.28	18.32	18.20	20.53	23.47	31.44	33.45	35.87	34.59	36.49	n/a
Ores and metals exports (% of merchandise exports)	4.16	6.04	5.31	5.61	3.96	3.25	3.52	3.97	3.50	4.18	2.79	3.72	4.36
Agricultural raw materials exports (% of merchandise exports)	29.85	29.47	24.87	23.87	25.48	19.42	15.94	14.23	14.37	9.37	9.88	12.16	9.97

Food exports (% of merchandise exports)	6.19	5.66	8.69	10.10	8.84	9.19	11.28	12.32	13.33	15.73	17.33	16.82	14.65
Fuel exports (% of merchandise exports)	2.95	2.47	1.38	1.48	1.38	4.63	8.92	5.20	3.66	3.46	5.08	5.33	7.94
Manufactures exports (% of merchandise exports)	56.63	56.05	59.46	58.66	60.04	61.38	56.59	60.50	61.39	63.22	60.75	58.58	55.54
High- technology exports (% of manufactured exports)	4.06	3.96	3.77	3.87	4.59	4.89	5.31	6.82	6.95	6.95	7.76	7.64	n/a

Source: World Bank (2013)

The dominance of the service sector is a relatively new trend in Latvia, occurring only during the last 20 years or so. Historically, however, Latvia has been known as one of the most industrialized centres in the region. For instance, in the nineteenth century its capital Riga was the third largest industrial city in the Russian Empire, right behind Moscow and St. Petersburg (Švābe 1990). Riga was also one of the most important industrial centres in the twentieth century. There were two main reasons for the heavy industrialization of Latvia and its capital city: (1) its favorable location, and (2), a cheap yet qualified labour force (Bleiere et al. 2005).³

In 1918, after the First World War, Latvia was proclaimed a sovereign country for the first time. During this period, the economic focus shifted from industrialization to agriculture. Latvia became well known in the region for exporting agricultural products such as butter, meat, linen and wooden materials—mainly to Western Europe (Jansone et al. 2008). Along with the development of the agricultural sector however, several manufacturing companies were also established in the early twentieth century, Riga's VEF being probably the most important of them. This company was created in 1922 and produced a wide range of products, from radio receivers to airplanes. The world-class photo camera VEF Minox—the smallest camera in the world at that time and beloved by spies—was also made by VEF.

The development of the agricultural and industrial sectors continued after 1934, when Karlis Ulmanis became the president of Latvia. Ulmanis is still remembered as the initiator of the country's economic boom. By 1937, Latvia had repaid all its external debts and deposited approximately 6 tons of gold in various banks in the United Kingdom, Switzerland and the United States (Avots 2004). However, with the start of the Second World War on September 1, 1939, and following the Molotov-Ribbentrop Pact, Latvia fell into the Soviet Union's influence zone. Consequently, on October 5 of the same year, after the signing of a contract of mutual help and friendship with the Soviet Union, the occupation of Latvia began with some 20,000 Red Army troops invading the country. On June 17, 1940, Latvia was completely occupied, and the Sovietization⁴ of the country began. This period, until the German army entered the territory of Latvia on June 22, 1941, is remembered as the "Year of Horror".⁵ A considerable part (approximately 65,000 people) of the German intelligentsia, the so-called Baltic Germans, left the country. This brain drain was doubtlessly a big loss for Latvia's educational system, culture, and economy as a whole.

In 1945 the Soviet occupation of Latvia was renewed. This was followed by a mass inflow of people from other republics of the Soviet Union, such as Russians, Ukrainians, and Belarusians, aimed at strengthening the position of the Soviet

³ In the nineteenth century, when the territory of Latvia was part of the Russian Empire, 85 % of the inhabitants of Latvia could read and write (compared to 54 % inhabitants with such skills in the Russian Empire).

⁴ i.e. transformation of Latvia into a Soviet republic, which included nationalization of property, terror and repressions, among other things.

⁵ On June 14, 1941, alone, more than 15,000 Latvians were deported to Siberia.

Union. Furthermore, to stifle resistance to “collectivization” (i.e. establishment of the *kolkhoz*) from local intelligentsia in the rural areas of Latvia, the biggest deportation in the history of the country was implemented in March 1949. As many as 42,125 Latvians were deported overnight to Siberia and the Far East (Jansone et al. 2008).

The middle of the twentieth century is also remembered as the time when big factories were constructed in Latvia. Industries involving chemicals, machinery, textiles, building materials, pharmaceuticals, and electronics, were all represented on this relatively small territory. As a result, both labour force and raw materials were imported from other Soviet republics, and Latvia became one of the most highly industrialized regions of the Soviet Union. The traditional agricultural sector was also quite developed at that time, as Latvia supplied most of the largest cities of the Soviet Union with food (Jansone et al. 2008).

With the start of *perestroika*⁶ in the early 1980s, the idea of independence became increasingly popular in all three Baltic States. After the political and economic crises that brought down the Soviet Union, Latvia regained its independence on August 21, 1991. It became a parliamentary republic, and various reforms, including privatization, began with a clear focus on the shift from socialism to a market economy.

Initially that shift was not easy for Latvia. The country experienced a steady decline in economic development, reaching real GDP growth of -34.0% in 1992. Also, almost all big factories in Latvia—the heritage of the Soviet Union—collapsed during the early 1990s. Although various opinions on this issue exist, one reason often mentioned to explain the loss of these factories is that their main market—i.e. the territory of the former Soviet Union—was virtually no longer accessible (i.e. Balabkins 2002). More plausibly, the main reason for the collapse of the industrial sector in Latvia was the lack of skills necessary to transform factories so that they could operate in a market economy. As a consequence, only a marginal proportion of the heavy industry heritage remained in Latvia in mid-2011; as noted earlier, the country is currently dominated by the service sector. However, a considerable number of Russian speakers, who entered Latvia during the period of the Soviet regime,⁷ have remained.

