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BORN-GLOBALS AND GLOBALIZATION STRATEGY

A multiple case study on entry-mode selection in the advertising industry

Master's Thesis

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EXECUTIVE SUMMARY

The purpose of the research is to investigate the factors that affect the choice of globalization strategy by born-global firms in the advertising industry. Based on applying a multiple case empirical approach to a combination of theories, the thesis explores how the behavior of two export/import ventures can be explained in regard to their choice of foreign entry-mode. For that reason, the project analyzes and evaluates the position of Pixelete Labs and Artventure ApS with respect to ten elements of their ownership advantages, location conditions and internalization incentives.

The main findings suggest that firm size, strategic orientation, competitiveness and unique resources can act as inhibitors for becoming a multinational enterprise. That means limited resources, conservative perceptions of foreign markets, transferability of special capabilities and adaptation can explain low commitment forms of entry. In contrast to expectations, high market potential, low investment risks, and a decent level of multinational experience do not seem to increase the desire to make green-field investments abroad. Differential potential of the firms and contractual risks in target locations appear to affect the choice of globalization strategy as secondary considerations, whereas networks do not seem to stimulate cooperative forms of entry opposite to expectations.

1. INTRODUCTION

With the integration and interdependence of economies, multinational enterprises (MNEs) have taken a central role in the globalization debate as their activities become relevant to world states on a local level (Navaretti and Venables, 2004). The discussion of the impacts these entities have on the national economies, however, is not the sole interest of researchers and policy makers. The underlying drivers for international expansion and the modes to do so are questions of equal importance and a large amount of literature has been developed in an attempt to answer them universally (Grubaugh, 1987). While economists often study these issues from a macro perspective, focusing on country- and industry- level data (Raff, Ryan and Stähler, 2012), business and strategy theories usually look at the individual firm and the micro decision-making processes that determine its choices, which often revolve around gaining and sustaining a competitive advantage (Ghoshal, 1987). In a fast-paced and changing world, where good solutions are ever more important, one might wonder if the findings of economics and business researchers could be used in a complementary way to enhance the internationalization process for firms. After all, the organizations that are faced with the problem of choosing where and how to expand are the ones that bear the consequences with the highest strength. It is especially them that need to know what important considerations firms should make before becoming multinationals.

1.1. EXPLANATION TO THE PROBLEM

As often stated, there are two main factors in the macro business environment that have stimulated the process of globalization – the increase in possibilities for the free flow of services, capital and goods; and the technological advancements of the last few decades (Hill, 2009, p. 11). These changes in the ways firms can operate have encouraged the formation of various globalization strategies, allowing companies to expand internationally; but have also lead to the emergence of a new kind of enterprises, a phenomenon called “born global” (Bell and Loane, 2010). As the name suggests, such companies try to gain competitive advantage from the use of resources and operations in non-domestic markets since the beginning of their existence or very soon after that (Laanti, Gabrielsson and Gabrielsson, 2007). Though the process may seem straightforward and familiar, it differs from the way other firms expand internationally and from what previous theories, such as the Uppsala School Stage model by Johanson and Vahlne from 1977, have suggested (Laanti et al., 2007). Moreover, not all born-global companies

can be defined as truly being multinationals, since many of them are only performing export and import activities outside of their domestic market. Such companies can also be faced with the crucial decision of choosing an entry mode in another country that involves higher financial commitment and precisely due to their limited resources as new enterprises, the risk of making a foreign direct investment (later referred to as FDI) is increased even further (Efrat and Shoham, 2013). The overall internationalization approach of born-global ventures, as well as the special characteristics of their organizations, suggests that standard globalization theories may be difficult to apply and solve their problems. Therefore, there is a need for adaptation and development of new models on what international growth strategies such entities can choose (Laanti et al., 2007).

Pixelete Labs is a web-design and development company based in Vilnius, Lithuania. Although it is a recently established business, in existence since 2012, it already has operations internationally (Michailovas, 2014). The firm concentrates on the Eastern European market, but also has big clients in the Middle East, the US, and Australia (ibid). Since Pixelete is a service provider, it has been possible for them to expand to markets outside of their home country without having to be at the same location as their customers or open an office there. Their business relies intensely on online communication and advanced technology to establish good customer relations from a distance. The company's success in winning major clients like Qatar Airways, Radisson Blu and the City of San Francisco has provided the organization with greater possibilities for international growth, broadening the firm's horizons to becoming an MNE. For that reason, the management team of Pixelete would like to consider the option of entering the Danish market, both to establish their position as a brand and to increase their market base abroad. It is a problem for them to decide whether starting exports in the Scandinavian country is the most suitable strategy.

