

Scaling fast, failing faster: Entrepreneurial team's capabilities for achieving realized digital scaling

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Abstract

The objective of this work is to examine the entrepreneurial teams' key capabilities required to achieve realized international scaling of an entrepreneurial digital firm. Through explorative case studies of six Finnish digital firms exhibiting differences in scaling outcomes, this study suggests that a combination of the digital, entrepreneurial, and dynamic capabilities is a vital prerequisite of a realized digital scaling. Research findings also draw attention to the fact that albeit digital affordances offer unprecedented possibilities for international scaling, it is the digital venture's founder who plays a key role in utilizing and transforming these possibilities into successful international scaling.

Keywords: Digital ventures, realized scaling, capabilities, entrepreneur.

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1 Introduction

Scaling as a strategy for growth and international expansion has become one of the primary objectives of the entrepreneurial firms across the globe (Financial Times, 2021). The unprecedented possibilities for scaling have been triggered and enabled by digital technologies allowing firms for lean and rapid digital international scaling (Autio & Zander, 2016; Coviello *et al.*, 2017). Born digital ventures represent an exemplar of firms pursuing digital scaling defined as exponential growth in revenue with incremental increase in cost (Mihailova, 2023). The currency of the digital scaling has attracted the attention of practitioners and academic scholars resulting in a growing body of research dedicated to digital scaling (Mithani, 2023; Piaskowska *et al.*, 2021). Scholars have highlighted that digital ventures appear to face few impediments to international growth as their offering can be released to the global market almost instantly and additional users can be

acquired at the near zero costs (Monaghan *et al.*, 2020; Shaheer & Li, 2020). However, despite availability of digital tools and mechanisms for scaling and illustrative success stories of born digital firms achieving a truly global presence, majority of firms still fail (Hillenbrand *et al.*, 2020). This suggests that scaling a digital business is rather challenging and complex endeavor requiring further understanding. Mihailova (2023) highlights that it is important to draw a distinction between potential scalability and realized scaling. While potential scaling is associated with possibilities that enabled by digital elements of business model such as instant global launch via app store or other platform, realized scaling is defined as an achievement of exponential growth of revenue with an incremental increase in costs (Mihailova, 2023). There is a need for a better understanding about why some digital firms succeed, while another fail to achieve realized scaling? This research aims to conduct an explorative case study to shed light on this dilemma and to

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develop actionable implications for managers and entrepreneurs who aim to achieve scaled operations of their ventures. It adopts the lens of dynamic capabilities approach in critical discussion of findings and drawing theoretical and managerial conclusions.

2 Methodology

The empirical data collection has been implemented through an explorative research of multiple case study of six Finnish digital firms in mobile gaming and digital education sectors (Eisenhardt, 2021; Yin, 2009). Firms were selected based on the theoretical objectives to examine antecedents and outcomes of international digital scaling. The founding year of companies ranged from 2010 to 2018. The empirical research was conducted in phases. It started in 2018 and lasted until 2020. During the first phase, the operations of a case firm in the digital education sector, that failed to achieve realized scaling, were closely followed over the period of two years to document its operations from the inception to termination. The second phase of the research included the examination of five additional case firms that had achieved a realized scaling in their operations. In total, six case firms were examined in depth and detail to gather rich empirical evidence on failed and successfully scaled digital firms.

Data analysis was conducted with the objective to identify key themes related to the antecedents of the achieved realized scaling followed by the cross-case comparison of the findings in each of the themes. The particular attention was paid to the understanding of the differences between the case firm that failed to scale and case firms exhibited various scope of achieved international scaling with the objective to uncover the critical factors underlying the success and failure in scaling outcomes.

3 Achieving realized digital scaling: Capability-based view

This study adopts a capability-based view from international entrepreneurship research (Knight & Cavusgil, 2004) to unveil the insights from empirical study about why some digital ventures succeed in scaling while others fail. While the digital technologies are enabling potential scaling, this study suggests that there is a set of idiosyncratic capabilities that enables entrepreneurial digital firms to achieve realized scaling of their potentially scalable offerings. The distinctive features of digital market associated with the global intense competition and fast-paced technological changes impose numerous challenges for exponential and sustained growth, exhibiting scaling. The study unveils that there are three distinctive types of capabilities that are vital for achieving realized international scaling: (1) digital capabilities, (2) entrepreneurial capabilities; and (3) dynamic capabilities that bind the digital and entrepreneurial capabilities together.

Digital capabilities include a wide range of technological competences (Cahen & Boirini, 2020), when particular importance plays the ability to design and manage digital marketing campaigns and to rely on data-driven decision making in steering through challenges towards achievement of the international scale. These challenges are associated with two specific features of the digital market such as (a) large number of available offerings from developers across the globe and (b) sufficient user retention as the value of the digital offering is realized only during the consumption instead of the moment of the exchange (Vendrell-Herrerro *et al.*, 2018). With regards to the former (a), entrepreneurial team must skilfully develop and monitor digital marketing tools to make an offering stand out from the ‘crowd’ in the digital market. This study suggests that there is a liability of crowdedness that is specific to the digital scaling. With regards to the latter (b), digital analytics and data driven

decision making are vital for finding the optimal fit with segment of users that will be willing to pay for the offering. Despite the fact that digital offerings can be easily and instantly made available for users on the global scale (e.g., via App stores), this does not automatically imply that users will generate revenues. Entrepreneurial team must skilfully tailor user acquisition and retention tools which, in addition to digital capabilities, requires substantial financial resources.