In the later stages of the transition, after joining the European Union and NATO in 2004, Latvia experienced the fastest growth rates in the European Union, reaching GDP growth of 12.2% in 2006.⁸ Yet, this was followed by a sharp slowdown, starting in early 2008, as a consequence of the world financial crisis. In 2009, Latvia’s GDP growth fell to approximately -18% . The depth of the crisis was also enhanced by the greatly increased consumption during the years of rapid economic growth, as a result of easy access to cheap bank loans and over-optimistic

⁶ Mikhail Gorbachev, the General Secretary of the Communist Party of the Soviet Union, initiated a series of political and economic reforms, collectively labelled as “*perestroika*” in 1985. *Perestroika* allowed more independent action at various ministries and is often perceived as a major catalyst for the breakup of the Soviet Union (see <http://en.wikipedia.org/wiki/Perestroika> for more information).

⁷ Latvians comprise only 59.4% of the total population of Latvia, 27.6% being Russians, followed by Belarusians (3.6%), Ukrainians (2.5%) and Poles (2.3%) (2010).

⁸ The data in this paragraph and the next are from various Internet sources.

forecasts as regards the future growth of the Latvian economy. After the credit bubble burst in early 2008, Latvia had to borrow some 7.5 billion euros from the European Commission and the World Bank, as well as other organizations and governments, to stabilize its financial sector.

The deep recession, among other things, led to a reassessment of the role of entrepreneurship in the country, and a new look at the quantity and quality of Latvian companies as well as the quality of the business environment in Latvia. Despite some positive signs as regards nascent entrepreneurship (Rastrigina 2010), Latvia has one of the lowest numbers of SMEs per 1,000 inhabitants in the European Union.⁹ Furthermore, various international reports and indicators, such as the Innovation Union Scoreboard 2010, the Global Entrepreneurship Monitor, the Global Competitiveness Report 2010–2011, and others show that there is also considerable potential to increase the quality of both Latvian firms and the Latvian business environment.

One of the key challenges for the Latvian business environment and economic development seems to be the relatively high level of shadow economy in the country. According to Sauka and Putniņš (2011), the size of the shadow economy¹⁰ in Latvia reached 38.1 % of GDP in 2010, and is almost twice as large as those of the neighbouring countries: Estonia (19.4 %) and Lithuania (18.8 %). Sauka and Putniņš (2011) suggest that strong dissatisfaction with Latvia's tax system and the government in particular, caused by the inconsistency of tax policy and the way the taxpayers' money is spent, is likely to be one of the main factors behind the large differences between the three countries in the size of their shadow economies. Other factors explaining the widespread tax evasion in Latvia include efforts to optimize expenses by avoiding taxes and thus increase the competitive advantage of companies, weak legal enforcement, societal traditions of avoiding taxes, as well as low standards of ethics and morality.

These findings, as well as various international indicators compiled by the World Bank, the EBRD, and other international organizations aiming to measure the quality of institutions, at least partly explain why the competitiveness of Latvian companies scores only 70 in the world ranking (Global Competitiveness Report 2010–2011). It can be argued that improving the way that the government communicates with entrepreneurs, and regaining the trust of entrepreneurs by

⁹ It is worth noting, however, that the number of SMEs is considerably higher in Riga, the capital city of Latvia, reaching the EU average of approximately 50 SMEs per 1,000 inhabitants (Sauka and Welter 2010).

¹⁰ Here, the term "shadow economy" is used to refer to all legal production of goods and services that is deliberately concealed from public authorities. This definition corresponds to what the System of National Accounts and the Organization for Economic Co-operation and Development (OECD) in their comprehensive 2002 handbook *Measuring the Non-Observed Economy*, refer to as "underground production". It is also consistent with definitions employed by other researchers; e.g., the World Bank study of 162 countries by Schneider et al. (2010).

reducing governmental spending and implementing reliable tax policies, will, among other things, improve the overall entrepreneurship climate in Latvia (Sauka and Welter 2011).

In light of these arguments, emphasizing the role of the external environment, several studies also draw attention to the company-specific characteristics that impede the competitiveness of Latvian firms. A recent study by Sauka (2011), for instance, shows that firms in Latvia are often forced to operate at rather high costs—an outcome of technologies or premises purchased in 2007/2008 at high prices—while at the same time offering low value-added products and services overall. Sauka (2011) also suggests that to become more competitive, Latvian companies should considerably increase the level of innovation, be more active while working with their competitors, and take more calculated business risks.

Furthermore, Latvian companies seem to be remarkably passive in using communication networks—a widely recognized tool used by successful, competitive companies around the world to attract external resources at a low cost, or no cost at all, to achieve a competitive advantage (Simon 2009; Cason, 2009). As reported by Sauka (2011), in general, Latvian companies virtually ignore the potential benefits from cooperation with business laboratories, universities and research institutes, although these are potential sources of innovations and market intelligence. They also ignore municipalities and business promotion organizations, even though companies across the world often use these resources to penetrate new export markets and establish a position in the local market. Thus, the key challenge that many Latvian companies need to address to increase their competitiveness, and perhaps qualify for the title of Hidden Champion (HC) in the foreseeable future, is not only the external environment. They also need more careful planning of internal firm strategies.

In summary, this is doubtlessly a very critical view, aimed at identifying core areas for improvement so as to increase the competitiveness of Latvian companies and Latvia's overall business environment, which in turn should lead to better economic performance. On a more positive note, however, following a steady decline of economic growth as a result of the crisis in 2008, the Latvian economy actually began to recover in 2010 with a 3.5 % GDP growth forecast in 2011 (Eurostat 2011). There are, of course, various reasons for this undoubtedly remarkable achievement, but one of the most important is the steady increase in exports. In 2010, Latvian exports increased by almost 30 % as compared to the previous year. Approximately 70 % of these went to EU countries. The most important commodity groups of Latvian exports are wood and wood products (19.3 % in 2010), followed by metal products, machinery and mechanical appliances, as well as electrical equipment (LIAA 2011).