Pixelete is an example of a company that emerged due to the macro changes mentioned above – it is a child of globalization in the full sense and it is also “born global”. However, choosing to open an office abroad in the form of licensing, partnership, or a green-field investment is new to the company, since exports of services have been sufficient to their business development so far. The decision to expand internationally through FDI or other entry-modes has significant implications for any firm (Agarwal and Ramaswami, 1992). If the management of Pixelete chooses not to enter the Danish market, the company's growth might slow down and for a start-up this could mean losing their competitive edge.

Even the option to do exports by winning clients from the Scandinavian country, simple as it may sound, should be critically assessed at its suitability. If the organization decides to open an office on their own, they would waste a lot of resources should the investment be unsuccessful. In case the company would like to make a partnership with a local Danish web-design firm, there could be issues of intellectual property. These are but a few of the risks of taking a strategic step towards becoming an MNE which the management of Pixelete would like to reduce.

Artventure ApS is an event and communications firm that was founded in 2004 (Høpfner-Dahl and Holst, 2014). It is located in Copenhagen, Denmark, but has had international clients from the very beginning. The company has mainly focused on its domestic market while also servicing the occasional German or Swedish customer (ibid). The firm's international activity is mostly expressed in terms of the heavy use of resources and importing services from its partners in those countries and Artventure's whole business is built upon the complementary capabilities of its networks. The agency organizes corporate events independent of the location, which may be Italy or Dubai – it does not matter where, Artventure follows their clients' desired destination (ibid). Although the company is already established and not a start-up, the fact that for its ten years of operation the management never undertook a joint venture or foreign direct investment deserves attention.

Artventure is an example of an organization that started as a born-global and survived to become an international enterprise. Even though the decision to enter the German and other markets through exports/imports appears to have been sustainable enough, it should be examined. If such an entry-mode was implemented by Artventure, it could be worth investigating how it may be applicable to other born-global companies. That expansion strategy may or may not have been the most preferable option, yet it was executed and it is interesting to know the factors affecting its selection.

1.2. REASONS BEHIND THE SELECTION OF THE PROBLEM

Nevertheless, the problem of foreign market-entry considerations for born-global companies remains – there is a need for a systematic understanding of their globalization strategies (Efrat and Shoham, 2013). There are two main causes for the problem that international new ventures may be facing when they are trying to make an optimal decision – one stemming from academic literature and one from the

characteristics of the phenomenon. The following discussion further explains the roots of the problem, recognized as reasons for this research.

On the one hand, there is a vast amount of literature on globalization strategy and market entry, which however, is not targeted at international new ventures. What is more, start-ups having global activities from their initiation have until recently received less attention by researchers than other types of organizations (Oviatt and McDougall, 1994). Born-globals have not been well theoretically and empirically researched yet, which explains why there are fewer frameworks concerning them. It is understandable how there is only a small amount of literature on the subject, due to the phenomenon being relatively new. Because born-global firms are often small in size and in scale of operations, thus having a lower economic impact compared to big corporations, and despite small-to-medium firms being the highest source of growth in international trade (Brouthers, Brouthers and Werner, 1996), they have been easier to ignore by economists. Moreover, since they are often in an early stage of their development and their future is uncertain, there is less information about such enterprises; it is not systematized or aggregated in any database. That makes it harder to make large-scale studies, as information might have to be collected for each firm individually. Regardless, born-globals are a harbinger of the diversity in modern business practices and the possibility for any kind of firm to become international (Knight and Cavusgil, 2004). Therefore, more research should try to extend the academic understanding of these *“early adopters of internationalization, which represent a widespread, ongoing trend”* (ibid, p. 137).

