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# Internationalizing E-Commerce Companies – A New Paradigm?

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## **Abstract**

### **Background and Problem**

During the past decades, the rapid technological advancements and progressing cross-border economic integration have had major implications on the international business landscape. The development has enabled predominantly small-and-medium sized enterprises (SMEs), to expand across borders, especially through Electronic Commerce. What is particularly interesting is the astonishing speed and early timing these companies display in their internationalization processes. Hence, this thesis will explore the foreign expansion of E-Commerce companies (ECCs) through the following question:

*What are the reasons and strategies for early-stage internationalization in B2C E-Commerce companies in the Single Internal Market?*

### **Purpose**

The purpose of this thesis is to gain an understanding of ECCs internationalization patterns, and to discover whether current theories within the area of International Business are sufficient to explain the internationalization of these firms. Moreover, the paper aims to study the effects of economic integration in the Single Internal Market on internationalizing ECCs.

### **Method**

This dissertation uses a qualitative research approach to answer the research question, comprising of a case study with multiple subjects and using semi-structured interviews in order to gain insights from a number of relevant business cases and a scholar. The findings are then compared with internationalization theories to study similarities and differences between theory and practice for ECCs.

### **Results and Conclusion**

Internationalizing ECCs are highly characterized by rapid foreign market entry, often with the objective to gain first-mover advantages and to exploit market opportunities. Additionally, networks play a critical role in the direction, scope and speed in the internationalization process. The EU has facilitated the expansion for these companies, albeit national legal peculiarities remain. Lastly, the study suggests that current International Business theories do not fully explain the internationalization process for ECCs.

**Keywords:** Business internationalization, Born Global, E-commerce, ECCs, Economic integration, Business networks, Small-to-Medium-Sized Enterprises

## **List of Abbreviations**

<b>SME</b>	Small and Medium Sized Enterprise
<b>B2B</b>	Business-To-Business
<b>B2C</b>	Business-To-Consumer
<b>C2C</b>	Consumer-To-Consumer
<b>ECC</b>	E-Commerce Company
<b>MNC</b>	Multinational Corporation
<b>MNE</b>	Multinational Enterprise
<b>WTO</b>	World Trade Organization
<b>EU</b>	European Union

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## 1. Introduction

### 1.1 Background

It is well known that the global economic landscape has changed dramatically during the past few decades. The speed of economic globalization has increased significantly, manifested by the fact that economic and political activities have become more internationally integrated (Suder, 2011). Advances in transportation, and in information and communication technology have enabled a compression of time and space, allowing for a faster and more streamlined interaction between firms and consumers. These developments are especially evident in the Internet economy, where reduced geographical distances and an increased speed of conducting business have generated a large number of international firms (Suder, 2011).

Economic globalization has particularly empowered smaller companies to enter foreign markets (Wright & Ricks, 1994; Zahra, 2005). In theory, the internationalization process has traditionally been described as a gradual expansion into foreign markets, often through exporting to local distributors, who, in turn, would sell the products to customers. Only after a prolonged period of profitable exporting would the producing company normally start investing in sales and local operation capabilities (Hooley et al., 1998). “Stage” patterns were typically evident in studies of large companies with significant resources, as such capabilities were deemed essential for international expansion (Wright & Ricks, 1994). However, in recent years, Small and Medium Sized Enterprises (SMEs) have become an important topic of research within the field, as these firms increasingly compete in the global economy, and no longer seem to be confined to the domestic marketplace, due to their small size and meager resources (Prashantham, 2008).

Furthermore, the impact of technological breakthroughs, such as the rise of the Internet has greatly impacted the research area. Ha & McGregor (2013) highlight that whereas companies in 1996 mainly used the Internet for sharing and maintaining business information with clients, it has increasingly become a forum for buying and selling goods and services, in both business-to-business (B2B) and business-to-consumers (B2C), but increasingly also for consumer-to-consumer (C2C) transactions. This niche within the Internet economy is called E-commerce. According to Mahadevan (2000), the E-commerce segment can be divided into three broad structures: Portals, Market Makers, and Product/Service Providers. Portals, such as coupon websites, engage in building communities that direct traffic to other E-commerce retailers. Market makers, such as Ebay, enable communication among members, and in effect

facilitate business transactions between them. Lastly, product and service providers use the Internet as their virtual retail location for selling to consumers (Mahadevan, 2000). E-Commerce companies (ECCs) are especially interesting in the B2C segment where sales have grown rapidly during the past decade. According to the Jongen & Weening (2013) the share of E-commerce sales in the Single Internal Market, in 2012, amounted to 5 percent of total retail, which represents a 19 percent increase from the previous year.

### **1.2 Problem Discussion**

Scholars on internationalization are relatively unanimous in attesting to the fact that foreign expansion has historically been an incremental process, where companies follow a “rings on the water” model of expansion. Empirical data from these firms suggests that internationalization is a slow and gradual process due to high levels of uncertainty, risk aversion and lack of knowledge in foreign markets (Madsen & Servais, 1997). Although theories that support the above notion, such as the Uppsala model (Johansson & Vahlne 1977), still hold true in a number of cases, the current business environment has changed dramatically, and thus does not properly correspond to these theories.

Therefore, the field of International Business was typically dominated by studies on Multinational Corporations (MNCs), and the Stage Theories of Internationalization were often well descriptive of the expansion patterns for these companies (Madsen & Servais, 1997). In contrast to the slow expansion patterns seen in these models, many smaller firms today have demonstrated rapid growth into foreign markets. Prashantham (2008) rightly points out that although smaller firms lack the resources of their larger counterparts, many are able to leverage their limited resources in a sensible and innovative manner. There are myriad explanations to the shift in international expansion patterns, with regards to the underlying motives and the increased speed and ease of conducting business abroad. Arguably, the shift from manufacturing to service-based economies, especially in the Western world, has set the landscape for further cross-border interaction among firms. Doytch & Uctum (2011) states that the service industry has grown rapidly as a share of worldwide FDI since the 1970s and that the share outgrew that of manufacturing by the mid-1990s, indicating that there are increasing incentives for investments in service firms abroad.

Furthermore, an increasing cooperation among nations, as seen in the development of trade organizations with harmonized frameworks for cross-border interaction, customs unions and free trade areas, has contributed to the surge in foreign trade. The Single Internal Market is a



particularly interesting case in point. It follows a pattern of incremental market integration to bring member nations closer by eliminating potential barriers to trade (Ilzkovitz et al., 2007).

The advent of the Internet, as noted above, has had a considerable impact on the possibilities of conducting business across borders. And in recent years the trend has shifted more towards early-stage internationalization efforts in order to stay ahead of the competition, particularly in the case of internet-based SMEs (Cavusgil & Knight, 2004). This trend does not only apply to smaller firms but also in the case of large Internet firms. Singh (2012) highlights that, as of 2009, slightly more than half of Google and Amazon's revenues come from international markets. This data suggests that although the domestic market is dominant, these firms would not have enjoyed a competitive advantage in terms of market share and brand recognition, had they not established their presence abroad at an early stage. Large-scale international expansion is particularly interesting for E-Commerce firms in order to reach economies of scales. Gefen & Straub (2004), in their research on the importance of trust in the E-commerce segment, argue that a large social presence is directly linked to the level of trust the consumer has to the company, and ultimately to the company revenue. The Internet has grown to become a solid marketplace for consumer goods, and both MNCs and SMEs have realized its scaling potential, as the need for physical presence has diminished and the ease of establishing a virtual presence has increased (Singh, 2012). In response to the development of available technologies and to trade liberalizing efforts, such as the World Trade Organization's (WTO's) multilateral trade agreements, and loosening of regulation within the European Union, younger SMEs have seen a wider range of growth opportunities in different markets (Altschuler, 2012).

While there is a plethora of literature on the dynamics of consumer psychology and E-Commerce (eg. Turban et al., 2009; McKnight & Chodhury, 2002; Gefen, 2000), the literature on ECC internationalization is still meager and oftentimes outdated in relation to the fast-paced environment of International Business (e.g. Petersen et al., 2002; Tiessen et al., 2003; Wymbs, 2000). Naturally, the question arises whether the existing literature on internationalization already reflects the reality for ECCs or if there is a need for a paradigm shift in the research area.

### **1.3 Purpose**

The purpose of this paper is to look at the reasons for early-stage internationalization in B2C E-Commerce Companies, in the Single Internal Market, in order to analyze similarities and

differences between companies in various sectors. The empirical findings are compared to the theoretical framework, to see whether any business patterns, specifically related to ECCs, can be discerned.

#### **1.4 Research Question**

The increased relevance of ECCs in the global economy, and specifically in the European context, raises the question whether there is a need for a paradigm shift in the International Business literature regarding expansion theories. Studying ECCs by its own merit is certainly not a unique approach, but adding the internationalization dimension to the question makes for an interesting analysis. Also, one might ask what the effects of various free trade agreements, such as in the case of the Single Internal Market, have had on the business landscape. Certainly, while many of the established theories presented in this paper still hold true today, the fact that business infrastructures and information and communication technologies have advanced at a considerable speed has affected the outlook for researchers and students in the field.

Due to time constraints and the limited scope of this thesis, it is not likely that the authors' efforts will be sufficient to make a contribution to the ongoing research. However, a discussion regarding the internationalization patterns of these firms might spark future research interest in the field.

Therefore, considering the above parameters, the following research questions comes to mind:

*What are the reasons and strategies for early-stage internationalization in B2C E-Commerce Companies in the Single Internal Market?*

Also, the following sub-question helps complete the picture:

*To what extent are network connections important for the direction and scope of the internationalization process?*

#### **1.5 Limitations**

First, the study will focus on the SME category of companies, according to the European Commission's (2005) definition presented in the Institutional framework below. Second, the study focuses on firms that mainly operate within E-commerce and specifically within the B2C segment. Third, the analysis will be restricted to companies that have, at least, expanded

in the Single Internal Market. The reason for focusing on ECCs within the EU (European Union) is to study methods and strategies for the internationalization process of a relatively new category of companies, but also to determine whether external influences, such as the economic integration of the Single Market and its supranational regulation, have affected their choices. Additionally, studying the different national backgrounds of targeted firms will provide insights about similarities and differences regarding the firms' expansions and also their opinion on the importance of the EU. Moreover, this paper defines early-stage internationalization as a timeframe of three years within which initial foreign entry is conducted. The three-year timeframe is deemed suitable for this paper as it is used in the definition of Born Globals by Cavusgil & Knight (2004).

### 1.6 Outline of the Study

The thesis is organized as follows: Chapter two demonstrates the theoretical framework that is deemed relevant to the thesis, mainly focusing on literature regarding internationalization theories, influences of networks and internationalization advantages and liabilities. Also, the characteristics of ECCs and their connection to Born Global firms are discussed. The ensuing chapter three exhibits the institutional framework of the thesis - a presentation of the market situation in the EU and of relevant legal frameworks. In section four the choice of method for the study is presented and examined. It involves a discussion on the appropriate research approach, an explanation to the selection of companies, respondents and to the data collection. Chapter five presents the empirical findings from interviews and other primary data sources. This is followed by an analysis and a comparison of the empirical findings to the theoretical and institutional frameworks in chapter six. Lastly, chapter seven sums up the results, answers the research questions and presents suggestions for further research.



Figure 1. Source: Authors' own illustration.

## 2. Theoretical Framework

### 2.1 Overview

Since this thesis explores the aspects of ECC internationalization, it is central to cover the relevant theoretical frameworks for business internationalization. First, the traditional Uppsala model will be presented briefly, to continue with recent theories that are more relevant to ECCs, such as the Born Global theory, the (N)-OLI model, Network theory and Service Internationalization theory.

Theory	Uppsala Model	(N)-OLI	Born Globals	Networks	Internationalization Speed	Service Internationalization
Key authors	Johanson & Vahlne	Dunning, Singh & Kundu	Oviatt & McDougall, Cavusgil & Knight	Coviello, Sharma & Blomstermo, Zahra	Oviatt & McDougall	Bell, Coviello, & Martin, Ekeledo & Sivakumar
Key characteristics	Internationalization process - Incremental stages based on previous knowledge and experience. Studied large manufacturing MNCs. Revisited model emphasizes networks.	Explores advantages gained through firms' internationalization locations and strategies.	Some firms internationalize rapidly, and proactively seek market opportunities abroad.	Business networks grant market knowledge, opportunities, and partners. Entrepreneurs founding relationships key for internationalization scope and direction	Speed is determined by mediating, enabling, motivating and moderating factors.	Distinguishes differences between service and manufacturing firms' internationalization. ECCs specializing in services - internationalization depends on level of digitalization.