Furthermore, the industrial sector outpaced the service sector after 2010, which bucked the trend before the crisis. This can be seen as a positive development, not least since most of the current HCs in Latvia are in the industrial sector, focusing on high value-added, innovative products that often require technical skills. In many cases, as demonstrated by the owner-managers of Latvian companies, these skills and knowledge are a heritage from Soviet times—and are not at all easy for competitors to imitate—.

Exhibit 2 Hidden champions from Latvia

Name	Short market leadership description	Revenues 2010 (€m)	Revenues 2000 (€m)	Employees 2010
Aerodium	Pioneers in developing vertical wind tunnel technology that suits wider market needs. Among the world leaders in the respective industry through combining technological expertise, promotional activities and customer service among other things	5.1	n/a	100
BLUE Microphones	Producer of high quality microphones for the mass market. One of the leaders in the U.S. market and often perceived as the 'Mercedes' of microphones	14	0.1	45
MADARA Cosmetics	Emerging leader in the eco-cosmetics market niche in Europe	2.1	n/a	40
A-boards	Producer of high quality kite boards and kite boarding equipment. Through successful distribution and focus on high quality products the company has established a strong position in a very noisy market full of rivals	0.2	0.25	5+
Mammu	Young start-up, social business aimed at creating a major social movement around the world	0.02	n/a	6+

Source: Authors of the chapter

Continuing on a positive note, being a relatively small country, and only 20 years after escaping from the Soviet regime, Latvia can be proud to have internationally successful companies. In this context, following Simon's (2009) classification, one can distinguish between (a) real HCs, such as Aerodium and BLUE Microphones, which have already achieved remarkable success in the international arena, (b) potential HCs, such as MADARA Cosmetics and A-boards, i.e. companies that show clear potential to become leaders in their respective market niches, and (c), start-ups with potential for considerable growth, such as Mammu, a company that seems to be on its way to remarkable success. The main characteristics of all these companies are summarized in Exhibit 2.

To identify the key drivers of success, two real HCs—Aerodium and BLUE Microphones—are explored in more depth in the following sections of the chapter. These sections are then followed by a brief introduction to Latvia's potential HCs: Madara Cosmetics and A-boards, as well as a start-up with growth potential, Mammu. The concluding section summarizes the main similarities and differences between Latvia's success stories, as compared to their counterparts from the rest of the world.

2 Five Case Studies

2.1 Aerodium Ltd.

Overview

Address: Brivibas street 214 M-2, Riga, LV-1039, Latvia

Tel: +371 25400010

Email: info@aerodium-technologies.com

Web: <http://www.aerodium-technologies.com>

Company Information

Industry:	Activities of amusement parks and theme parks
Year of establishment:	2003
Sales revenues in 2010:	€5.1 million
Sales revenues in 2000:	n/a (The company did not exist.)
Average number of employees in 2010:	100
Brain(s) behind the company:	CEO and founder Ivars Beitans

2.1.1 Nature of Market Leadership

The company produces vertical wind tunnels and sells its experience in vertical wind tunnels. It holds a 50 % market share in Europe and is currently expanding into the Asian and US markets.

2.1.2 Nature of Competitive Advantage

The company is a pioneer in developing vertical wind tunnel technology that suits wide market needs. It has managed to position itself among the world leaders in the industry by combining technological expertise, product diversification, promotional activities, and customer service.

2.1.3 Core Lessons Learned on the Path to Business Success

1. Introducing a product that is very hard to imitate—due to unique knowledge, substantial financial investments, and time—can allow a company to target wider market segments more openly and help it establish a solid foundation for long term success.
2. Combining technological innovation with clever market segmentation, while at the same time providing a diversified product range, is a business model that has brought success to Aerodium and is perhaps worthy of consideration by other growth-oriented companies.

3. Create unquestionable employee commitment. The employees' passion for the product that they deliver is crucial for success at a global level.

2.1.4 Aerodium Ltd: Hidden Champion

The idea to launch Aerodium occurred to Ivars Beitans incidentally when devices called "vertical wind tunnels" caught his attention. Head of the Latvian Bungee Jumping Association, a stuntman, and a passionate traveller, Ivars simply could not resist the temptation to try them out himself. His technical background made him think that the flying experience that he had greatly enjoyed in various countries could be brought to a new level mainly by improving the technology of the wind tunnels. Knowing that even the best product requires substantial marketing and promotion, Ivars contacted Ansis Egle who was a sports enthusiast and had experience in marketing and promotional activities.

By the end of 2004, when the discussion between Ivars and Ansis took place, Aerodium Ltd. had already been registered and the first wind tunnel had been delivered to Riga. "When we entered the market at the end of 2004, we entered an industry that had already existed for 25 years, since the day French-Canadian inventor Jean St. Germain created the first recreational vertical wind tunnel in Montreal, Canada", Ansis Egle says. The name of the Latvian company also came from Canada. It is called after a company with an already established name and reputation in the world market, Aerodium Canada.

Ansis says, "As in the PC industry, when the PC technology was still developing, in this industry it is common to buy a ready-made product from a supplier, use it as raw material, and then invest in know-how to create your own product". The initial product that Aerodium bought from Aerodium Canada was indeed nothing more than raw material. "If Aerodium Canada had approached a sensitive market like Russia with wind tunnels of the same poor quality as those that they delivered to us, they would have been in trouble. The device simply did not work as it should have. Actually, it did not work at all!"

The fact that it was typical of the industry that products did not deliver their promised value seemed to work in Aerodium's favour. From the very beginning of its existence, the company was simply forced to identify problems and look for technological solutions. "We took this very seriously and started with basic things: aerodynamics and construction. Ivars Beitans's technical knowledge has been invaluable in this regard. He is the inventor of most of the technologies invested in our products!"

"Only a few months later, after arriving from Canada, the wind tunnel looked completely different", Ansis Egle says. Indeed, the technological investment paid off and, following the advertising campaign, the success of the wind tunnel in Latvia surpassed all the expectations of the Aerodium team. "In the summer of 2005, there was a queue of people waiting from early in the morning until midnight every day for an opportunity to fly. These were customers not only from Latvia, but also from neighboring countries, such as Lithuania, Estonia, Sweden, and Finland.