On the other hand, precisely the entrepreneurial side of international new ventures makes them so elusive to economics' scientific approaches and also leads to the other reason for the selection of this topic for the project – the experience of strategic management. Born-global companies often have a major resource in the face of their founders – their expertise and experience in the field of their business, which can sometimes also mean a lower focus on their strategy and management skill (Laanti et al., 2007). For instance, the management of Pixelete is comprised of web-design experts who have little experience with strategy (Michailovas, 2014b). As a result, there is a lot of ambiguity for the founders on the question of entering the Danish market and they require a more detailed analysis of the issue (ibid). Despite the young entrepreneurs' success in leading an international new venture, it might be advisable in some cases to make a formal analysis. For example, external consultants can provide

such services on the vital decisions that require a professional opinion and a deeper understanding of both academic and practical aspects of the problem. Nevertheless, if there is a scarcity of information on entry-mode decisions for born-globals, any advice could lead to a negative outcome. This suggests the problem is indeed relevant and its research can contribute to the field of economics as it can offer practical guidance for the management of that kind of organizations, but also enrich the scholarly understanding of the phenomenon.

1.3. RESEARCH QUESTION

To match the needs of companies with those of academia on the subject of globalization strategy for international new ventures, the research question for this project is defined as follows:

How do born-global companies in advertising select a foreign market-entry strategy?

The thesis is a multiple case study discussion on factors and execution plans within the advertising industry, and examines the way born-globals manage in regard to selecting an expansion strategy. This problem formulation also implies an analysis on the extent to which their behavior deviates from the expectations outlined by theory. Hence, the analysis of the research question includes the review and answer of three sub-questions, as follows:

- What are the important considerations to make before entering a foreign market for an international new venture?
- How do these factors affect the choice of market-entry in the specific situation of the case companies?
- What managerial implications can be derived from the recommended growth strategy for the two firms and for other organizations with similar needs?

The answer to the first sub-question is based on a comparison of current internationalization theories and the opinions of three consultants who have experience with born-global companies. The second question then applies the recognized factors from theory to the dual case to form a prediction of their expected globalization strategies and contrasts that to reality. Lastly, a discussion of the implications for both companies and other international new ventures concludes the key lessons from the research.

1.4. PROBLEM OWNERS

The study of the above defined research question could be beneficial to several groups of potential readers. First, the executive team of Pixelete would receive an extensive analysis to a practical problem the company is faced with and counseling on what action is most-likely advisable to undertake from an independent, objective party. As mentioned earlier, this would be of value to the company due to its entrepreneurial characteristics. Secondly, other born global firms could use this research as an example and guidance on the preparation stage for becoming a multinational. That is, to observe what crucial aspects of a business and its environment can be analyzed to make the entry-mode decision. Furthermore, the case of Artventure would provide a basis for comparison with real-life situations and an example of one successful practice. Lastly, the academic disciplines of globalization economics and international business would potentially gain an empirical study that combines knowledge from both fields to solve the case problem of born-global international expansion.

1.5. LIMITATIONS OF THE PROBLEM

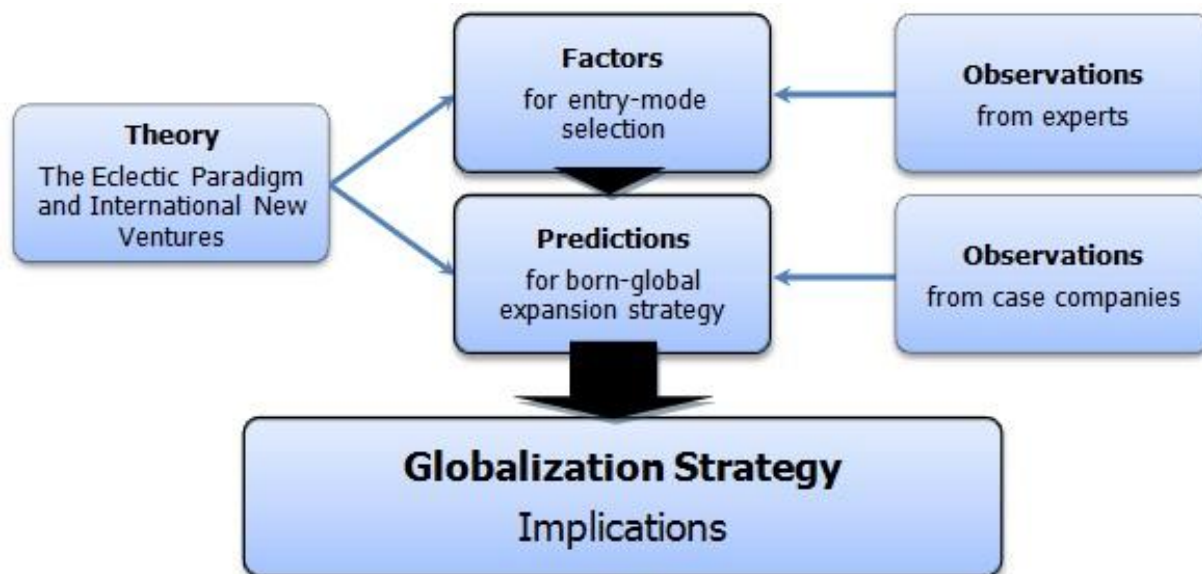
The study focuses on the advertising industry exclusively and looks at the Lithuanian, Danish, German and Swedish markets as requested by the companies. Other countries or industries may be discussed only in relation to the case firms if needed. The definition of advertising services in the project includes organization of campaigns and other types of communications; as well as design, development and distribution of promotional material in media, such as print, broadcasting and the Internet (Gale, 2011, p. 924). In that sense both web-design and event planning can be considered as advertising activities, hence Pixelete and Artventure are assumed to be a part of that industry.