Table 1. Source: Authors' own interpretation.

## 2.2 Internationalization Theories – Stage Theories

Traditional business internationalization theories have mainly studied foreign expansion through an ‘establishment chain’ perspective (Hooley et al., 1998). Johanson & Vahlne (1977), the initial authors of this paradigm with the Uppsala model, described internationalization as a process of incremental stages, where each stage implied increased engagement in the market, as a result of augmented experience and knowledge, and of reduced psychic distance. Nonetheless, the relevance of these theories has been questioned, as an increasing number of firms demonstrate rapid foreign expansions rather than the slow incremental processes described in the stages models (Bell, 1995). Moreover, as the older models are based on the study of large manufacturing corporations (Johanson & Vahlne, 1977), its applicability on smaller service-based firms is disputed. As seen in Figure 1, Johanson & Vahlne (2009) have revisited their model and shifted its focus to describe the position of the firm within a complex business system, where domestic and international network agents reveal exploitable business opportunities to the firm. This model will be discussed further in the section on internationalization liabilities in the Network theory.

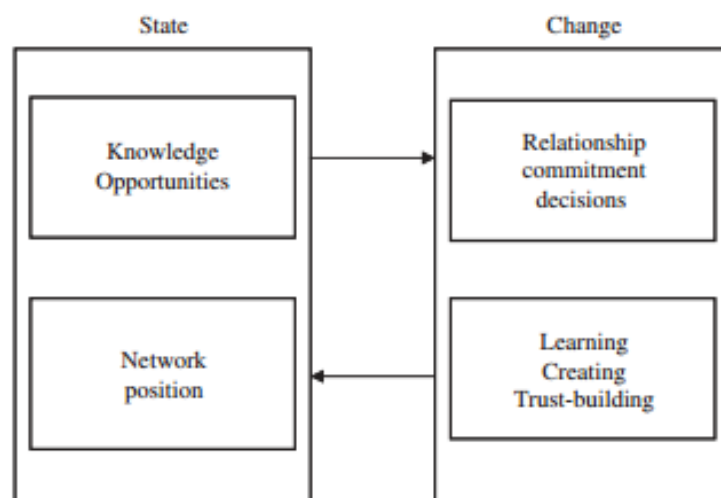


Figure 2: The business internationalization process model (Johanson & Vahlne, 2009 p.1424)

## 2.3 The Eclectic Paradigm - A Framework for MNEs Competitive Advantages

One of the initial frameworks for capturing the nature of the multinational enterprise (MNE) is the ownership-location-internalization (OLI) theory of multinational activity, also known as the eclectic paradigm. Created by John Dunning in the 70s, it was and continues to be one of the most significant theoretical frameworks for explaining the sources of MNEs competitive advantages compared to national competitors (Mathews & Zander, 2007). The theory describes a corporation’s choice of location and internationalization method in relation to the particular advantages the company gains from activities beyond their domestic market (Suder,

2011). The advantages that Dunning considered culminated in three components of the OLI theory, hence the abbreviation. Ownership advantages represent particular competitive advantages, which are created through the firm's international experience, differentiating capability, size, product/service adaptability, the technology intensity and service intensity of the company's offerings (Brouthers et al., 1996). Examples of Ownership advantages are unique products or services, financial resources, and R&D. Locational advantages are certain elements associated with a particular market, such as market risk and potential. Lastly, Internalization advantages are related to competitive strengths gained from integrating operations compared to using an external operator. Internationalization of operations will come at a cost, and these costs must be compared to those associated with externalizing functions to other agents, i.e. transaction costs (Dunning, 1988; 1993).

The OLI-theory has been revised and extended on numerous occasions, taking into account the changing nature of MNEs, making it continuously applicable in scholars' effort to conceptualize the internationalization of such firms (Cantwell & Narula, 2012). However, the theory has been criticized for neglecting certain elements relevant to the internationalization process of corporations. Mathews & Zander (2007) argue that the importance of a firm's position within a business network as a source of competitive advantage has been largely omitted in the OLI theory. Dunning (1995; 2000) acknowledges the significance of such networks but has not recognized them as a separate set of advantages. Other scholars point to the relevance of network positions as a source of advantage. Zaheer et al. (2000) write that a company's conduct can be more completely comprehended by analyzing the network that the firm is embedded in, and be seen as an essential source of information, knowledge and technology - i.e. network advantages. Moreover, it is contended that a firm's internationalization, as a way of anticipating market developments and strengthening of the competitive position, is largely disregarded in the theory, which also leaves an important element unrecognized (Mathews & Zander, 2007).

Considering that this paper specifically targets ECCs it is relevant to examine the applicability of the OLI framework to this segment. Dunning & Wymbs (2001) address the issue by writing that the fundamental aspects of the eclectic paradigm are largely applicable to ECCs, arguing that these firms try to leverage internet technology in order to increase and uphold firm specific O-advantages, but also L- and I-advantages. Still, Singh & Kundu (2002) debate whether the similarities of ECCs to Born Global firms (Cavusgil & Knight, 1996; Oviatt &

McDougall, 1994) makes it necessary to include aspects of external networks as sources of advantage. Hence, Singh & Kundu (2002) added the Network (N) as an equivalent set of advantages to the original OLI model. Singh & Kundu (2002, p. 688) propose the following regarding ECCs network advantages:

*“Network advantages help ECCs to access network resources and leverage network externalities leading to enhanced coordination, economies of scale, and sustainable growth”.*

Network externalities are facilitated by the open nature of the Internet, enabling B2C-exchanges to thrive (Singh & Kundu, 2002). Ownership advantages relevant for ECCs are separated into four groups; Innovation-based, Knowledge-based, Web site-based and advantages gained from intangible assets (i.e. brand name, patents). Location-based advantages, at the regional, web and digital level aid ECCs to leverage intellectual and social capital, website interactivity and Internet position (i.e. linkages with other websites) (Singh & Kundu, 2002). Additionally, internalization of vertical activities, such as service or product distribution, and horizontal activities (i.e. complementary services), can be sources of advantage. However, because the eclectic paradigm principally categorizes and assesses variables affecting MNCs growth in static terms, rather than the dynamics of other internationalization theories, there are limitations to explain the different sources of N-OLI advantages (Singh & Kundu, 2002). Hence, it is important to complement the eclectic paradigm in this paper with other frameworks, such that describe the increasingly wide range of advantages and different expansion patterns such as Born Global theory (e.g. Oviatt & McDougall, 1994) and Network theory (e.g. Sharma & Blomstermo, 2002; Zahra 2005).

## **2.4 Born Global**

### **2.4.1 Born Global & ECCs - Introduction**

The Born Global concept is a specific type of the wider theoretical definition branded International New Ventures (INVs). The INV theory, initially conceptualized in the 1990s and most notably by Oviatt & McDougall (1994), captured the rapid internationalization patterns of young firms across countries and industries.

This chapter provides a discussion on the defining characteristics of Born Globals and ECCs, followed by a presentation of dimensions of the theory that are particularly relevant to the research question.

### 2.4.2 Born Global & ECCs - Defining Characteristics

Born Global firms are characterized by the fact that they move quickly through the “*incremental internationalization stages*” (Altschuler, 2012 p.24) described in the early internationalization models presented above (e.g., Johanson & Vahlne, 1977; Bilkey, 1978; Cavusgil, 1980). Born Globals are designed to expand into foreign markets from their very conception. The founders of these companies pay particular attention when drafting their business offerings and when setting up operations so as to allow for effective early expansions abroad. Altschuler (2012) discusses two widely referenced definitions for Born Globals. First, she cites Knight (1997 p.1):

*“A company which, from or near its founding, seeks to derive a substantial portion of its revenue from the sale of its products in international markets”.*

The second definition is by Cavusgil & Knight (2004 p.124), who define Born Globals as:

*“Business organizations that, from or near their founding, seek superior international business performance from the application of knowledge-based resources to the sale of outputs in multiple countries”.*

Furthermore, scholars on the subject are divided with regards to the time aspect for internationalization in Born Global companies. Freeman & Cavusgil (2007) in their paper have attempted to capture the timeframe within which Born Global firms conduct their expansions. According to the literature they studied, they estimate that Born Globals internationalize within two to six years from their establishment.

Also, Cavusgil & Knight (2005) propose four broad clusters of Born Global firms. The first cluster comprises of companies with a clear entrepreneurial focus and strong international performance, through significant resources, and aggressive and innovative marketing. Cluster two and three represent firms specializing in differentiation and cost leadership strategies respectively, whereas the fourth cluster involves corporations that are “stuck-in-the-middle” (i.e. lacks competitive edge).

Apart from the International Business literature, one can derive defining characteristics of Born Globals from the International Entrepreneurship school of thought. Whereas the definitions on Born Globals provided in this paper mainly focus on the sales activities in international markets, the literature on International Entrepreneurship makes the case that these companies comprise a new category of MNEs, that apart from gaining a considerable



share of their revenue from non-domestic markets, leverage international opportunities, such as networks, and manage cross-border resources effectively (Mathews & Zander, 2007).

Oviatt & McDougall (2000 p.903) in their paper also provide the following interpretation of the phenomenon:

*“International Entrepreneurship is a combination of innovative, proactive, and risk-seeking behavior that crosses national borders and is intended to create value in organizations”.*

Given the above discussions, stemming from two closely related areas of research, one cannot simply reach an objective definition of the Born Global phenomenon. However, this paper aims to combine dimensions from both schools of thought to arrive at an appropriate definition for the ensuing analysis:

*Born Globals are entrepreneurial business organizations that display proactive, innovative and risk-seeking behavior across national borders, and strive to generate substantial revenues from international markets from or near their founding.*

Arguably, ECCs represent a subcategory of Born Globals, as they seem to share a number of core internationalization characteristics. Singh & Kundu (2002, p. 680) define ECCs as:

*“Organizations that from inception are engaged in electronic commerce, and derive significant competitive advantage from the use of network resources resident in virtual networks of commercial collaborative alliances”.*

Like Born Global firms (Cavusgil & Knight, 1996; Oviatt & McDougall, 1994), ECCs are characterized by rapid growth through incremental internationalization stages (Singh & Kundu, 2002). Further distinct characteristics of these firms are explored by Singh & Kundu (2002). According to their definition, ECC, from their inception, possess international accessibility through the Internet. In addition, these corporations are in direct competition with not only domestic rivals but also foreign competitors. Moreover, ECCs are largely SMEs that use assets strategically through networks of partners and alliances. These networks give ECCs a competitive edge, along with other advantages, such as information sharing and open accessibility (Singh & Kundu, 2002).

### **2.4.3 Born Global & ECCs- Technology**

The considerable developments in information and communication technology in the past decades has changed the business climate for SMEs and has given them the opportunity to expand into foreign markets more rapidly - a strategy previously reserved for large-scale

MNCs (Altshuler, 2012). In parallel to the increased globalization of many industries, some argue that the risk aversion associated with the Stage Models of Internationalization is less evident today. This might be due to the improved infrastructure for information sharing and the speed with which opportunities are discerned and assessed. This has spurred the interest of smaller firms to venture into international markets at an earlier stage (Moen & Servais, 2002). Such technological advances have allowed these companies to conduct their business through E-Commerce, manage customer relations and integrate e-business capabilities (e.g. sourcing) (Cavusgil & Knight, 2009). E-Business facilitates the globalization of Born Global firms by decreasing the importance of time, space and national boundaries. Correspondingly Born Global companies are some of the most active users of the Internet medium as a business platform (Cavusgil & Knight, 2009).

Furthermore, Oviatt & McDougall (1994) found that Global startups thrive in technology-intensive industries where the demand for low-skilled labor represents a very small portion of total costs for the company. Also, they argue that there is a difference in terms of the motives for internationalization between large Global MNCs and SMEs, in that the main objective for the start-ups is to seek skilled and unique people in multiple countries to perfect their craft rather than low-skilled local labor. The advent of technological breakthroughs, especially in the communications sector, has particularly increased the speed with which start-ups, and in particular ECCs, can internationalize. The fact that growth opportunities, either through market potentials or certain individuals, can be more easily identified leads to a quicker internationalization process (Oviatt & McDougall, 1994).