The demand was simply huge!” Ansis says, explaining that this wind tunnel was the first of its kind in Eastern Europe. Thus, Aerodium could enjoy the first mover’s advantage to the full extent.

Achieving fast success in the region, Aerodium was looking for possibilities to enter global markets, and was ready for that in 2006, when it won the tender for the Winter Olympics in Torino, Italy. Aerodium’s show at the Torino Olympic Games was a big success and attracted lots of attention. “During the closing ceremony, live TV coverage reached 500 million viewers worldwide who saw that flying was possible”, Ansis says. “It was indeed a turning point not only for Aerodium but the whole industry as well as nobody had ever had the idea to put a vertical wind tunnel in an entertainment show, and nobody had ever carried out such a performance publicly”.

Impressed by the show, many companies tried to enter the market. According to Ansis, “It was like an explosion which lasted for some 2 years and then faded away. The reason for this is that companies simply took this thing too easy. It looks like all you need is an engine and a propeller to make people fly. Actually, huge know-how is required to ensure the successful operation of the device, and lots of technological solutions and patience are required of the producers”. Indeed, none of the companies that emerged as a result of the show in Torino were still active after 2008. One of the lessons from this experience seems to be that if technology, or anything else that brings added value to the product or service, is relatively easy to replicate, then exposing oneself to a wider audience is indeed risky and will most probably attract too many rivals already in the early phase of the business start-up. As demonstrated by Aerodium, however, by introducing a product that is very hard to imitate—because of the unique knowledge, substantial financial investment, and time that it takes to produce it—a company can target wider market segments more openly and establish a solid foundation for long-term success.

The key to Aerodium’s strategy is innovation, especially when it comes to technological development of the wind tunnels. To be precise, approximately 30 % of the profits are invested back in R&D, which has resulted in a number of patents. Ansis Egle emphasizes the need for innovation: “We are innovating in order to create demand for Aerodium products on the world market. In our business, this is only possible if you have better technology than your competitors. Technology-wise we are indeed very ambitious: if there is an opportunity, we do everything it takes to take advantage of it”.

Innovation in technology has led to another competitive advantage for the company: a diversified product range. This is what Ansis says about the company’s strategy: “If our competitors are fine with producing the wind tunnel, setting it up and collecting money, then we want to achieve much more than that. Our strategy is market expansion through segmentation, offering the right product for each market segment”. And how do they do that? After Torino, the company realized that big shows involve big investments, which leads to a high price for the customer. Thus, Ivars Beitans thought about ways to optimize the cost structure while at the same time serving customers who cannot access or afford the flying experience in big tunnels. Ultimately, he came up with the idea of the mini-tunnel.

Apart from the mini-tunnel, Aerodium has types designed for specific target markets. As Ansis explains, "In general, the company's revenue stream rests on three market segments. The first are customers who usually buy only once, such as military forces. These are the markets in Pakistan, Saudi Arabia, also Malaysia, Korea, India and Greece. The second segment is show business, and we are very active in various show business events around the world. The third segment is comprised of people who would simply like to enjoy the flying experience. For this we have tunnels in Latvia, Denmark, Bulgaria and other countries". Thus, so far it seems that combining technological innovation with clever market segmentation at the same time as providing a diversified product range is a business model that has brought success to Aerodium and is perhaps also worthy of consideration by other growth-oriented companies.

"Indeed, diversity of products, technological know-how and market segmentation are three elements that form the success formula in our industry: the formula for our happiness", Ansis asserts. The other two are the customers' trust of the brand, and globalization strategy. To gain trust, at the very beginning of their business operation, the company owners were wise enough to establish a network with Aerodium Canada. "With improved technology, we soon started to outperform Aerodium Canada and its owners simply offered to sell it to us", Ansis explains. When it comes to entering global markets, Aerodium has realized that the best strategy for penetrating new markets is forming partnerships with local companies. "Yes, we share our technology and success, but this allows us to understand the market better. And it is much better than having risk capitalists on your neck who have unlimited control of your business. Furthermore, it is clear that we simply cannot enter the market, set up the technology and operate it from a distance".

"Our customers say that one of the things they really like about Aerodium is the service we provide, and this is yet another determinant of our success", Ansis Egle points out. There are many ways in which Aerodium makes sure that every customer feels satisfied with his first flying experience. For instance, Aerodium records customers' flying experiences and delivers a CD to strengthen their memories and enable them to share their experiences with others. "This is the only way that we manage to increase value added for the customer, at the same time making sure that these customers do some marketing for us. This involves relatively low costs and generates great returns". Thus, Aerodium demonstrates that customer satisfaction is not created just by providing an invaluable experience involving high technology. Creating loyalty by further extending this memorable, emotionally rich experience also plays a significant role. To illustrate this further, we can think of an example from the restaurant business. After an unforgettable lunch that has taken the chef hours to prepare, the waiter serves free, good-quality coffee. These are small, often unexpected, pleasures that people value and remember.

Another way to provide the best value for both existing and new customers is, of course, by delivering the right product and service in the right place at the right time. And this is not achievable without good relationships with suppliers. However, managing relationships with suppliers is not an easy task because of the specifics of the product. "We can hardly find two wind tunnels that are the same;

usually each tunnel has its own specificities. This means that it requires new drawings and the technology changes to a greater or lesser degree. In a word, we constantly work with something new that has never been produced. For this reason, we always need to look for new suppliers who can provide the best solutions for each case”, Ansis explains, adding that being aware of what competitors do is absolutely crucial at this stage.

Aerodium’s chief competitor is the Florida-based firm Sky Venture, an experienced company that has operated in the market since the beginning of the 1990s and currently dominates the North American market. Having some 50 % of the market share in Europe, Aerodium has several competitors in Switzerland and Germany. “Then we had L1 in the US, but they disappeared. All in all, the good news is that our competitors have recently started to seek out contact with us, and in our opinion this only indicates how strong we are”, Ansis says.