The problem formulation suggests the analysis of both the external and internal factors of the environment and the organizations on a corporate level, in order to determine the ventures' strategic positions and direction. The project, however, does not provide a detailed understanding of operational-level strategy; nor does it go into the field of financial valuation of real options. These limitations are in a way necessary for the purposes of the research, since one of its aims is to indicate a gap in current literature on born-globals and to apply micro-analytical tools to economic theory. The underlying mechanisms of new ventures' international expansion strategy are the main interest for the study.

1.6. STRUCTURE

The guiding framework of the project, which outlines the analysis, is illustrated in *Figure 1* below. It is a schematic representation of the structure; however, it does include the main components of the research and their relation. The first element of the scheme – *Theory*, is a sort of starting point, which provides the academic background necessary to solve the problem. It also forms the basis for the next two elements: *Factors* and *Predictions*, which are both part of the core question of the thesis. On the one hand, a list of factors affecting entry-mode selection is developed in the second component; while on the other hand, the expectations on the strategic decision are also derived from theory in the third. The empirical *Observations from experts* are then applied to the second element to confirm the relevance of the identified factors. Moreover, the *Observations from case companies* are used as evidence to the predictions, as shown in *Figure 1*. Lastly, the final component of *Globalization Strategy* is where everything comes together in a discussion for the implications to businesses. There is an inherent connection between the second, third and final elements, which becomes the basis for the debate on how the phenomenon behaves in regard to servicing foreign markets. Ultimately the three center squares have a direct link to the research sub-questions derived above. The eight chapters in the paper are based on that scheme and are briefly described in the remaining part of this sub-chapter.

Figure 1. Project Scheme



Source: Own creation

Chapter 2 discusses the main ideas in globalization economics and international business literature. It provides definitions of globalization strategy and the forms of entry-mode that are considered in the project, as well as the identified factors and predictions that would be tested in the analysis. Chapter 3 explains how the research is conducted, the method's limitations and its relevance in the field, which is based on the reliability and validity of its findings. Chapter 4 provides the background of the two case companies to show some of their main characteristics and introduce the reader to the context of the study. Chapter 5 summarizes the findings from the interviews with the three born-global experts. It also shows how their opinions relate to the selected factors from theory, which helps evaluate the importance of these effects on the entry-mode decision. Chapter 6 makes a discussion of the results from the interviews with the companies and the factors that were found relevant both academically and in business practices. That leads to the comparison between predictions and reality for the case companies with their actual expansion strategies and those that would be expected based on the analysis of the thesis. Chapter 7 looks into the implications of the discovery on the behavior of born-globals to Pixelete, Artventure and similar organizations. Chapter 8 gives a summary of the answer to the formulated problem and offers suggestions for future investigation.