#### **2.4.4 Born Global & ECCs - Responsiveness**

Cavusgil & Knight (2004) point to a critical characteristic of Born Global that seems to improve their chances of success abroad. According to their research, there is a correlation between organizational knowledge and business success. Although the theory essentially applies to all firms, in both domestic and international markets, it is particularly interesting in the case of Born Global SMEs. First, the Born Global firm is heavily reliant on information sources in order to gain competitive advantages during foreign market entry and during its operations in the new market (Cavusgil & Knight, 2004). Second, when comparing Born Globals to larger long-established firms, it is noted that Born Globals are more efficient in translating R&D efforts into business activities. This, according to Lewin and Massini (2003), is due to the fact that younger and smaller firms are more adaptive to new circumstances, whereas long-established firms are often held back by bureaucratic procedures and long

chains of command (Lewin & Massini, 2003). These trends suggest that smaller firms are better at responding to different market requirements and can therefore more adeptly tailor their product offerings and innovations to diverse markets.

The above concepts particularly apply to the collection and conversion of tacit knowledge. Tacit knowledge is embedded in individuals and cannot be transferred explicitly or in written form (Nonaka et. al., 1994). For example, certain individuals possess information on particular procedures and methods that are critical for a firm entering the international context. Thus, the ability to efficiently acquire tacit knowledge can give Born Global firms a competitive advantage in their internationalization processes (Cavusgil & Knight, 2004). When entering new markets, these firms rely heavily on their networks to acquire this knowledge and to connect key individuals that are crucial to the success of the business abroad. Although the network aspect is described within the Born Global theory (e.g. Freeman & Cavusgil, 2007; Cavusgil & Knight, 2004), our analysis calls for a deeper discussion on the importance of networks for international expansion.

## **2.5 Network Theory**

### **2.5.1 Network Theory - Introduction**

In the words of Johanson & Vahlne (1977) it is the collection of experiential knowledge that is critical for successful expansion in the Stage Model of Internationalization. And it is fair to say that this statement holds true in the current situation for Born Global SMEs as well.

Penrose (1959) makes the case that the ability to spot opportunities comes gradually through gaining first-hand experience in a specific market. According to the behavioral theory of firms (Cyert & March, 1963), problems are often solved as they arise. And thus, firms faced with decisions in the international market often follow the solutions that have worked in the past - usually in their domestic market. While this reasoning fits well in the Stage Model, more recent research suggests that this market-specific knowledge can be acquired much quicker through networks of either key individuals or firms. Coviello (2006) for instance has pointed out that developed social capital can play a significant role during the initial market entrance. Sharma & Blomstermo (2003), in their paper, have outlined a number of benefits to initial network relationships. For instance, firms with access to networks in the target market are more likely to receive positive referrals and thus attract initial customers quicker. Also, a central position within the network contributes to quicker access to critical market information, which can yield a competitive advantage over competing firms (Sharma & Blomstermo, 2003).

### 2.5.2 Network Theory - Strong & Weak Ties

Granovetter (1973 p.1361) defines the strength of interpersonal ties as the “*combination of the amount of time, the emotional intensity, the intimacy (mutual confiding), and the reciprocal services which characterize the tie*”. In accordance to this definition, a weak tie constitutes a relationship, which has relatively low levels of time, emotion, intimacy and service exchange invested. Sharma & Blomstermo (2003) argue that firms that are heavily invested in strong ties suffer a disadvantage compared to those with a significant number of weak ties during an internationalization process. Their argument, in part, rests on the assumption made by Boorman (1975) that it is costly to maintain strong ties, compared to the cost of maintaining weak ties. As they argue, the cost for weak ties, that might not be useful, are insignificant to the potential benefits that may arise from having them during an internationalization process. Adding to their rationale is the presumption that weak ties yield more novel knowledge. This is due to the fact that companies engaged in strong ties develop a more similar knowledge base, compared to their weak-tie counterparts and therefore are less likely to share new knowledge (Rogers, 1980). All in all, Sharma & Blomstermo (2003) suggest that the autonomy and responsiveness that is associated with having a large number of weak ties makes the company more adaptive to diverse market demands and therefore makes it more suitable for early market expansion.

### 2.5.3 Network Theory - Liabilities

A main challenge for Born Global SMEs wishing to expand through strategic alliances is often to achieve visibility within their networks (Prashantham, 2008). According to Zahra (2005), smaller firms experience three liabilities compared to larger MNCs when it comes to internationalization:

- **Liability of Newness**, which refers to the fact that International New Ventures (INVs), due to their inexperience, have less access to critical networks in an internationalization context. The liability of newness also limits the credibility and potential viability of the firm within its environment and therefore possibly hampers its growth opportunities.
- **Liability of Smallness**, which limits the company’s ability to withstand the pressures of internationalization due to its smaller pool of resources.
- **Liability of Foreignness**, which suggests that INVs have to put in more effort to overcome barriers of entry in the host country, such as adapting to cultural differences,

adjusting to local business practices and getting accepted by key stakeholders in the market.

While there is support for the above considerations, some scholars have shed new light on the topic, suggesting that there are additional factors that have implications for the success of an expansion process. Johanson & Vahlne (2009), for example, oppose the assumption that small firms automatically suffer from a liability of foreignness. Instead, they argue that the expanding firm may suffer from a liability of outsidership. In their paper, they posit that the internationalization process is a by-product of the firm's efforts to gain a better position within its existing networks (Schweizer et. al, 2010). Thus, according to this theory it is less important to be culturally adept than it is to enjoy a beneficial position in a certain network. In fact, Johanson & Vahlne (2009) argue that companies face the same challenges and benefits in international markets as they do in domestic markets. The interconnectivity among firms in these networks not only offer the expanding company an opportunity to quickly learn but also to establish itself in the marketplace and gain trust and commitment, which is critical for internationalization (Johanson & Vahlne, 2009). Thus, the initial relationships in an internationalization process become a critical indicator of expansion success.

One way of achieving this success is through gaining a first-mover advantage in the market. Thus, apart from the liabilities that these firms encounter, once the firm has established itself in the network and market, especially in the case of an ECC, it can enjoy an almost monopolistic position if the expansion is successful (Varadarajan, 2014).

#### **2.5.4 Network Theory - The Entrepreneur**

The early network relations discussed above are usually attributable to the founder of the company. In the paper, however, McDougall et al. (1994) add to the validity of the strong & weak theory by noting that the founding relationships are critical for early-stage expansions but that the relevance of these relationships decline in favor of a larger set of weak ties that can be developed anywhere in the organization. Nonetheless, it would seem likely that these founding relationships have direct consequences for the path and speed of internationalization for the company. Ardichvili et al. (2003) have noted that much of the previous research on international entrepreneurship states that entrepreneurs actively search for opportunities for expansion. Increasingly, however, the literature denounces this theory and suggests that entrepreneurs merely stumble upon new opportunities by chance. Oviatt & McDougall (2005

p.540), through their research on the phenomenon have narrowed their explanation of International Entrepreneurship down to the following definition:

*“International Entrepreneurship is the discovery, enactment, evaluation, and exploitation of opportunities - across national borders - to create future goods and services”.*

Therefore, it is important to note that although entrepreneurs might find themselves in networks that allow for advantageous knowledge transfers, these opportunities have to be properly pursued in order to generate profits in a near future. Previous research on the process of implementation of opportunities (e.g. Johanson & Vahlne, 1990), based on the internationalization of Swedish manufacturing firms, indicate that initial steps focused on less committed modes of entry, such as establishing export activities in geographically proximate markets. Through this mode of expansion, firms progressively acquire foreign market knowledge and network connections to later increase their commitments in the host country, in order to hedge their risk exposure. While businesses are still well advised to hedge risks as much as possible, recent studies on small entrepreneurial firms point to the fact that there are performance advantages with rapid internationalizations and thus larger risk exposure (Oviatt & McDougall, 2005).

Oviatt & McDougall (2005) have created a model that outlines a number of factors, which influence the speed of internationalization. Although the model focuses on the speed and thus performance advantages of the internationalization process, it is relevant to the network theory, as many of the contributing factors are attributable to the entrepreneur and his/her network.

## A Model of Forces Influencing Internationalization Speed

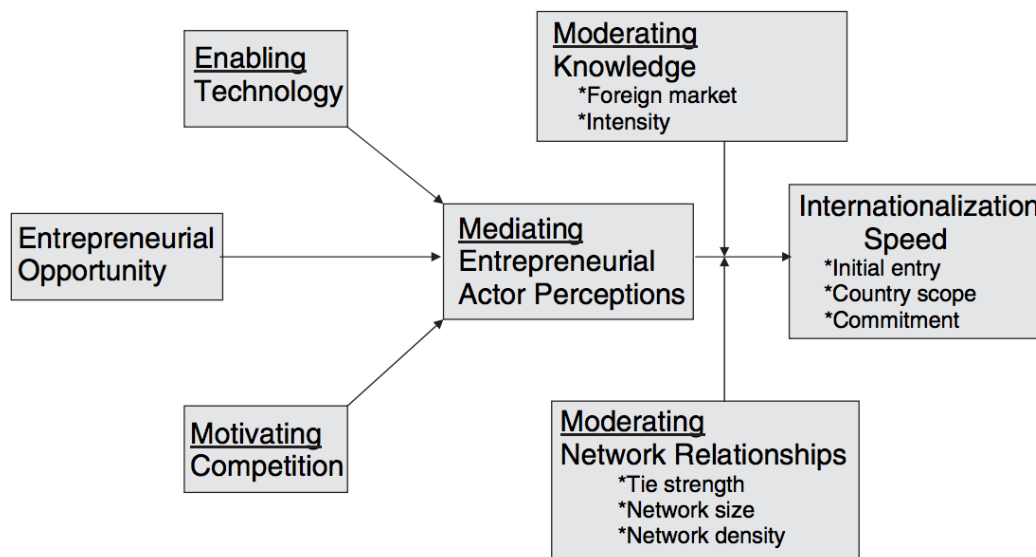


Figure 3 (Oviatt & McDougall, 2005 p.541)

According to the model there are four main categories of influences that impact the speed of internationalization. The premise for the model is that an entrepreneurial actor responds to a certain opportunity, such as a scientific finding. During the project, from the discovery of an opportunity to the implementation thereof, a number of forces affect the speed of internationalization. These are: Enabling, Motivating, Moderating and Mediating forces.

First, the Enabling force represents the development within both physical and virtual infrastructure that has improved the circumstances for international entrepreneurs through reduced barriers of trade and lower costs associated with foreign investment. For instance freight costs have been significantly lowered in the past decades. Also, advances in enabling technologies, such as communication infrastructures, have made it easier for entrepreneurs to attain knowledge about certain opportunities. These developments in combination have made it possible for these actors to not only pursue their ventures, but to do so internationally at a high speed. The second factor represented in the model is the Motivating force. This component represents the performance advantages associated with competition in the field that the firm operates. The underlying assumption is that competition spurs the motivation within the firm to increase its speed of internationalization in order to stay ahead of the competition. According to Oviatt & McDougall (1995) many entrepreneurs are motivated to

take preemptive action by using technologies and infrastructure in order to keep competitors in foreign markets at bay in case there is potential for them to quickly copy the concept and overtake markets abroad. In other words, this force can work against the advantages of the Enabling force, where competitors often have an equally speedy access to information on opportunities as the original entrepreneur. The third component, the Mediating force, is the entrepreneurial actor him/herself. The entrepreneurs are the central characters in the process as it is “*through the lens of their personal characteristics [ . . . ] and psychological traits*” (Oviatt & McDougall, 1995 p.542) that the potential opportunities are detected and pursued. Examples of these traits are the entrepreneur’s previous experience in international business and risk-taking propensities. These traits also affect how the entrepreneur makes use of certain technological, infrastructural and communicational resources to enable a successful internationalization. While the theory does not explain to what extent or in which way this happens, it does state that it is through the entrepreneur that the enabling and motivating forces are employed. The Mediating forces are the last category in the theory that affects the speed of internationalization. After the entrepreneur has discovered and pursued the opportunity and made use of the enabling and motivating forces, there are two categories of Moderating forces that either amplify or weaken the process of internationalization thereafter. First, the level of knowledge-intensity required by the opportunity in comparison to the available knowledge, and the international network that the entrepreneur has access to largely determine the speed of the international expansion process (Oviatt & McDougall, 1995).

## **2.6 Internationalization of Services**

It has been noted that services will overtake tangible goods as the foundation of economic exchange in the near future (Vargo & Lusch, 2004). The reasons for this shift have been discussed by Rust (2004), who claims that the digital revolution has had a significant role in the process, as services are driven by information and knowledge. Information technology, such as the Internet, facilitates companies’ effort to learn about their customers in order to adapt their services to the consumers’ needs. Since service firms form an integral part of the ECC segment, it is imperative to study research within the field of service internationalization.