“You can have great suppliers and detailed knowledge about the competitors, but in the end it is the employees who drive your business and underestimating this factor is the biggest sin any company can commit,” Ansis points out. And how do they find the best employees? “Well, they are the ones with a spark in their eyes. This is true for the owners of the company, and the selection of employees is primarily based on their motivation and willingness to achieve something together with us. Aerodium’s employees are very much aware that they work on unique products and our common aim is leadership in the world market. Routine? This is hardly possible in our business as things constantly change just as our products change” Ansis adds, confirming findings from previous research that creating the unquestionable commitment of employees who are passionate for the product that they deliver is indeed crucial for success at the global level (i.e. Chaston 2010).

In a relatively short time, Aerodium has grown both financially and in terms of employees. Currently, the company employs people at its branches in Bulgaria, Libya, Denmark and other countries and has the equivalent of some 100 full-time employees around the world. Financially, regardless of the financial crisis, Aerodium’s turnover increased by 28 % in 2010 as compared to 2009, and with constant improvements in technology, as well as promotional activities, the company continues to grow.

Aerodium also has a clear idea of how to maintain and increase its market position: “We are looking in the direction of Asian and North American markets,” Ansis Egle says, highlighting various activities, such as cooperation with Shaolin monks in China, that are being implemented. “In general, we keep our eyes open and try to take advantage of any opportunity that could help to further penetrate the global arena”. This demonstrates a clear pattern of proactive leadership at Aerodium, sensitive to opportunities and quick to adapt to them. Indeed, Aerodium is not planning to stop, and this is reflected in its vision: to create a worldwide movement consisting of enthusiasts who love to fly. “Trust me, the flying experience is a unique feeling and we can offer such a feeling while guaranteeing safety. This means that flying actually qualifies as a sports activity, with championships for amateurs and professionals. If we achieve this in 5–10 years, I will be happy”,

Ansis Egle concludes, leaving us with the impression that Aerodium intends to continue flying globally. . . and high, despite the challenges that it is very likely to face while attempting to take advantage of further market opportunities.

2.2 Blue Microphones Ltd

Overview

Address: 5706 Corsa Avenue, #102, Westlake Village, CA 91362–4057, U.S.
 Tel: +818-879-5200
 Email: press@bluemic.com
 Web: <http://www.bluemic.com>

Company Information

Industry:	Manufacture of consumer electronics
Year of establishment:	1995
Sales revenues in 2010:	€10 million
Sales revenues in 2000:	€700,000
Average number of employees in 2010:	45
Brain(s) behind the company:	Founders Martins Saulespuren and Bernard Wise (In 2008 the owners, and thus the key decision-makers, changed.)

2.2.1 Nature of Market Leadership

One of the leaders in the US, having 80 % of the market share in a specific product category: high-end microphones.

2.2.2 Nature of Competitive Advantage

The company's main advantage is the high-quality microphone, often perceived as the "Mercedes" of microphones, that it produces for the mass market, and its strong brand name. Once its leadership in high-end microphones was established, the company managed to successfully move down the customer pyramid to gain both revenues and profits without destroying its brand at the high end.

2.2.3 Core Lessons Learned on the Path to Business Success

1. Sometimes positioning a product in an unappealing price category or market segment might provide enough of a time gap to establish oneself before imitations from competitors appear.

2. Product diversification is an important determinant of success at a global level.
3. Knowing the core users of your product and their task-related problems, as well as being able to solve these problems, is one of the keys to attracting and retaining loyal customers.

2.2.4 Blue Microphones Ltd: Hidden Champion

Martins Saulespurns, the founder of BLUE Microphones, has always been interested in music and technology. Still, his passion for music came first, long before Martins graduated from university as an engineer and started to work for the Academy of Music of Latvia as the director of a sound recording studio. “Jazz music was of particular interest to me, but this was the 1950s and 1960s in Latvia, and access to any jazz records in the Soviet Union was highly restricted”. Thus, searching for jazz records, he decided to send a letter to a journal in England, expressing his eagerness to find people who would be interested in exchanging jazz records. As Martins remembers, “At that time, not too many people dared to do such things as any contact with the rest of the world was seen as a threat to the Soviet regime”.

The next step towards launching his own business was Martins’ first visit to the US back in 1988, just after the Iron Curtain fell and travelling outside the USSR was possible. During his stay in the US, one of his pen pals introduced him to a teacher who was very interested in Latvian music. According to Martins: “This person made a very interesting offer, asking whether my son would like to come to the US to study”. To educate his son in the US, Martins had to cover certain expenses; thus, he started to think seriously about how to make money.

“During the Soviet era, the main film studios were all equipped with relatively good microphones, mainly of Austrian origin”, Martins says, adding that he was lucky to get free access to microphones that were damaged or simply worn, and thus considered to be of no value. “This is where I could use all my technical knowledge, attempting to reconstruct them and then sell them outside Latvia”. Martins managed to sell some of those reconstructed microphones during his first visit to the US: “This turned out to be quite successful, as my first deal in the US was worth about 6,000 US dollars. Thus, not only did I realize that the old junk I had access to, had some value if properly restored, but I also managed to raise some start-up capital for my son’s education in the US and for my further business activities”.

BLUE Microphones was established in May 1995, and registered across the ocean in the US. Martin says, “I was never really interested in launching a business in Latvia, in particular during the times when the environment was very harsh there”. This demonstrates that when business opportunities for a particular business are hard or impossible to realize in one region of the world, it is not a reason to stop pursuing them elsewhere. Back in the autumn of 1995, BLUE Microphones was presented at one of the foremost US exhibitions dealing with sound and technology, leading to very important new contacts and generating sales. In the beginning, Martins was the only owner of the company; however, he cooperated closely with Bernard Wise, better known as Skipper: “He was a professional musician I had known for several years already, and he was busy making music. Skipper was of

particular help in the very first years of BLUE Microphones' operations, as he was able to bring in new customers and helped in many other ways". It is no surprise that when Skipper's contract with his former employer, JVC, expired in 1998, he formally joined BLUE Microphones.