Entrepreneurial capabilities are the other important antecedents of realized scaling. One of the most important capabilities refer to the ability of the founder to be persistent in driving the process of the offering's adaptation to achieve the optimal fit with market segment. This process requires multiple rounds of offering's adjustments based on the feedback from user data. While in the one of case firms scaling has been achieved after ten years of offering adaptation, the founder of the other case firm had no willingness to undertake required modifications and terminated the venture shortly after the market launch of the offering.

The other entrepreneurial capability is associated with fundraising skills. It is important to secure investor capital at the right point of time to finance the marketing and user acquisition campaigns that require substantial budget. Also, hiring top talents in the field are costly. The capabilities of the founder to negotiate during the funding process play a crucial role as the investors consider a founder as a key figure behind the venture. The lack of fundraising capabilities of the founder in one of the case firms was referred as being one of the crucial factors contributing to the failure to achieve scaling.

Dynamic capabilities refer to higher-order capabilities, including sensing, seizing, and transforming competences (Teece, 2018). Dynamic managerial capabilities are defined as

'the capabilities with which managers build, integrate, and reconfigure organizational resources and competences' (Adner *et al.*, 2003, p. 1012). The particular importance of dynamic capabilities in scaling context is associated with the fast-paced feedback loop from digital analytics which points to the opportunities, bottlenecks, and forthcoming threats. The research highlights that ability of entrepreneurial team to timely seize and react on these signals in decision-making is the key antecedent of successful scaling. The additional pressure for quick actions is associated with the fact that digital market is transparent in terms of user feedback. Negative public feedback can quickly undermine the growth prospects, and thus should be dealt in an extremely swift and strategic manner.

4 The role of the venture founder in achieving realized scaling

The empirical insights indicate that the role of founder is prominent in driving the venture's operations towards realized international scaling. At its core, scaling is about pursuing two sides of the founder's drive and ambitions. One is associated with the vision and desire to share the idea for the novel offering(s) with the world. The other is to pursue the business success through the entrepreneurial venture and achieving an international scaling. These sides are conflicting with each other as the passion and business logic might push a founder to move into the opposite directions. It is those founders who can combine passion and business sides via self-discipline, listen to and seek input from others, and be willing to shift their outlook, succeed in scaling. They are continuously pressured by the sense of urgency, and treat a need for continuous adaptation as the *modus operandi*. When it comes to taking action on feedback, many founders struggle. Yet, being receptive to feedback is another important element and antecedent of succeeding in achieving business success in scaling own ideas.

To sum up, this study highlights the important role of key individuals in implementation of realized digital scaling that contributes to a better understanding of microfoundations in internationalization and scaling research (Coviello *et al.*, 2017). Strategy and international business literature highlights that in order to explain a firm's operations, it is important to account for actions and interactions of individuals (Contractor *et al.*, 2019). This approach stresses that despite external factors, firm operations are realized through the choices and actions of individuals (Felin *et al.*, 2015). Thus, this study allows to better integrate the premises of entrepreneurial and microfoundations research into digital scaling.

5 Theoretical and managerial implications

Digital scaling became particularly attractive growth strategy for entrepreneurial firms due to the enabling effects of digital technologies. However, this study highlights that achieving a realized scale is more challenging than it appears. This study draws managerial attention to the fact that reliance on digital affordances that offer potential possibility for cost efficient and speedy expansion in itself does not results in achieving the exponential revenue generation exhibiting realized scaling. It requires, in addition to superior offering, founder's and team's excellence in digital, entrepreneurial, and dynamic capabilities that are essential for navigating the process of realized scaling. While each of those capabilities have been extensively discussed in international entrepreneurship and strategy research (Cardon & Kirk, 2015; Duruflé *et al.*, 2018; Teece, 1998), the novelty of this study arises from the fact that it suggests that it is the combination of mentioned above capabilities that lead entrepreneurial firm to successful scaling outcomes.

The other important implication is associated with highlighting the managerial challenge of finding the balance between founder's and/or

team's vision and the market driven signals in order to be able to detect and react to the indicators pointing towards direction of required changes to ensure realized scaling. Thus, it is vital that ambitious and passionate entrepreneurs that envision to quickly get a competitive foothold in global market would embrace comprehensive mindset about what is required to practically succeed in digital scaling.

Lastly, this study allows owners and managers to grasp the importance of their personal role in addressing the fast-pace nature of digital scaling by timely and continuous sensing, seizing, and adaptation to emerging challenges and opportunities in daily operations.

6 Conclusions and limitations

This empirical exploratory research uncovers important antecedents of realized digital scaling and highlights the key role of the founder in driving the scaling success. This paper does not, however, claim to offer the all-embracing explanation of factors affecting the scope and speed of international scaling. Future studies can examine in greater depth other aspects of scaling such as choice of the foreign markets, localization requirements and specific challenges at different phases of the scaling process, amongst others. There is an opportunity to undertake a larger quantitative study to test some of the assumptions proposed in this research. It will strengthen the conceptual foundations of scaling and enables for enhancing the generalization of this research assumptions.

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