Services are distinguished from normal products by their intangibility, heterogeneity and inseparability of production and consumption (Buckley et al., 1992). Initial research into this area found that frameworks used to explain manufacturing companies’ expansion were insufficient to fully capture the internationalization of service firms (Bell, 1995). Coviello &



Martin (1999) further confirmed this conclusion, although similarities were found in that business networks heavily influenced both manufacturing and service firms. Moreover, it is acknowledged that the heterogeneity of service firms makes it difficult to reach general conclusions regarding these companies' internationalization (Coviello & Martin, 1999).

The chief amount of research into the foreign expansion of service-based SMEs has been on examining specific industries, especially professional business services (e.g. Sharma & Johanson 1987, Coviello & Martin, 1999), rather than services as a whole. However, the introduction of E-commerce has drastically changed the nature and delivery of services, adding to the difficulty to analyze the internationalization of small-and-medium-sized-service-enterprises (SMSEs) (Ekeledo & Sivakumar, 2004). The level of service digitalization affects the choice of entry mode for firms, as the digitalization level determines whether a service can fully, or partially be provided through the electronic network of the Internet. Firms selling fully digitalized services are more likely to use exports or licensing, or a combination of both, as a preferred entry mode, whereas partially digital service companies are favoring wholly owned subsidiaries or franchising (Ekeledo & Sivakumar, 2004).

## **2.7 Theoretical Framework - Concluding Remarks**

It is clear from the above theoretical review that the topic of International Business is comprised of a wide range of closely interconnected fields of research, and one cannot expect to fully capture all relevant aspects in a short paper. However, drawing from several sources of research on the topic, one can arrive at a reasonable understanding of the motives for internationalization and underlying dynamics of the process for SMEs and notably ECCs. Johanson and Vahlne (2003, p. 84), the principal authors of the Uppsala Model, in their revision of their research on the stage model fittingly concluded that:

*“It seems that we have a situation where old models of internationalization processes are still applied quite fruitfully at the same time as a number of studies have suggested that there is a need for new and network-based models of internationalization. We think it might be worthwhile to reconcile and even integrate the two approaches”.*

As this paper argues, there is a need to revise and revisit even beyond what Johanson & Vahlne promote, especially regarding additions to the theoretical study of internationalizing ECCs. Nonetheless, the given theoretical framework, which takes into account both old and new models, makes for a firm foundation for the ensuing comparison between theory and practice.

### 3. Institutional Framework

SMEs play an increasingly important role in the global economy and particularly within the European Union. Suder (2011) notes that 99 per cent of all companies within the Single Internal Market are SMEs (i.e. 23 million) and employ 133 million EU-citizens. The definition of SMEs used in the study is by the European Commission (2005), which defines SMEs as companies with a maximum of 250 employees, and a set turnover limit of €50 million or annual balance sheet total of €43 million. Furthermore, although there are clear benefits to having access to a large market, these firms are also presented with challenges associated with an ever-widening economy. For instance, these firms are often required to constantly innovate in order to stay ahead of foreign competition and achieve economies of scales. Another large challenge for SMEs is to maintain their liquidity, which is increasingly done through venture capital (Suder, 2011). European SMEs are highly internationalized compared to the global average, albeit rarely outside of the Single Internal Market (European Commission, 2010). Due to the removal of trade barriers, many companies have seen the opportunity to generate corporate growth by internationalizing (Ratten et al. 2007). The commission has noted that there is a positive correlation between company size and level of internationalization. The study also found that SMEs in smaller member states, for instance Sweden, Denmark and Slovenia, tend to be more internationalized than those originating from larger countries in the Union (European Commission, 2010). ECCs in particular are highly internationalized compared to other SMEs, even when size is taken into consideration. A reason for this is believed to be that the Internet enables companies to surmount internationalization barriers more easily, as for example reaching buyers and suppliers through exports and imports (European Commission, 2010). Though E-commerce is widespread within the union, the most prospective market regions for ECCs are the Northern and Western regions since the consumers in this area are keener to shop on the internet compared to their Southern and Eastern European counterparts (European Cluster Observatory, 2011a). Perceived barriers to internationalization by SMEs are both of internal and external character, such as costs, financing and lack of public support. However, it should be mentioned that few SMEs are aware of the possible public support programs available, as is the number of companies that currently use them (European Commission, 2010). Government policy has been determined by Ratten et al (2007) to be the most important factor for European SMEs in the decision to internationalize, for instance by liberalizing regulations, providing financial support and facilitating entrepreneurial education.

Two directives are particularly interesting to E-commerce internationalization in the Single Internal Market: the Directive on Services and the E-commerce directive, implemented in 2009 and 2002 respectively. Both directives aim to harmonize regulations and dismantle trade barriers in order to facilitate economic growth and business operations. To further enable service trade across borders, The Directive on Services includes the “freedom to provide services” clause which allows firms to trade services cross-border without setting up a permanent entity in the host country (European Commission, 2014). For ECCs specializing in services it is clearly an advantage to be able to provide its services from one location to multiple foreign markets without a physical presence. Harmonization of regulations regarding E-commerce has been successful to a large extent according to a company survey in a review of the E-commerce Directive (European Commission, 2007). According to Suder (2011), European SMEs choose their internationalization location mostly based on network contacts or by following other companies’ examples. Acknowledging the importance of business contacts and networks, the Commission has launched several initiatives to create opportunities for entrepreneurs to make vital networks, such as the event “European SME Week” (European Commission, 2011). Thus it is not surprising to see further resources being dedicated to financial aid for start-ups and Born Globals expanding in the EU (European Commission, 2011). Still, the implementation of EU-strategies and regulations vary greatly among the member states.

Services are particularly emphasized, for their role as the engine of economic growth within the union, as they account for 70 percent of GDP and employment in the majority of the member states (European Commission, 2006). Recently, the High Level Group on Business Services (2014) presented a number of recommendations for the Commission to implement as a part of the Europe 2020 strategy. For instance, the report urged the EU to fully harmonize the internal market for services, as a significant number of national legal peculiarities still remain: *“The High Level Group identified the bureaucracy and administrative burdens that exist within the internal market as significant issues affecting the capacity of companies to act cross-border”* (European Union, 2014, p. 24). Also, the High Level Group has suggested that due to the large number of small business services firms there is a need to implement standards for best practices as a means of promoting further cross-border activities for SMEs (European Union, 2014).

## 4. Methodology

### 4.1 Research Approach

As previously stated, the overarching aim of this thesis is to understand the motives and underlying reasons for rapid internationalization of B2C ECCs in the Single Internal Market. In order to reach an informed understanding of the phenomenon, it is important to study both the historical and current research on International Business, and to collect empirical data on how and why contemporary developments within the field of ECCs have occurred in order to compare these findings with the established theories. However, one must note that due to the research topic at hand being particularly dynamic, as firm behaviors are often subject to interpretation and business environments constantly change, the prospects for reaching an objective conclusion are limited. Therefore, this paper uses a heuristic approach, intended to interpret qualitative data and understand how and why certain circumstances occur (Moustakas, 1990), as opposed to the positivistic research philosophy, which assumes that observable facts are objective and not given any subjective meaning by the researcher (Blumberg et al. 2008). As Yin (2009) argues, “how” and “why” questions are well suited for analyzing contemporary events and behaviors that cannot be manipulated during the actual research period, as these questions are merely explanatory in their nature.

Also, the authors deemed it important to study historical and current research beforehand, in order to gain an informed understanding of the topic from an established theoretical point of view. This allows for a qualitative, yet theoretically relevant, discussion as opposed to embarking on a strictly interpretivist and open-ended inquiry. Although the interpretivist and open-ended inquiry has historically been considered to be methodologically weak, this paper does not seek to find objective truths through analysis, but rather to “make sense of” and interpret qualitative data (Yanow & Schwartz-Shea, 2013).

Furthermore, as Doz (2011) highlights, the field of International Business is open, complex and unrestrained from any single core paradigm, which in turn alleviates researchers from a strict choice of method for the sake of research relevance. Nonetheless, he notes that qualitative research in International Business has been rare due to the fact that researchers have relied too heavily on quantitative methods and thus have not utilized the richness of the topic. Hence, he advocates a qualitative method, especially in cases where the research relies on a diverse array of theoretical material in order to reach new findings (Doz, 2011).

## 4.2 Research Design

With regards to the recommendations from authors such as Yin (2009) and Doz (2011), the Case Study approach emerges as a relevant avenue for discerning the research topic. The case study is suitable as it allows the researchers to conduct an in-depth examination of cases within a real-life context (Yin, 2003). Through an embedded multiple-case research design (Yin, 2009), the authors were able to contrast the theoretically anticipated patterns to the experiences of each interviewee. Although a single-case study allows for a more in-depth insight, the benefit of studying multiple cases is that the findings are oftentimes more robust and compelling than those of the single-case study (Herriott & Firestone, 1983; Eisenhardt, 1989). The justification for the research design is that the authors had limited experience in qualitative research and insufficient knowledge on the topic. Therefore, in order to answer the research question convincingly, it was deemed critical to establish research substance and reliability through basing the study on a platform of previously validated research findings (Marshall & Rossman, 2010). Furthermore, according to Eriksson & Kovalainen (2008) it is common for researchers in qualitative studies to alter and modify the design during the research process; as such enquiries often entail unforeseen events and deviations. The paper's research design was therefore developed and customized throughout course of the theoretical review. Although the literature on the study topic was deemed insufficient, the interview questions in the ensuing inquiry were based on parameters from the theoretical framework. The practice of grounding qualitative research on theory is called "abductive research", which is a combination of both induction and deduction (Dubois & Gadde, 2002). Therefore, the authors have allowed both the theoretical and empirical discourses to evolve somewhat simultaneously during the research process, which has generated novel findings that at the same time are grounded in solid theory.

An additional effort to strengthen the qualitative enquiry was to interview a prominent researcher within the field, Jan-Erik Vahlne, one of the primary authors of the Uppsala Model, on the subject of International Business and, in particular, on the emergence of E-Commerce as subgenre.

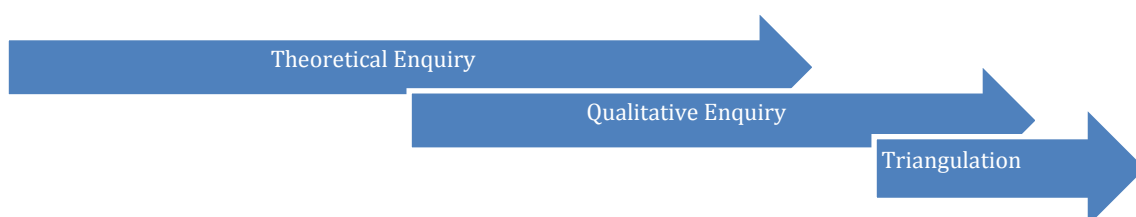


Figure 4. Authors' own illustration.

### 4.3 Selection of Firms and Respondents

The main criterion used to determine and select relevant case companies was that there should be a transparent linkage between the cases and the research question, in order to either confirm or extend the study's theoretical framework (Eisenhardt, 1989). Yin (2009) further writes that a transparent linkage for case selection often results in purposive sampling - a deliberate manner of selecting cases that are believed to yield the most relevant and ample data for the study topic.

The authors sought to establish an appropriate sample by outlining a number of features to look for in the case companies. The reason for choosing the below criteria was to narrow down the scope of the research to properly respond to the restrictions and guidelines of the assignment. Therefore, the case units had to fulfill the following list of criteria:

- The case companies originate and mainly operate within the European Union.
- The case companies are SMEs, following the European Union's definition presented in the institutional framework.
- The companies are Born Globals: They have successfully internationalized within three years from their founding, either through local subsidiaries or through local sales and/or operation capabilities.
- The firms operate within the B2C-segment.
- The companies are ECCs according to the definition given in the theoretical framework.
- The companies are, or have been, funded by venture capital or external financiers.