During the first 2 years of operations, BLUE Microphones' main products were reconstructed microphones. However, this changed in 1997, when one of the leading recording studios in the US ordered the same microphone that they had bought previously. "Well, we did not have this type of microphone for reconstruction and it was indeed impossible to get it anywhere soon", Martins says, adding that, "since it was an expensive microphone, to keep the customer we literally had no choice but to follow his advice to produce the microphone ourselves". Overall, with the production of its own microphones, BLUE Microphones' sales increased substantially. For instance, the annual turnover of the company was around 40,000 US dollars in 1996, reaching 10 million in 2009 and 14 million in 2010.

Still, Martins emphasizes the importance of the decision to produce the first microphone, which, using his words, "happened almost by accident, but shaped the whole strategy of BLUE Microphones". According to Martins, "Entering the market with the most expensive microphone was the main reason for our success. In fact, the first microphone we produced is still the most expensive in our product range, costing some 5,000 euros per piece. If we compare ourselves with, for instance, the automobile industry, we positioned ourselves as "the Mercedes of microphones" in the market. This means high value-adding, high prestige and also a high price for our product and brand in general". The successful outcome of this strategy suggests that sometimes positioning a product in an unappealing price category or market segment might provide enough of a time gap to establish oneself before imitations from competitors appear.

Indeed, this strategy helped BLUE Microphones not only to get established but also to maintain a good market position. Many companies soon appeared on the market, trying to copy BLUE Microphones, mainly with made-in-China products that had a much lower price. "Well", says Martins, "this was not a problem for us as the value added and prestige that came with using BLUE Microphones was more important than simply a lower price". The reliability of the BLUE Microphones brand name would not, of course, have been possible without innovation and investment in R&D. "In this regard, both my own knowledge and that of Bernard Wise was very helpful", says Martins. Being a musician, Skipper knew exactly what sound engineers require and Martins knew how to implement these requirements technology-wise. They also soon realized that to be successful it is important to diversify the product range, and this, as for many HCs around the world (Simon 2009), became another cornerstone of BLUE Microphones' strategy.

The diversification strategy was to design each microphone for a specific use. "For instance, we offered microphones that are best for female voices, while other microphones were designed for a lower voice; then there were microphones for drums, different kinds of guitars or any other particular instrument", Martins says. Overall, the way BLUE Microphones diversified its products was very innovative in this market, as at that time most of the major producers were trying to offer

universal microphones. Martins explains: “Using a universal microphone meant that, when recording music, sound engineers had to adjust the upper and lower levels of the sound to emphasize a voice or instrument. One of our innovations in the market was microphones that did all that with built-in technology: without interruption from sound engineers. Engineers like this a lot!” It is thus only logical to conclude that knowing the core users of your product and what their task-related problems are, while being able to solve these problems, seems to be one of the keys to attracting and retaining loyal customers. This is crucial for virtually any business.

Networking is another success determinant of BLUE Microphones. Martins emphasizes the importance of personal contacts, especially when it comes to the distribution of BLUE Microphones products: “When I made my first visit to the US in the late 1980s, there were many small shops selling music equipment—just like grocers today. This, however, soon changed, with big distribution chains starting to enter the market... Guitar Center, one of the biggest distribution chains specializing in records and musical instruments, opened its doors just a few blocks away from where I lived. I was lucky to meet with one of the managers of this business, and we soon found a common language, which in turn opened doors for BLUE Microphones at Guitar Center”. Indeed, in this industry it was very unusual for a retail chain to work directly with a manufacturer, especially a small one. Today, however, BLUE Microphones are among the three best-selling microphone brands at Guitar Centers all over the US.

With its products on offer at Guitar Center, BLUE Microphones had much better chances of moving its products at other major chains as well. This turned out to be crucial for the business, as small shops that specialized in records and musical instruments soon disappeared from the market. “Today, there are some three or four big chains that dominate the entire US market in this industry, and we are present in most of them. This, of course, is a huge competitive advantage”, says Martins. The way products were distributed, however, was only one of the major changes that occurred in the industry. There was another change which in fact required a change in the initial BLUE Microphones strategy.

In the early years, the company’s main target audience were professional studios, an obvious choice for a company offering high quality microphones starting at 1,000 US dollars apiece. Changes in the market, however, were brought about by new developments in IT and more specifically by the possibility to record in digital format. Martins explains: “Previously, most musicians used the services of big recording studios because they could not afford their own. With the development of technology, creating a recording studio that would have previously required the investment of half a million dollars was now achievable with 40,000 dollars or less”. This had important implications for BLUE Microphones as there was simply no serious market for very expensive products.

BLUE Microphones found a simple and very effective solution for this market change: “Now”, says Martins, “customers could finally buy ‘the Mercedes of microphones’ for a lower price while still benefiting from the ‘Blue Microphones’ brand. And many really appreciated this!” The first BLUE microphone for the mass market was produced in Latvia, but the company could not proceed with this

strategy as production costs were simply too high. “It turned out that we had to sell the microphone for 99 dollars and the only way to ensure such a price is to produce microphones in China”.. Once BLUE Microphones managed to reach the 99-dollar selling price, the sales of their first mass market microphone progressed very quickly. In fact, not only did the company manage to sell about 100,000 of these microphones but it was also able to remain on the market with the same microphone for more than 5 years. This is indeed a unique achievement considering how quickly IT-related products fade! Arguably, however, all this would have hardly been possible if BLUE Microphones had not managed to reach economies of scale prior to the competition’s emphasis shift from quality to price. This is another lesson from this remarkable experience for growth-oriented businesses.

Regardless of the relatively cheap price, BLUE Microphones still positioned itself as a value-added brand, which in turn required investments in R&D. According to Martins, “The best strategy is to become even better, and this is what BLUE Microphones is continuously trying to achieve. All our microphones, regardless of their price, have some unique features, and this is how we maintain the reputation of our brand name even while selling at lower prices. Investment in R&D is simply a prerequisite for growth. As with digital microphones, we have become part of the IT industry, which indeed develops very quickly. Innovations in the production of microphones are also driven by demand from the market, which is in turn influenced by the introduction of new technologies in related fields. This is like a never-ending circle, and we cannot afford to be left out of it”. Once again, this emphasizes the crucial importance of being alert to all market opportunities (e.g. Simon 2009), including those created by major changes in the market place, such as changes in distribution patterns or pricing, or those in the industry as a whole as a result of new technology.