2. THEORY

The analysis of the research question requires the use of multiple theoretical approaches due to the complexity of the issue and the lack of a unified model for solving the problem. The reason for this is that the academic literature available is on topics that cover only parts of the issue – for example, taking a perspective of globalization (Hill, 2009; Wild and Wild, 2014), multinationals (Forsgren, 2008 & 2013; Navaretti and Venables, 2004), trade (Ethier and Markusen, 1996), internationalization strategy (Ghoshal, 1987; Glückler, 2006; Dunning, 1979; Johanson and Vahlne, 1977), or born global theory (Oviatt and McDougall, 1994; Laanti et al., 2007). For the purposes of the project, the focus will be on what is essential and relevant – namely the development of an analytical method tailored to the needs of born-global companies. As a result, there are two key parts of the research question that need to be addressed. Firstly, one must analyze the factors determining the globalization strategy of companies in general. This usually includes the evaluation of market conditions, such as competition and country factor endowments, as well as the internal sources of competitive advantage of the firm (Efrat and Shoham, 2013). Secondly, the born-global aspect of the study introduces certain changes to the standard model of internationalization, but it also adds new parameters, which are central to the entry-mode decision. That can improve the understanding of the distinctive issues the case companies need to deal with. Therefore, the models that have received wide approval and suit the research objectives of exploring entry-mode determinants for international new ventures are discussed in the next sub-chapters to familiarize the reader with the academic knowledge in the field.

2.1. LITERATURE REVIEW

Before discussing the literature relating to the formulated problem, the concept of globalization strategy should be explained, since it may be unclear how it is defined. In general, strategy means “*the long-term direction of an organization*” (Johnson, Whittington and Scholes, 2011, p.3). In the context of corporate-level strategy, this includes the choice of geographies and industries, as well as the objectives of operational units, in order to create and capture value (Wild and Wild, 2014). In that sense, a growth strategy ensures the optimum allocation of resources when increasing the scale or scope of a company (ibid). Throughout the paper, the term globalization strategy is therefore used as a synonym to the narrower concept of corporate-level growth strategy, which is the international entry-mode selection. This is because the project is interested in increasing the international scale of companies like Pixelete

and Artventure, and based on the analysis of the important factors and entry options available to the case firms to formulate a valid outline of the direction similar companies could take.

2.1.1. FORMS OF MARKET ENTRY

Another key definition for the research is that of what constitutes market entry. The project assumes that performing activities, connected to the delivery of products or services to a specific target location, outside of the home country is defined as foreign market entry, as suggested by Pehrsson (2008) and adapted based on Wild and Wild (2014). There is an array of options to do so, depending on the amount of resources a company plans to commit and the amount of control it wishes to retain over operations (Johnson et al., 2011). The five modes of entry the project considers are also the ones most frequently mentioned – exports¹, licensing and franchising, joint ventures and, finally, sole ventures.

Exporting/importing is the most widespread way of supplying products in foreign markets (Wild and Wild, 2014). One of the main motivations to select that form of entry is to increase sales, thus achieve greater economies of scale. Another reason may be that a company would like to diversify the risk of their sales by compensating for shrinking or small domestic markets with a focus on international revenues (ibid). Finally, exporting can be a way to gain experience for some organizations, which do not possess a lot of resources or tolerate high risk (ibid).

It is possible to distinguish between two kinds of exports based on the extent to which the firm is implicated in the process. This can be done by observing who the supplier in the foreign market is – the company itself or another entity that has purchased their goods for resale. Direct exports require high involvement because the firm sells their goods directly to the customer either through a sales representative or a distributor (ibid). Indirect exports are less demanding on financial resources, experience and need for contacts, as the sales in the foreign market are done through an intermediary. The amount of control the export company has over the customer's price abroad diminishes from using an independent supplier, while the risk of the foreign operations is also reduced (ibid). Nevertheless, services are characterized by the simultaneity, intangibility and heterogeneity of their product, that is, they cannot be stored, often consist of ideas or concepts that are not physical and are unique with every

¹ Imports are considered as the reverse of exports in the paper. They fit the definition for entry-mode and a lot of the characteristics of exports can easily be related to them. In Wild and Wild (2014), both are described in parallel, which is why this consideration should be kept in mind when reading about exports in the thesis.

customer encounter (Fitzsimmons and Fitzsimmons, 2008). This suggests that in a service context, exports through intermediaries or distributors are an unlikely alternative and perhaps would rather exist in the form of a contractual entry mode like licensing (Wild and Wild, 2014). A sales representative, however, could be a good investment for service businesses when targeting a market, since the interests of the company can be prioritized through commissions and there is a focused effort to win the clients (ibid).