In order to find relevant companies that satisfied the above list, a primary screening of potential case companies was done through researching the brand portfolios of several European investment and venture capital firms. These venture capitalists or company accelerators were either found on the Internet or recalled from the authors' previous knowledge. Three portfolios emerged as particularly interesting resources for the study: Wingefors Invest, a Swedish investment firm specializing in early-stage startups, the German venture capital firm Earlybird Ventures, and finally the German company builder Rocket Internet. After browsing the portfolios of a number of these investors, approximately 40 firms were contacted. Furthermore, while searching for eligible companies, the authors contacted The Chamber of Commerce of Western Sweden, (Västsvenska Handelskammaren) in order to find local firms, which later led to the possibility of meeting representatives directly rather

than through distance communication. In an effort to strengthen the qualitative data inquiry, and to allow for an effective comparison between the cases, the authors tried to diversify across the spectrum of ECCs. The case companies represent two of the three subdivisions within the ECC segment: Market Makers, and Product/Service Providers, thus covering a fairly diverse set of backgrounds, operating in a wide range of countries. One of the firms was considered to be a control-case as it was not a Born Global firm by definition, but at the same time fulfilled the remaining criteria. Furthermore, firm size was taken into consideration, with the smallest company being a single-person operation with relatively low revenue and the largest firm employing around 250 individuals with considerable annual turnovers.

As most internationalization strategies and motives were decided and executed by the strategic managers of the selected companies, it was appropriate to conduct interviews with relevant representatives within the company in order to gather first-hand information on their experiences. Interview subjects included a variety of representatives holding such positions within their respective firm: CEOs, Business Developers, and Market Directors.

#### **4.4 Collection of Data**

##### **4.4.1 Primary Data**

In order to implement a qualitative case study approach, and gain a comprehensive understanding of the companies' strategies and motives, interviews were conducted with representatives from each firm. Interviews are an essential part of acquiring case study information and Yin (2003) suggests that they be semi-structural, guided conversations, rather than structured queries. Larsen (2009) adds to this statement and proposes semi-structured interviews for research projects that have time restrictions and where the interviewers lack the relevant experience for performing interviews. Semi-structured interviews are mainly characterized by open-ended questions where the respondents are able to express their own thoughts and experiences regarding the discussion topic, which enables the researchers to more completely reveal the participant's insights into the topic, and gain a deeper understanding of the focus area (Yin, 2009).

Most of the interviews were performed via Skype, due to the geographical distances to some of the respondents (i.e. Berlin, New York, Stockholm). The interviews were recorded using an external call recorder application. A preliminary question template was created for the interviews, which was later slightly modified for each interview, so that distinct characteristics of each firm were taken into consideration so as to optimize the discussion.

The interviews each took approximately 30 minutes. First, the respondents were asked to answer some questions about their background and role within the company, and then followed by the pre-written interview questions. Although the interviews were semi-structured, the question lineup was adapted during the interview to coincide with the natural flow of the conversation.

As previously mentioned, all interviews were not conducted via Skype or telephone. The authors, for instance, visited one of the local case companies and performed an in-person interview. In another case, the representative was not able to participate in a direct interview, but agreed to submit an interview-based questionnaire. Nonetheless, all interviews followed the same semi-structured format to give each interviewee a similar environment in which to share their experiences.

The interview with Jan-Erik Vahlne was separated from the case interviews and was conducted, via telephone, at the final stages of the process.

#### **4.4.2 Secondary Data**

There is an abundance of internationalization theory literature, many focusing on the internationalization of SMEs. In order to reach an adequate selection for the research paradigm, the authors chose to cover internationalization theories that either observed rapid or slow expansions, so as to cover both ends of the theoretical spectrum. As the focal point of research is within the Single Internal Market, it was also necessary to study elements of the EU, which may have benefitted European ECCs' operations and expansions.

The books, articles, web journals and other documents used for this thesis have been found either in electronic databases or through Google Scholar, a search engine for enquiry on scholarly works. Keywords used to find secondary data were for example "internationalization theory", "born global", "ECC", "ECC internationalization", "internationalization of SMEs", "e commerce", "Network theory", "Eclectic paradigm", "business networks", "entrepreneur" and others. The authors primarily used databases such as the Gothenburg University Library (GUNDA), LIBRIS, and Google Scholar, and in extension frequently cited sources from databases such as Emerald and SAGE. Physical searches in the university library also aided the effort to find applicable literature.



#### 4.5 Quality of the Study

The most significant drawback of the study is that the results may not reflect the reality for all ECCs in Europe, as the sample size of six companies is relatively small and that the companies originate from either Sweden or Germany, two relatively similar countries in terms of culture and economic structures. Also, the fact that the study focuses on ventures backed by external capital leaves a large number of possibly interesting firms outside the scope of the study. An accompanying quantitative study might have contributed to more a statistically considerable analysis.

While the authors strived to establish a solid procedure during the qualitative inquiry, the fact that only one representative was interviewed is slightly problematic as one cannot gain a complete picture of an internationalization process through the lens of a single person in a company. Also, since the companies choose to elect their own representatives to give the interview, it is unclear whether each respondent had a relevant role within the company or formal education to render the internationalization process as correctly as possible. Still, almost all of the respondents were chiefly involved either in the company's founding or in one or more of its growth initiatives. In order to achieve external validity, the case selection was primarily based on replication logic, such that the cases represent distinct research units that together serve as replications, contrasts and extensions to an emerging theory (Eisenhardt, 1989; Yin, 2009). Although these theoretical requirements were met, the study did not focus on defining an optimal sample size or to formally differentiate between the case companies. This was mostly due to practical reasons, such as the limited scope and timeframe of the study, which in turn restricted the reach and possibility of engaging a quantitatively significant number of companies. Therefore, the case companies do not properly represent the ECC environment in the Single Internal Market, but rather it represents the views of a number of Swedish and German firms that have expanded within the European Union.

Also, as Merriam (2009) rightly argues, a negative by-product of qualitative research is the fact that the researchers' subjective views inevitably impact the results of the study. For instance, the interview questions were based on given theoretical findings, which may have influenced the questions to either validate or falsify the authors' interpretations of the theoretical framework, instead of giving the interviewees an unencumbered opportunity to render their realities. Nonetheless, it was imperative for the overall pedagogy of the paper to

guide the interviews in a semi-structured manner in order to analyze and compare the findings.

Another aspect concerning the quality is the research triangulation. Triangulation implies that the study topic is approached from multiple perspectives and studied through different methods (Quinlan, 2011). For instance by using a combination of qualitative and quantitative approaches, a series of observations and a focus group, in order to align multiple perceptions to gain a comprehensive understanding of the research topic (Hastings, 2010). Furthermore, by using triangulation in correlation with a qualitative research design it is possible to discover dimensions to the study area where other methods would be insufficient (Jick, 1979). In this thesis, the authors chose to triangulate the research topic by comparing the validity of a number of relevant theories to a qualitative inquiry, through interviews with company representatives, and through an interview with a prominent scholar on the topic. Also, the credibility of the interview findings were increased by conducting a “member check” - a procedure where respondents are given the researcher’s interpretation of the interview findings, enabling them to comment on whether they had been misinterpreted or if the findings were factually incorrect (Eriksson & Kovalainen, 2008). However, it is important to note that triangulation has its limitations and that its importance is questioned by scholars (Hastings, 2010). Some argue that it provides a potentially more valid view of the topic. Others posit that the effectiveness of triangulation rests on the assumption that the imperfections in each methodological approach are compensated by the strengths of another approach (Jick, 1979). Hence, the absence of a quantitative study approach in this thesis results in a less effective triangulation than what would be ideal.

## 5. Empirical Findings

### 5.1 Empirical Findings Structure

The empirical findings are presented in the following manner: First, an overview of the case firms, including a table of the cases and a brief introduction to each company, is demonstrated. Thereafter, the primary data from all cases is presented in a number of categories, ranging from internationalization motives to mediating effects of the Internet. The separate categories are derived from the main themes discussed during the interviews (see interview questions in Appendix A through F). Finally, the material from the interview with Jan-Erik Vahlne is presented in a separate section. Naturally the ensuing analysis is structured in a similar manner.

### 5.2 Presentation of the Case Companies

#### **Auctionata**

Auctionata is an online auction company, based in Berlin, Germany, founded in 2012, by Georg Untersalmberger and Alexander Zacke. The company specializes in art, jewelry, collectibles, furniture and other pieces of particular value. Unlike other auction websites, like Ebay, Auctionata streams their auctions live every week using patented technology, hence making it similar to traditional auctions albeit without the physical presence of bidders in the room. Auctions are conducted in a TV-studio in Berlin and bidders are able to place their bids either via phone or online. Items that are not sold are made available for purchase in the company's online store for a fixed price. The website was launched in September 2012 and the first auction was conducted in December the same year. In 2013, the company successfully received venture capital from private investment firms such as Earlybird, Kite Ventures, Bright Capital and the Raffay group, and the seed round was allocated for corporate growth efforts. Currently, the company has four offices, in Berlin, New York, London and Zürich, but their international network of experts has representatives in locations such as Shanghai, Brussels, Buenos Aires and Cape Town. To accurately value auction objects, the company employs 250 experts. Auctionata has previously stated that their most important market is the United States, where the market for fine art has been the biggest since the 1990s.

Representative: North American Market Director, Robin Roche.

**WoFo – Work For Travellers Agency**

WoFo Agency is a Swedish company founded in 2012 by Amanda Colldén, who is currently the company's CEO and one of the very few employees of the firm. The agency specializes in offering Swedish people, especially young adults who are keen on travelling and experiencing new cultures, short-term employment opportunities, called 'workations', abroad in several European countries. Thus far, the firm primarily offers its members jobs that require little previous working experience or specific skills, for instance grape harvesters at vineyards and waiters in countries like Austria, Germany, Spain and France. Created after Amanda won a Swedish business competition in 2011/2012 with the firm's business model, WoFo started to contact vineyards around Europe through contacting vineyards on the internet or by phone, but also by asking Systembolaget, the Swedish state-monopoly liquor store, for information regarding its' European wine suppliers. Furthermore, in 2013 the company had slightly more than 30 members working abroad and the number is currently growing. Using the Internet as the primary marketing and communications tool has allowed the firm to reach a wide audience in the selected target group, and also to maintain rapid and convenient communication with its foreign business partners and members.

Representative: CEO, Amanda Colldén.

**Lendico**

Lendico is an online marketplace for peer-to-peer (P2P) banking services based in Germany, currently with wholly-owned subsidiaries in Poland, Austria, Spain and South Africa, with the aim to further deepen their market presence within and outside the Single Internal Market in the near future. The company builder and primary investor Rocket Internet founded the company in 2013 as a growth initiative. Lendico has followed the business models of successful P2P credit marketplaces in the United States and United Kingdom, with the aim of introducing the banking model in new markets, where the model is deemed effective.

Representative: Business Developer, Maximilian Ruhestroth-Bauer.

**EyeEm**

EyeEm is a German company founded in 2011 in Berlin. The company's main product is a free web/mobile application for photo sharing, which includes an online photo marketplace and community. Currently, the application has more than 10 million users around the world.

Apart from its e-commerce activities, the company encourages and hosts community “meetups” - gatherings where members of the community can meet and share photographs. Having no other office locations thus far, EyeEm now aims to establish its presence in the United States, where it sees a large share of its traffic.

Representative: PR Manager, Ole Schubert.

### **Bubbleroom**

Bubbleroom is a Swedish firm specializing in online fashion retail. Founded in 2005 by Svante Tegner, it now has active offices in Borås and Stockholm. The firm also has three retail stores in Sweden; one pop-up store in Gothenburg, a warehouse store in Malmö and a flagship store in Stockholm. Being one of the Nordic countries’ biggest web shops, it now sells its products mainly in the Scandinavian countries but also in the EU. Bubbleroom re-launched itself in 2008, in conjunction of an acquisition by the Consortio Fashion Group (CFG), a Swedish e-commerce conglomerate. The re-launch implied the intended creation of a more interactive shopping experience, providing its customers with a community, blogs and even a lifestyle magazine.

Representative: Vice CEO, Christian Resell.

### **Ateljé Margaretha**

Ateljé Margaretha is Swedish company based in Borås and was founded in 1994. The company is Northern Europe’s biggest distance trader for needlework and currently sells its products in countries like Denmark, Germany, Finland, Austria and the non-EU nations of Iceland and Norway. Acting through its own brand and others such as Knittingroom, Åshild, Linea and Good Living, it sells its products to private consumers and sends them over mail. Initially a company using the mail order business model it now takes the majority of its orders over the Internet.

Representative: CEO, Mikael Rosendahl.

### 5.3 Table of Firms

Below is a table of the case companies, their country of origin, sector, and time to initial internationalization.