Martins and his business partner sold BLUE Microphones to Transom Capital Group in April 2008. Martins is now chief engineer, responsible for the final products, and owns only a small share of the company, but his business partner is president of BLUE Microphones. “Because of this, we cannot talk about BLUE Microphones as our company anymore”, says Martins. “Still, the company is moving forward and we are happy to be part of it”.

“Speaking of further development, it is of course important to know what our competitors are doing in the market”, Martins says, admitting that BLUE Microphones has always had difficulty entering the European market. Two leading companies completely dominate this market; AKG from Austria and Neumann from Germany. According to Martins, customers’ loyalty to these brands in Europe makes entry into Europe “more than simply complicated”. Partly because of this, BLUE Microphones’ principal market since the day the company was established has been the US. Even today, approximately 4/5 of BLUE Microphones’ sales are in the US, where the company has some 80 % market share in segments such as USB microphones. Having a turnover of more than 10.0 million US dollars, BLUE Microphones employs some 45 workers. This says a lot about the efficiency of the company.

Overall, and largely because of BLUE Microphones' ability to achieve economies of scale, during the last 2 years the company's growth has been based on mass-market products, including microphones for mobile phones, stage microphones and the like. Partly because of this, Blue Microphones' product promotion strategy has also experienced some changes in recent years. The company no longer uses advertisements in the mass media, instead focusing on gaining market visibility through musicians, TV shows, movies and books. "For instance, BLUE Microphones offers young musicians the opportunity to buy its microphones for a considerably cheaper price. BLUE Microphones products can be seen in movies such as *Star Trek*, and leading TV shows in the US, such as *American Idol*, are using our microphones", Martins says. BLUE Microphones also makes extensive use of PR tools, keeping in touch with journal editors who write on technological developments in the music industry.

"What happens to BLUE Microphones in the future will not really depend much on me or my business partner", Martins says, pointing out that the new owners of the firm now make strategy decisions. "And this, of course, is the way it should actually be", he adds. "Innovations in technology, product diversification, a good network with suppliers and distributors and the passion of the people working for BLUE Microphones has been, and most probably will remain, the main determinants of its success formula", says Martins, concluding that, "These are the reasons why BLUE Microphones has never had any bad year and has only experienced growth since the very beginning when it first entered the market".

2.3 Madara Cosmetics Ltd

Overview

Address: Sampetera street 2, LV-1046, Riga, Latvia
 Tel: +371 67470243
 Email: info@madara-cosmetics.lv
 Web: <http://www.madaracosmetics.lv>

Company Information

Industry:	Production of perfumes and toilet preparations
Year of establishment:	2006
Sales revenue in 2010:	€2.1 million
Sales revenue in 2000:	n/a (The company did not exist.)
Average number of employees in 2010:	40
Brain(s) behind the company:	Co-founder and CEO Lotte Tisenkopfa-Iltnere

2.3.1 Nature of Market Leadership

This is a potential Hidden Champion. The company is currently a leader in the cosmetics market in Latvia, and is rapidly increasing its share in the European eco-cosmetics market niche.

2.3.2 Nature of Competitive Advantage

Good quality eco-cosmetic products, produced in-house to maintain quality. A strong brand name.

2.3.3 Core Lessons Learned on the Path to Business Success

1. Ability to spot opportunity in a timely fashion, i.e.—in the case of MADARA Cosmetics -realizing that there is a considerable growth potential for eco-products in the world market. Acting fast to take advantage of such an opportunity is crucial for business growth.
2. Entering a highly competitive market is much easier for a small business if it successfully establishes itself in a market niche.
3. Enter global markets as soon as possible. Focus on quality. Employees and networking matter enormously for a growth-oriented SME.

2.3.4 Madara Cosmetics Ltd: Potential Hidden Champion

MADARA Cosmetics Ltd. was established in 2006 as a high-quality ecological skincare brand targeting the high-price segment. The company is a good example of a business founded in the highly competitive cosmetics market, yet able to successfully establish itself in a market niche, focusing on green/eco products. In a relatively short time MADARA Cosmetics managed to enter more than 30 markets and achieved remarkable financial growth indicators. After a sales turnover of 170,000 euros in 2007 and 550,000 in 2008, the company reached 2.1 million euros in 2010 and expected an increase of 60 % in 2011.

According to the owner and CEO of MADARA Cosmetics, Lotte Tisenkopfa-Iltner, several factors are keys to this success. First, the green lifestyle of the owners has set a high quality standard for the products that MADARA cosmetics offers: “We not only produce for customers but also use all the products ourselves”. Spotting the high and growing demand for eco-cosmetics in Europe, Japan, and Malaysia, and entering these markets quickly with the help of an investor and an established network of local distributors, each of them responsible for a certain market, are important factors that have contributed to the fast growth of the company, and are possible lessons for other growth-oriented SMEs hoping to enter new markets with limited financial resources. The CEO also emphasizes the importance of human capital, namely the professionalism of the MADARA Cosmetics team, as well as constant innovation in products and product design, in achieving success. Overall, MADARA Cosmetics is among the select few Latvian companies on their way to becoming a leader in their market niches. This is their aim at least: to be one of the three top-of-mind brands in Europe in 20 years in the field of eco-cosmetics.

2.4 Aboards Ltd

Overview

Address: Braslas street 29, Riga, LV1084, Latvia
 Tel: +371 28691000
 Email: aboards@aboards.eu
 Web: <http://www.aboards.eu>

Company Information

Industry:	Agents specialized in the sale of products
Year of establishment:	2006
Sales revenue in 2010:	€250,000
Sales revenue in 2000:	n/a (The company did not exist.)
Average number of employees in 2010:	More than 5 dealers around the world
Brain(s) behind the company:	Founder Kriss Spulis

2.4.1 Nature of Market Leadership

This is a potential Hidden Champion, estimated to hold 5 % of the global market share in a very competitive market—kite boards and kite boarding equipment—full of competitors.

2.4.2 Nature of Competitive Advantage

Good quality products, a strong brand name, and a high loyalty among kite boarding enthusiasts. This is a very strong community of people with specific interests and lifestyles. By focusing on this specific subgroup of customers, Aboards Ltd. has managed to outperform big OEMs that produce a whole range of sporting equipment but do not fully understand or address the kite boarding freaks.

2.4.3 Core Lessons Learned on the Path to Business Success

1. Focus on a narrow customer segment with specific life-style preferences, not well addressed by OEMs.
2. Entering export markets as quickly as possible is crucial.
3. Building a strong network of distributors is crucial for entering global markets more quickly and economically.
4. Constant innovation, the owner's competence in technology, a clever marketing strategy on an international level, quality control, and logistics contribute to success in a global market.

2.4.4 Aboards Ltd: Potential Hidden Champion

Aboards Ltd. was established in 2006. It specializes in producing good-quality kite boards and kite boarding equipment in a high-price segment. In just 4 years, Aboards achieved remarkable success; despite being in a very competitive market, the company has acquired some 5 % of the world market share. According to the CEO and owner of Aboards, Kriss Spulis, there have been several key success determinants for the company. First, the company's early export orientation was crucial. Today, with the help of local dealers who are in turn responsible for developing the brand in the respective regions, and mainly using the B2B approach, the company exports over 90 % of its production to more than 30 countries on five continents. Not only the distribution but also the manufacturing process is globalized: the firm has manufacturing sites in various countries in Europe, Asia and beyond. Further keys to success have been constant innovation, the owner's competence in technology, a clever marketing strategy at an international level, quality control, and logistics. Finally, regular and hard work is highlighted as a factor that has enabled the company to grow quickly: "To go a long way you need to keep on taking small steps", the CEO of Aboards explains, pointing out that, taking small steps, the company is aiming to go as far as possible.

2.5 Mammu

2.5.1 Mammu: Potential Hidden Champion

Although some Latvian companies are just emerging, they clearly demonstrate a potential to become market leaders in their niche. One such company is MAMMU. Founded in 2010, MAMMU is a social business; it is already a best-case example for the creative think-tank Grameen Creative Lab of Dr. Yunus, who promotes the MAMMU business model worldwide at all major social business events. According to the co-owner of MAMMU, Fionn Dobbin, "The key idea for MAMMU is to support mothers in need by giving them a chance to earn money". With the help of top designers and photographers, mothers in need are involved in manufacturing fashionable scarves—MAMMU's chief product—using green materials. Though only recently established, MAMMU is on its way to becoming a social movement around the world. Currently the company exports its scarves to the US, France, Germany, Denmark, the UK and Luxembourg, and is ready to enter many other countries worldwide.

Conclusion

Being among the best in their industries, HCs are growth-oriented, highly ambitious firms that pursue or have achieved market leadership (Simon 2009). Like MADARA Cosmetics and MAMMU, these companies are never shy about announcing their aims and ambitions, even when relatively young and small. Furthermore, according to Simon (2009), HCs are oriented towards the long term and possess a clear vision and an "inner flame". They are also able to pass on this flame to others. This holds true not only for employees, who, having

common values, are often as enthusiastic about reaching the company targets as the owners themselves, but also for customers. Apart from being growth-orientated, the ability to achieve constant, fast and long term growth, even in mature markets or industries, is a factor that distinguishes HCs from firms that merely grow quickly. It is certainly a prerequisite for moving from the “hidden champion” to the “big champion” category (Simon 2009).

In explaining the growth drivers of HCs, Simon (2009) emphasizes globalization and innovation as being of crucial importance. Through innovation, these companies manage to create their own markets or demand for their often high-tech products. Thus not only innovation per se, but also the ability to market the innovation, is considered of major importance. Furthermore, product diversification as a strategy enabling the growth and further penetration of international markets has been highlighted as a very important characteristic of HCs. In this context, technical knowledge, often possessed by the firms’ owners, plays a very important role. Neither Aerodium nor BLUE Microphones are exceptions in regard to all the previously mentioned general characteristics of HCs.

Also, the way in which Aerodium and BLUE Microphones bring innovations to global markets corresponds to the general strategies of HCs. A key to success in internationalization efforts is maintaining a close relationship with every market, mainly using the knowledge of local people, who are often distributors or other cooperation partners (Simon 2009). The main reason for the importance of close relationships with the markets is, of course, the ability to handle issues related to mentality, legislation, and other specifics of the particular markets. Such relationships are, however, also crucial when it comes to providing high quality and timely service to the customer, as demonstrated by the case of Aerodium.

HCs are very focus-oriented companies that specialize in their particular market niche or business activity; going “deep, not broad” (Simon 2009). In the case of BLUE Microphones and Aerodium, as well as Aboards, a narrow focus does not, however, mean putting all your eggs in one basket. Even though they are focused, these companies have managed to diversify their product ranges to the extent that they are no longer dependent on a single product or market. All in all, just like Aerodium and BLUE Microphones, HCs concentrate on what they do best, often outsourcing other activities, thus becoming as efficient as possible. Furthermore, replicating the findings of previous studies (see Chaston 2010 for a review), all cases from Latvia demonstrate the great importance of the role of the owner/managers. It is their lifestyle, interests, and hobbies, and—even more important—specific knowledge, that has helped them to launch innovative products and sustain a competitive advantage in the respective market niche.

The pricing and human resource management strategies of Latvian HCs and most regional leaders, along with the influential personalities of their owners, seem to be very much in line with what seems to characterize HCs from other countries. Furthermore, like most HCs around the world, Latvians handle their success strategies with discretion. Thus, it would not be surprising if there were

other success factors or strategies, or perhaps a particular combination of these, that have not only brought Latvia's HCs to where they are now but will also enable their future success.

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