Company	Founded	Origin	Sector ECC class	Int. time	Present in	Employees	ECC Classification
Auctionata	2012	Berlin, Germany	Online auctions	Directly	Germany, UK, Switzerland, USA	~250	Market Place
Ateljé Margaretha	1994*	Borås, Sweden	Needlework	~20 years	Nordics, Germany, Austria	~80	Product provider
Bubbleroom	2005	Borås, Stockholm, Sweden	Fashion retail	5 years	Nordics, EU	~60	Product provider
EyeEm	2011	Berlin, Germany	Photo app. and marketplace	Directly	Germany	39	Market place
Lendico	2013	Berlin, Germany	P2P banking service	Directly	Germany, Poland, Austria, SA, Spain	~120	Market place
WoFo	2012	Gothenburg, Stockholm, Sweden	Employment agency	Directly	Germany, Austria, France, Spain	~1*	Service provider

Table 2. Source: Authors' findings.

### 5.3 Motives for Expansion

The motives for expansion vary greatly among the studied cases, considering that business models and business environments are vastly different for firms in different sectors. For instance, WoFo's business model rests on the assumption that the company operates in a number of markets, in order to attract potential workers. Therefore, it was imperative for the CEO to expand early on. Lendico had a similar approach to internationalization, and during its first five months of operation they had expanded to four new markets. The representative at Lendico stated that this strategy came as a natural choice from being a portfolio company of Rocket Internet - a company builder famous for its fast-paced expansions of viable business models into potential markets. Bubbleroom subscribes to an equivalent rationale, and states that their main reason for early-stage internationalization is agile growth, through brand recognition and early acquisition a solid customer base, for the prospects of future profits. In contrast to the strictly Born Global firms, such as Bubbleroom and Lendico, Ateljé Margaretha has taken a slower path to expansion, and did so mainly for the purpose of expanding their revenue base, as the home market was considered saturated. Auctionata's expansion into new markets came as a response to user demands in various markets. In line with the success of the platform in these new markets, Auctionata is currently entering the American market for the purpose of scaling the business, as the largest market in the world within their segment exists there.

### 5.4 Strategies for Internationalization

All case companies except Ateljé Margaretha fall under the Born Global category, in terms of time to initial expansion. Ateljé Margaretha, established in the late 1960s, was launched in its current form in 1994 and conducted most its internationalization efforts in the late 1980s/early 1990s. At that time, Sweden was not part of the EU and Ateljé Margaretha therefore had to establish a physical presence by setting up new legal entities in each of the new markets to avoid unnecessary tax burdens and duty fees associated with shipping products to customers abroad. This is in contrast to the fast-moving company Lendico. According to Maximilian, the company may orchestrate many of their international functions, such as credit risk assessment and customer support, from the headquarters in Berlin. Therefore Lendico's location preferences were linked to the time difference to Berlin. According to Amanda Colldén, the CEO of WoFo, the company internationalized from the very inception of the company as they started to contact and form partnerships with employers abroad. Geographically, WoFo targeted wineries in Germany, Spain and Italy as it was deemed practical both in terms of

them being some of the main destinations that workers were interested in and also that WoFo could meet the employer representatives in person to confirm the reliability and quality of the workplace. Furthermore, WoFo decided to form strategic partnerships with the employers abroad instead of taking on their own workforce. The main reason for this was the large risks associated with representing workers abroad, in terms of for instance insurance and quality of work. Auctionata initially targeted customers in Germany, but as described above, user demand from abroad, especially in the European Union, triggered the company to establish a presence in these markets. Early on, the company hired regional representatives in core markets, mainly to manage the sourcing of goods to the head office in Berlin for online exhibitions. While there are numerous specialists travelling responding to customer needs across the globe, the company has representative offices in the United Kingdom and in Switzerland and most recently a regional office in the United States. Bubbleroom's rather regional location preference chiefly coincides with the company's logistics and cost structures, as its main warehouse facilities are located in Borås, Sweden.

### **5.5 The Impact of Stakeholders (Investors, Customers and Employees)**

All companies have, to some extent, been influenced by their stakeholders during the internationalization process. Amanda at Wofo Agency stated that the members on the platform (i.e. the workers) influenced the direction of the expansion, after the initial operations were established. The company therefore targeted a number of travel destinations, which were popular among the target group, and contacted potential partners to cater to the preferences of the members. However, WoFo also made an effort to broaden the range of opportunities for the workers. They therefore contacted firms in "exotic destinations" that are less popular among tourists but that could resonate with the desires of the target group. The study's control subject Ateljé Margaretha, at the time of internationalization, neither had customers outside of Sweden nor were backed by venture capital. Therefore, it comes as no surprise that external stakeholders did not influence their decision to expand. But rather it was the top management at the company who had targeted these growth opportunities abroad and decided to pursue them. This is entirely opposite to the situation at Lendico, where the primary investor Rocket Internet outlines clear growth targets which the entrepreneurs respond. According to Maximilian, it is very much data-driven and there are "no internal deliberations" concerning the underlying prerogative to expand, which alludes to the fact Lendico, by mere design, is built to internationalize. Robin at Auctionata responded that their investors (Earlybird among others) contributed to the decision to expand. As described above, she also noted that customer location spurred the company's motivation to establish an



overseas presence, especially in the UK and Switzerland markets. Christian at Bubbleroom reflected a quite similar situation to that of Auctionata in that their principal investor, Consortio Group, was a main driver for the decision to internationalize, as a move to increase the market share of the company and effectively leverage their investment. But at the same time, he highlights the apparent demand from customers abroad as an additional factor for the move.

## 5.6 Networks

All of the respondents have emphasized the importance of networks for their internationalization processes. However, there are differences among the case companies in terms of the ways in which these networks have been utilized. For instance, WoFo agency did not have access to any business networks in the countries to which they initially expanded and therefore the process of signing partners was done through primary contact without previous connections. However, Amanda, in the interview, stated that she is currently looking for a co-founder to scale the business, and in order to do so she is mainly looking for candidates with access to relevant business networks abroad. In the case of Auctionata, the founders' network connections have played a significant role in the internationalization process. According to Robin, Alexander Zacke, the CEO and co-founder, brought along many critical connections that enabled the company to grow quickly. However, as part of the decision to expand to the American market, a number of key individuals were employed, not only for their expertise in the American market, but also for their network connections in the New York art community. Furthermore, Auctionata formed strategic partnerships with Ruby Lane, an online retail marketplace for antiques, during the expansion into the American market. Mikael from Ateljé Margaretha stated that one of the main reasons for their expansion was his previous experience in, and connection with, key functions in these markets, such as the postal service, call centers and customs agents. Therefore, when the company decided to go abroad, they could do so easily as all the key network connections were secured from the start. Bubbleroom has gained access to its overseas business networks through M&As and external logistics operators, but also through the connections with its investor Consortium Group.

Lendico is a particularly interesting due to its association with Rocket Internet. As Maximilian argued, the fact that Rocket Internet has over 100 ventures in 50 countries and a network of over 25 000 employees makes it much easier for the company to access critical network connections, such as banks, law firms, service providers and human resource pools virtually all over the globe. Therefore, there is no real need for the entrepreneur to bring

relevant network connections as he/she can quickly access the Rocket network and contact the key individuals in each country. Nonetheless, if the necessary network connections were not available, the company contacted potential partners directly.

### **5.7 Finance**

Access to capital has been very different between the case companies. Some have managed to round up considerable capital from a number of sources and others solely from one source. Lendico for example has, as a subsidiary of Rocket Internet, received significant resources from its holding company, which in turn has external financiers. Both Auctionata and EyeEm have secured external capital from Earlybird among others, whereas Auctionata also has raised funds from other investors such as REN Invest and e.ventures. Further efforts to raise venture capital are in progress, especially in the United States. Auctionata's CEO, Alexander Zacke, has been largely involved in the process of finding external investment through his extensive network. Amanda at Wofo entered a financial partnership with Wingefors invest, a collaboration which ended recently as a result of mutual interest. Currently, Wofo is underway to configure its business model in order to automate its operations, and will thereafter call for another round of investors. However, Amanda states that it is important for her to find a partner who is willing to supply Wofo with further investments. Bubbleroom accessed further funds through its entry into the Consortio Group. Ateljé Margaretha was in a partnership with Litorna, a Swedish private equity firm between the 1990s and 2000s, but Mikael and a few other private investors bought out the company in 2013. As previously noted, Ateljé Margaretha, unlike the other case firms, did not use external investors in order to internationalize, but rather used its own funds.

### **5.8 Mediating Effects of Applicable Legal Frameworks**

The representatives of each case company expressed different effects of the EU. A common advantage of the EU noted by the respondents has been the simplified way of doing business across borders. Mikeal at Ateljé Margaretha highlighted that the simplification of EU-legislation has allowed his company to divest previous foreign subsidiaries founded during the years before the establishment of the EU. Bubbleroom's Vice President Christian states that the EU has facilitated operations abroad in Europe, but also that other regulations impose challenges for the company. For instance, distance trade regulations which grant customers the right to receive and return products within a certain time period implies certain logistical challenges for the firm. Amanda at Wofo Agency emphasized that the free movement of labor within the EU has been a fundamental condition for Wofo's business model. Maximillian

points out that due to Lendico's business involvement in financial services, EU-directives such as the Directive on Payment Services and credit related legislation have had implications on Lendico's business. Moreover, he expresses that there are still national legal peculiarities remaining, related to topics such as debt collection, electronic signatures and crowd funding. For Auctionata EU-legislation has not had the same relevance as for the other firms, mostly due to the company's focus on the US market and that its representatives in London solely source auction material rather than any similar operations to those in Berlin and New York.

### **5.9 Mediating Effects of The Internet**

The respondents gave a mixed response to this topic, chiefly because most of them could not envision their business model in its current form without the Internet. Maximillian says it is hard to imagine Lendico's product and service without the Internet. Amanda expressed that for Wofo, the Internet has mainly facilitated rapid communication toward its members but also in part for finding foreign partners. However, she also emphasize that it occasionally proved difficult to use the internet as a communication medium with foreign agents, in that many of WoFo's partners still do not use the internet as much as she had initially expected. Ole at EyeEm noted that the Internet makes it possible for them to conduct their business from a single location, yet still reach a large international audience through electronic distribution. Mikael, at Ateljé Margaretha, has faced the shift in business model from mail-order to e-commerce, states that the Internet has provided possibilities as well as challenges. For instance, it enabled them to come closer to the customer through direct marketing (e.g. newsletters) and interactive demonstrations of products, to reach a broader audience, and to create a consumer community. Some of the challenges stemming from the use of the Internet as a primary platform are especially the increased availability of price information for the customer (i.e. portals like Pricerunner), which creates a cost competitive environment where it is hard to compete as a small company. This is particularly true in E-commerce where many successful firms today are heavily fueled by venture capital. Christian and Robin both say that the Internet enables their firms to reach a larger international audience. Furthermore, for Auctionata, their interactive model, mediated through the Internet, allows them not only to conduct live-auctions where clients from all around the globe can participate in a close resemblance to a real auction, but also encourages betting-like behaviors beyond what live auctions do. However, using the internet as a platform also produces challenges, Christian says: *"Establishing a web shop is like establishing a shop in the jungle, it is difficult for customers to find their way there without knowing the way."* Hence, Bubbleroom has made many efforts in order to build its brand in order to reach more customers.

### **5.10 Jan-Erik Vahlne – ECCs & Internationalization theories**

Regarding the impact of networks, Vahlne highlighted the importance of trust in business relationships. Although the Internet enables companies to form relationships sporadically, their usability still comes at the price of gradually increased cooperation and mutual trust. Vahlne stated that while ECCs can easily access information about network agents and easily connect to them through the web, it is still critically important to establish a real-life relationship, ideally through in-person meetings. He also argues that the nature and complexity of the service/product influences the degree to which a company is reliant on network connections for its internationalization. For instance, highly digitalized services/products may still imply a need for developed real-life connection to partners and clients. Apart from the challenges that ECCs face in establishing a solid international network, Vahlne also pointed to the difficulties for these firms to operate on a global scale successfully. For instance, he argued that Internet-based firms face much of the same challenges as conventional ventures during an internationalization process, such as adapting their marketing or product/service offering to the local/cultural requirements. While he argues that these barriers to entry can be overcome by prior knowledge of the target market, the relevance of psychic distance is still emphasized, despite the reduced importance of geographic distance (as in the case of the UK and Australia).

Furthermore, according to Vahlne, the contextual background for studies in International Business is critically important. Therefore, the pertinence of the widely accepted theories on internationalization, such as Dunning's Eclectic Paradigm and the Born Global theory, to ECCs may be limited. He argues that the authors of these theories strived to achieve a general applicability in favor of specificity, and that the theories are constantly updated and revised to capture the current streams in the field.

## 6. Analysis

### 6.1 Motives and Strategies for Internationalization

Although motives for internationalization varied amongst the cases, it is possible to discern relationships between the theoretical framework and the studied cases. Considering the authors' definition of Born Globals, presented earlier in this thesis, it is possible to see clear signs of such characteristics in the cases, such as *“innovation, proactivity and risk-seeking behavior in order to create value from international markets”* (Oviatt & McDougall, 2000 p.903). For instance, Lendico and WoFo proactively expanded into foreign markets where they observed market potential, notwithstanding the risks associated with internationalizing to locations where one has limited knowledge and experience. Such risk exposure, resulting from rapid internationalization, has previously been noted by Oviatt & McDougall (2005) to be motivated by the possible gains of performance advantage, which is manifested by Auctionata. In their case, fast expansion comes as a consequence of knowledge of market opportunities by the firm's top management and investors, which then required the acquisition of key individuals with access the local network, in order to penetrate the market and, in extension, reach the overall objective of economies of scale. This strategy resonates with Cavusgil & Knight (2004) in that the acquisition of tacit knowledge can be a source of competitive advantage in the new market. Furthermore, such expansion is supported by the N-OLI paradigm, which argues that access to network resources enables companies to reach economies of scale (Singh & Kundu, 2002), or first-mover advantages (Varadarajan, 2014). These expansion patterns and approaches to business opportunities stand in stark contrast to the incremental stages proposed by Johanson & Vahlne (1977), who propose that extensive market knowledge and experience are required before internationalization in order to hedge risk exposure. It would be fair to suggest that Ateljé Margaretha follows a more risk-averse approach, since the expansion abroad has been conducted without any external financing, and targeted towards countries characterized by small psychic distance. Overall, psychic distance appeared redundant for most cases, and was largely secondary to other factors influencing choice of location.

Considering the classification of Born Global firms by Cavusgil & Knight (2005), it is possible to distinguish features from each cluster among the case companies. For instance, Lendico and Auctionata display distinct characteristics of cluster one firms, since they both have a significant entrepreneurial focus, a high international performance, and also the

support of substantial external capital. Moreover, the aggressive internationalization of Lendico in particular supports the above claim. Additionally, the differentiated concept of WoFo and Bubbleroom's strategies for innovation suggests they form part of the second cluster.

The study found that one of the core objectives of all firms, in their choice to internationalize, was corporate growth, as predicted by Oviatt & McDougall (2000). Corporate growth in this instance does not solely imply increased revenues but also positive side effects, such as brand building. Brand building was in fact Bubbleroom's major motive for internationalization, which also correlates with the (N)-OLI paradigm, since Dunning (1988) and Singh & Kundu (2002) argue that one of the advantages gained from foreign expansion is increased brand recognition. This is also the case with Auctionata and Lendico, who aim to facilitate their brand building through internationalizing. Moreover, the eclectic paradigm helps to explain the locational preferences for internationalizing firms. WoFo, for instance, recognizes the location preference of its members and has therefore responded by forming partnerships with employers in these locations. Additionally, Auctionata's choice to locate offices in London and Switzerland can be seen as a locational advantage gained due to the added sourcing of items potential in each market.

## 6.2 Networks

As Coviello (2006) noted, there are clear advantages to having extensive network connections during an internationalization - one of them being access to critical market information that can yield competitive advantages. The case study found that a significant number of respondents thought network connections were deemed important for their internationalization processes. For instance, Lendico pointed to the benefits of their extensive network through Rocket Internet, mainly consisting of weak ties (Sharma & Blomstermo 2003), to banks, law firms and service providers, while Auctionata highlighted their access to key individuals within the art community as a key factor for expansion into foreign markets. This concept is also in line with the N-OLI theory in that these companies utilized their networks as a means of reaching "*enhanced coordination, economies of scale, and sustainable growth*" (Sing & Kundu 2002 p. 688). Interestingly, the control case, Ateljé Margaretha, also pointed to significant benefits of existing networks for the speed of their internationalization. The WoFo case, however, undermines the above discussion as the founder had no previous network connections prior to internationalization and still managed to expand into a number of markets. Lendico added to this rationale by stating that critical

network connections could be sought after and established during the expansion process as well. Nonetheless, it seems that previous network connections, as a moderating factor (Oviatt & McDougall, 2005; Johanson & Vahlne, 2009), markedly lowered the threshold for internationalization among the case companies. Furthermore, the research results are in line with the evidence laid out by Ardichvili et al. (2003) that market opportunities are not necessarily related to the degree of existing network connectivity, as none of the case companies explicitly stated that their business ideas stemmed from network connections. Rather, the interviewees highlighted that network connections merely facilitate the implementation and modification of an existing business model in new markets.

A generalized pattern concerning the impact of network connections on the preferred mode of entry and/or destination could not be studied. Some of the respondents pointed to initial strategic partnerships that were formed through existing network connections, such as Auctionata and Bubbleroom, while others, most notably Lendico and WoFo, simply entered markets based on calculations regarding operational capabilities and market potential. Furthermore, there seems to be a discrepancy between the OLI theory and research results in terms of the importance of network connections (Dunning, 1988; 1993). The representative for Lendico stated that their access to the extensive Rocket Internet network allowed the company to expand to markets as they could more easily access local banks, law firms, and service providers. Contrary to the OLI-theory, it appears that network connections, may yield corporate advantages. This appears to confirm the necessity to include such a set of advantages in the paradigm, proposed by the theory's critiques (Mathews & Zander, 2007; Singh & Kundu, 2002).

While the literature on network theory (e.g. Sharma & Blomstermo 2003; Coviello, 2006) stresses the importance of network connections for internationalization, one cannot reach a prevailing best practice for ECCs. It clearly depends on the market situation and the extent to which the concerned product or service offering requires local presence and the degree of market adaptation. However, the research findings are in line with Oviatt & McDougall's rationale (2005) that the speed and ease of internationalizing is correlated to the range and significance of the company's existing network connections. This is particularly evident in the case of Lendico, with its strong ties to its main investors and its accompanying network.

### **6.3 Finance**

Although the study specifically targeted venture capital-backed firms, the role of financing has had a varying impact on the internationalization processes of the case companies. Some of the respondents, including the control case Ateljé Margaretha, have neither experienced any desires to raise external financing for their expansion, nor have their financiers had a particular impact on the direction and speed of the process. WoFo, the second company among the sample population to buy out its backers, has also stated that its initial investors did not influence its expansion process. However, in most of the studied cases, the external financiers have to some extent had an impact on the direction and implementation of the internationalization. For instance, Auctionata is currently in the process of raising further capital for its expansion into the American market and states that the company's backers have also influenced previous expansion decisions. But most interestingly, the assumption, made by Zahra (2005) that SMEs experience a liability of smallness, is contested by the results of the study. Lendico emerges as an interesting case in point, where it not only defies the liability of newness, as described above, but also, due to its connection to Rocket Internet, has access to an extensive pool of resources for its expansion.

### **6.4 The Single Internal Market**

The control case reveals an interesting aspect to the internationalization process ECCs, in terms of cross-border economic integration. Ateljé Margaretha, which expanded before Sweden's entry into the EU, had to set up subsidiaries in each of the countries where they internationalized. However, after the implementation of the Single Internal Market the company has divested their physical presence in some of the markets, and now conducts most of its business functions from a few selective locations. This trend represents the overall response from the other case companies, in that many, if not all activities are administrated from a few locations while the business operates internationally. Thus, it is not surprising that most of the companies, acknowledged the harmonized legal framework within the Single Internal Market as a mediating factor for their internationalization processes. Indeed, the economic integration driven by the European Union has facilitated the conduct of business for all case firms, enabling simple cross-border trade and setup of operations. Although, it is difficult to identify specific directives that have had direct implications for each case firm, due to that many directives were implemented before the companies' foundation and that most respondents did not mention specific legislation. Amanda stated that the free movement of labor principle was a key component needed to enable her business model. Bubbleroom has experienced a straightforward internationalization, with regards to legal factors and,



hence, it seems fair to presume that directives such as the E-commerce directive (European Commission, 2007) have had a facilitating effect on trade. However, as some respondents replied, despite the achievements of the Commission's directives, there are still several areas where harmonization is needed. Particularly Lendico is affected by national legal peculiarities, indicating that regulations of financial services have yet to become fully standardized in the union. Lastly, the increased legislative influence of the EU also puts demands on ECCs, in terms of consumer protection and rights.

### **6.5 Mediating Effects of Technology**

Many of the business ideas pursued by the case companies are arguably a result of the technological advances described by Cavusgil & Knight (2009). Clearly, the internet is a critical component of E-commerce and all respondents in the study, except the control case Ateljé Margaretha, have alluded to the indispensableness of the internet to their business ideas and how the technology has enabled them to internationalize at a fast pace. However, the study found that the companies have used their technology for a number of different purposes. WoFo, for instance, mainly uses its online presence for its members (i.e. the workers) as a way of communicating and tailoring the service offering to better suit their needs (Rust, 2004). Auctionata, on the other hand, stated that the internet has given their business model a competitive advantage over non-internet based services in that their platform incentivizes bidders to take action - often more so than in real life auctions, which has contributed to the success of the business model.

Furthermore, the study found that most of the companies utilize the information and communication technology channels to gain certain ownership advantages, according to Dunning & Wymbs (2001) application of the OLI model to ECCs. Most of the respondents argued in favor of centralized functions for cost-saving and organizational purposes. For instance, Lendico manages a large number of activities in its Berlin office. Auctionata conducts nearly all of its European auctions from the Berlin studio as well. EyeEm also makes the case that they can reach their international target group from one single location, largely due to the high digitalization level of the service. Therefore, it is fair to say that the Internet has enabled a significant number of ECCs to operate internationally without having an extensive physical presence in the host country. This rationale is partly in line with Ekeledo & Sivakumar's model on the internationalization of service-based SMEs (2004), in which highly digitalized services often export or license their offerings, as opposed to establishing local subsidiaries.

## **6.6 Jan-Erik Vahlne – ECCs & Internationalization theories**

Vahlne's discussion on the impact of prior network connections resonates with Oviatt & McDougall (2005) and Coviello (2006) in that such connections simplify the process. However, Vahlne maintains that the strength of the network connections determines their value. This is contrary to the findings of Sharma & Blomstermo (2003), who posit that a web of weak network connections is preferable to a smaller set of strong ties. Furthermore, Vahlne argues that the nature of these networks differ with regards to the particular product/service offering. This is interesting in the case of WoFo's service, which is largely digitalized, yet still requires a deep relationship to strategic partners as a way of maintaining the quality of the service for its members. Therefore, one might argue that different network theories are subject to interpretation for each case. In line with this, Vahlne confirms that International Business, as a research field, is strongly contextually rooted, and that widely accepted theories may be limitedly applicable for particular categories of firms. In the case of ECCs, he argues that many of the existing concepts are still relevant, such as psychic distance, but that the technological advancements have created a wider set of opportunities for internationalizing companies.

## **7. Conclusions and Suggested Future Research**

### **7.1 The Reasons and Strategies for Internationalizing ECCs**

The purpose of this study was to gain a deeper understanding of the underlying motives for the internationalization of ECCs. As the analysis of the qualitative data, in reference to the theoretical and institutional frameworks, reveal, there are a number of findings that are noteworthy and call for further studies on the topic. Although the motives for each case firm differ, the results from the study indicate that there is a general pattern across the spectrum.

Thus, in response to the study's primary research question:

*What are the reasons and strategies for early-stage internationalization in B2C E-Commerce Companies in the Single Internal Market?*

The overarching aim for E-commerce companies is to gain a competitive advantage by rapid expansions, for instance by building a brand reputation or gaining a first-mover advantage in the new markets. It seems that the advantages gained from an aggressive internationalization outweigh the potential risk exposure that result from entering new markets with limited experience and market knowledge. Hence, the empirical findings do not support the Stages models of internationalization, as these firms often expand to multiple locations very early on in their lifecycle, with little regard for either liabilities of newness or smallness. The fact that the firms are backed by, oftentimes, significant venture capital indicates that they are able to compete in the global marketplace and respond to local preferences more quickly through the immediate availability of large resource capabilities. The study also emphasizes the importance of the Internet for internationalizing ECCs, regardless of the level of digitalization. The technology has enabled the respondents to reach ownership advantages in accordance with the theoretical findings, which have significantly simplified the internationalization process by, for instance, reducing the need for a physical presence in the host market. On the subject of physical presence, nearly all respondents supported the notion that the economic integration in the Single Internal Market has streamlined their expansions within the region, although most respondents call for deeper integration and harmonization.

In response to the second research question:

*To what extent are network connections important for the direction and scope of the internationalization process?*

The significance of network connections is particularly highlighted in the empirical findings. Most respondents argued that existing network connections heavily influenced their internationalization processes. This is due to the mediating effects that these networks generate, such as quicker access to critical market information, particular partners and service providers. Arguably therefore, the answer to the second research question is that the speed of internationalization is correlated to the range and significance of the company's existing network connections. However, as some of the cases show, it is possible for ECCs to internationalize without prior network connections. The difficulty of entering new markets depends heavily on the company product and market structure. The case of WoFo shows that internationalization can be done through initiating partnerships in completely unrelated markets with little capital or market knowledge, whereas Auctionata's business model required them to attract key individuals through considerable investments for an efficient market penetration. However, it seems that a high degree of venture capital backing enables companies to reach the desired effects of an internationalization process quicker.

In conclusion, the study contributes with a deeper understanding on the niche structure of the research area, where the existing theoretical framework figures as a solid platform for analyzing the behaviors of internationalizing ECCs in general. However, as the significance of this niche of companies is increasing, there is a need for an updated theory that highlights their distinctive characteristics and that responds to the changes in their business environment. One category among the case subjects emerges as an interesting avenue for further research. The case companies that belong to the Born Global classification cluster one, by Cavusgil & Knight (2005), comprise a wave of internet-based firms that are extensively backed by venture capital and engage in risk-seeking behavior to quickly reach market-leading positions within their respective industries. Some, including the representative for the control case subject, argue that this phenomenon forms a bubble of unsustainable investments that is bound to burst in the near future, whereas others have seen the potential benefits of company building. An article by the Economist (2014) highlights the success of three German company builders that have copied and exported a large number of business models to new markets. The speed and style of implementation of these ventures is unprecedented in the studied

theories. Although the theoretical review touches on the characteristics this category of companies, the theory does not elaborate sufficiently. Arguably, it would be interesting to study the short- and long-term effects that stem from such large-scale rapid internationalizations.

### **7.2 Suggestions for Future Research**

The empirical results in this study are based solely on interviews. Therefore, a complimentary statistical inquiry on the ECC landscape in the Single Internal Market would add to the significance of the study. Another limitation to the study is that there has been limited attention given to the details of regulations contributing to economic integration (i.e. EU-legislation) albeit being a fundamental part of the research question. The author's focal point is on internationalization of ECCs and less regarding particular characteristics of Directives. Therefore, it would be relevant to analyze further regulations that have affected the business climate of ECCs. Also, since the study only focused on companies from two European countries, future research should include companies from a broader range of member nations to see whether there are differences in internationalization strategies across cultures and national borders. Additionally, since this thesis have solely reviewed companies' from two out of three ECC categories (i.e. service/product providers and marketplaces), it is critical to study portals in order to substantiate the research findings on this category of companies. Considering the study's focus on networks in ECCs internationalization, it would prove sensible to further research the impact on the Internet on network dimensions, i.e. virtual networks. Also, as the advancements in information and communications technology continue to facilitate companies' contact with both domestic and foreign external agents, it would be interesting to see whether traditional physical networking will remain important. Vahlne highlights that current streams of research within International Business are debating the topic, but in his opinion, physical networking continues to constitute an important aspect of complex products and services. Lastly, the rise of company building, acknowledged earlier, calls for an extension of the theoretical framework presented in this paper, in order to obtain a platform, which more fully describes the dynamics and aspects of this niche category of organizations.

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## Appendixes

### Appendix A

#### General Question Template

**Q1:** What were your motives for expansion into foreign markets?

- What previous connection did you have to the countries to which you expanded?

**Q2:** Which modes of entry did you initially consider?

- Why did you eventually choose a particular mode of entry?

**Q3:** How did the domestic market situation affect your decision to expand abroad? (Market saturation, competition, labor market etc.)

**Q4:** How did your stakeholders (i.e. investors, employees, suppliers and customers) affect your decision to expand abroad?

**Q5:** How did the supranational legal frameworks (i.e. EU-regulations, WTO-agreements, bureaucratic structures) affect the internationalization process?

**Q6:** How did you go about financing the internationalization?

**Q7:** What was your initial access to business networks?

- What role did the entrepreneur's/top management's network connections affect the decision to expand?
- How did further network connections affect the process?

**Q8:** Did the prospects of forming part of a local business network affect the decision of localization (e.g. cluster)?

**Q9:** What mediating effects did you experience from using the Internet as your primary platform?

**Q10:** Did the prospects of competitive advantages spur you to expand into new markets (i.e. competitors in international markets)?

Appendix B

**EyeEm Interview Questions**

**Q1:** What were your motives for expansion into foreign markets (i.e. marketing & sales efforts)?

- What previous connection did you have to the countries/cities to which you are expanding?

**Q2:** How did your stakeholders (i.e. investors, employees, suppliers and customers) affect your decision to expand abroad?

- How did you finance the expansion? Current or new investors?

- How did your legal circumstances affect your expansion?

**Q3:** What was your initial access to business networks?

-What role did the founders'/top management's network connections affect the decision to expand?

-How did the employees' network connections affect the process?

**Q4:** Why did you choose Berlin as your main office location?

-What are your motives for future office locations?

**Q5:** What mediating effects did you experience from using the Internet as your primary platform (as compared to reaching users by non-internet channels)?

**Q6:** Did the prospects of competitive advantages spur you to expand into new markets (i.e. did international competitors trigger you to expand rapidly)?

Appendix C

**BubbleRoom Interview Questions**

**Q1:** Vad hade ni för motiv för internationalisering?

- Vilka tidigare kopplingar hade ni till länderna ni expanderat till?
- Vilka konkurrensfördelar fanns med att expandera till dessa marknader?

**Q2:** Vilka internationaliseringsstrategier övervägde ni initialt (dvs. export, strategiska allianser etc.?)

- Varför valde ni slutgiltigen er nuvarande strategi?
- Hur har supranationell lagstiftning påverkat er internationaliseringsprocess (ex. EU-lagstiftning och frihandelsavtal)?

**Q3:** Hur påverkade era intressenter (dvs investerare, anställda, leverantörer och kunder) ert expansionsbeslut?

- Hur finansierade ni internationaliseringen? Nya eller befintliga investerare?

**Q4:** Vad för tillgång hade ni till affärsnätverk i startskedet?

- Vad för roll spelade företagsledningens nätverkskontakter för expansion utomlands?
- Hur har vidare nätverkskontakter påverkat processen?

**Q5:** Vilka fördelar har ni upplevt av att använda internet som er primära affärsplattform?

Appendix D

**WoFo Interveiw Questions**

**Q1:** Vad hade ni för motiv för expansion utomlands?

- Vilka tidigare kopplingar hade ni till länderna ni expanderat till?
- Vilka konkurrensfördelar fanns med att expandera till dessa marknader?

**Q2:** Vilka strategier för internationell expansion övervägde ni initialt?

- Varför valde ni slutgiltigen er nuvarande metod?

**Q3:** Vad för tillgång hade ni till affärsnätverk i startskedet?

- Vad för roll spelade dina nätverkskontakter gällande expansion utomlands?
- Hur har vidare nätverkskontakter påverkat processen?

**Q4:** Hur påverkade era intressenter (dvs investerare, anställda, leverantörer och kunder) ert expansionsbeslut?

**Q5:** Hur har supranationell lagstiftning påverkat er internationaliseringsprocess (ex. EU-lagstiftning)?

**Q6:** Hur finansierade ni internationaliseringen? Nya eller befintliga investerare?

**Q7:** Vilka fördelar har ni upplevt av att använda internet som er primära affärsplattform (kontra andra marknadsföringskanaler)?

**Q8:** Hur påverkade era konkurrenter er internationaliseringsprocess (skalfördelar)?

Appendix E

**Auctionata Interview Questions**

**Q1:** What were your motives for expansion into foreign markets?

- What previous connection did you have to the countries to which you expanded?

**Q2:** Which modes of entry did you initially consider?

-Why did you eventually choose a particular mode of entry?

**Q3:** How did the domestic market situation affect your decision to expand abroad? (Market saturation, competition, labor market etc.)

**Q4:** How did your stakeholders (i.e. investors, employees, suppliers and customers) affect your decision to expand abroad?

**Q5:** How did the supranational legal frameworks (i.e. EU-regulations, WTO-agreements, bureaucratic structures) affect the internationalization process?

**Q6:** How did you go about financing the internationalization or finding financiers?

**Q7:** What was your initial access to business networks?

-What role did the entrepreneur's/top management's network connections affect the decision to expand?

-How did further network connections affect the process?

**Q8:** Did the prospects of forming part of a local business network affect the decision of localization (e.g. clusters)?

**Q9:** What mediating effects did you experience from using the Internet as your primary platform? (Differences to competitors such as Christie's/Sotheby's)

-Also what makes you distinctly different from other auction sites such as Ebay?)

**Q10:** Did the prospects of competitive advantages spur you to expand into new markets (i.e. competitors in international markets)?



Appendix F

**Ateljé Margaretha Interview Questions**

**Q1:** What were your motives for expansion into foreign markets?

- What previous connection did you have to the countries to which you expanded?

**Q2:** Which modes of entry did you initially consider?

Why did you eventually choose a particular mode of entry?

**Q3:** How did the domestic market situation affect your decision to expand abroad? (Market saturation, competition, labor market etc.)

**Q4:** How did your stakeholders (i.e. investors, employees, suppliers and customers) affect your decision to expand abroad?

**Q5:** How did the supranational legal frameworks (i.e. EU-regulations, WTO-agreements, bureaucratic structures) affect the internationalization process?

**Q6:** How did you go about financing the internationalization or finding financiers?

**Q7:** What was your initial access to business networks?

- What role did the entrepreneur's/top management's network connections affect the decision to expand?

- How did further network connections affect the process?

**Q8:** Did the prospects of forming part of a local business network affect the decision of localization (e.g. cluster)?

**Q9:** What mediating effects did you experience from using the Internet as your primary platform?

**Q10:** Did the prospects of competitive advantages spur you to expand into new markets (i.e. competitors in international markets)?

Appendix G

**Lendico Interview Questions:**

**Q1:** What were your motives for expansion into foreign markets?

- What previous connection did you have to the countries to which you expanded?

**Q2:** What was your initial access to business networks?

- What role did the entrepreneur's/top management's network connections affect the decision to expand?

- How did further network connections affect the process?

**Q3:** Which modes of entry did you initially consider?

- Why did you eventually choose a particular mode of entry?

**Q4:** How did the domestic market situation affect your decision to expand abroad? (Market saturation, competition, labor market etc.)

**Q5:** How did your stakeholders (i.e. investors, employees, suppliers and customers) affect your decision to expand abroad?

**Q6:** How did you go about financing the internationalization or finding financiers?

**Q7:** How did the supranational legal frameworks (i.e. EU-regulations, WTO-agreements, bureaucratic structures) affect the internationalization process?

**Q8:** What mediating effects did you experience from using the Internet as your primary platform (as opposed to having a physical presence for users)? Also, what marketing platforms have you used to reach the users?

**Q9:** Did the prospects of competitive advantages spur you to internationalize (i.e. economies of scale from a rapid expansion)?

**Appendix F**

Appendix H

**Jan-Erik Vahlne Interview Questions**

**Q1:** Hur tror du att liabilities of foreignness/outsidership, smallness och newness påverkar dagens E-handelsbolag?

**Q2:** Hur tror du att nätverksaspekten påverkar dagens E-handelsbolag? Vad har teknologin för inverkan?

**Q3:** Vilka utmaningar anser du att E-handelsbolag har/kommer ha under internationaliseringsprocesser i framtiden?

**Q4:** Hur tror du att den ökade ekonomiska integrationen inom EU har påverkat psychic distance-fenomenet?

**Q5:** Vilken relevans har Dunning's OLI model för att förklara internationaliseringen av E-handelsbolag? Born Globals?

**Q6:** Vilka forskningsströmningar ser du idag inom International Business?