Licensing and other contractual options, such as franchising and management contracting, are considered as examples of independent entry, since the production or sales in the foreign market are done by another company that the domestic firm has no ownership in (Brouthers et al., 1996). By allowing the contractor to use proprietary knowledge for a certain time period, the licensor can receive a percentage of the revenue generated through the use of that knowledge in the country abroad as royalty payments (Wild and Wild, 2014). This kind of entry strategy can be attractive to businesses that prefer to limit their costs of international expansion to the ones defined by the contract with their local partner (Brouthers et al., 1996). The involvement of the domestic firm is relatively small as well and determined by the amount of resources and knowledge shared. A disadvantage of licensing is that the domestic firm has no influence over the distribution and marketing of the product or service or the effort dedicated by the independent partner (ibid). Although the investment risks for the company are not very high, they come at the price of potential intellectual property misuse. While franchising may be similar to licensing, it allows for greater control and requires larger commitment of time and resources for the company supplying their foreign partner with assistance and intangible assets (Wild and Wild, 2014). However, a problem for small businesses can be finding someone to become their franchisee, due to the unfamiliarity with their brand abroad and the unrecognized trademarks an average company possesses (ibid). Despite that, both licensing and franchising are low-risk and low-cost entry mode options that are available to service companies in particular, which makes them an attractive opportunity to gain international markets and at the same time experience.

A joint venture is a cooperative form of entry and is essentially a new business entity founded by a domestic firm and one or two other companies with the intention of serving a chosen market (Brouthers et al., 1996). It is only partially owned by the domestic organization, yet it gives higher possibilities for influence over operations and revenues than do the alternatives described earlier. Joint ventures present

a higher resource commitment and, therefore risk, to the investing company compared to the independent modes (ibid). Through this type of international growth strategy, a firm can secure access to markets that may not be accessible otherwise and to the networks of their partners (Wild and Wild, 2014). A downside to joint ventures can be conflict of interests between the partners, since their strategic orientation and goals may not be aligned; or even loss of control if the government is one of the shareholders (ibid). Nevertheless, this kind of entry could be preferred over a wholly owned subsidiary when the company is dependent on complementing its skills with another firm in order to operate in the target country or needs more resources than it can provide (Pehrsson, 2008). Therefore, one can perceive joint ventures as combining characteristics from both independent modes and sole ventures. For example, there is still a chance that the international partner may use proprietary knowledge for their own benefit, however, the company retains a certain level of control that is closer to having an own subsidiary. One major advantage to joint ventures is that there is a possibility to buy the remaining part of the business at a later point in time (Brouthers et al., 1996). Overall, the cooperative mode of foreign entry can be a valuable strategic option for some businesses that cannot afford the more expensive option of a fully owned subsidiary, while at the same time it allows achieving higher gains in terms of profits, control and experience than exports, licensing or franchising.

A sole venture is the final entry mode this paper considers. It entails that the domestic company starts its own subsidiary in the foreign country, taking all risks of running the business and marketing the product, but also has full control and receives all the profits (Brouthers et al., 1996). Another advantage is the ease of exchange or shared access to resources, learning and experience between the subsidiary and the parent, as well as a strong integration of knowledge capital (Wild and Wild, 2014). Starting a wholly owned venture demands managerial capacity, a strong financial position and a lot of time, when acquiring those can be difficult for younger or smaller businesses (ibid).

To sum up, each form of entry offers certain advantages and disadvantages to the domestic firm contemplating internationalization. The five options that were mentioned span gradually on a scale from the least committed strategy, such as exports, to the most integrated alternative of sole ventures. There is often a tradeoff between risk and reward, which can also be seen for each type of entry investment – with lower risk corresponding to lower expected returns and higher risk to higher expected returns (Agarwal and Ramaswami, 1992). However, since there are many factors at play and

the conditions of the environment and the internal capabilities of a business may differ majorly, it is necessary to analyze the concrete situation to find the most suitable one of these options.

2.1.2. INTERNATIONALIZATION STRATEGY: A PROCESS AND A CHOICE

Since the 1960s, there have been increasing amounts of attention from economists and management researchers on the subject of globalization (Glückler, 2006). A lot of aspects around multinational enterprises have been examined by scholars, some theories focusing on the motivations for becoming global, others investigating the impacts these entities have on their environments; some viewing MNEs in terms of trade or FDI, while others consider the organization and its behavior (Forsgren, 2013). However, two theoretical approaches to internationalization strategy have become predominant in business literature, namely: the Eclectic paradigm proposed by Dunning in 1977 and the Uppsala Stage model formulated by Johanson and Vahlne in the same year (Glückler, 2006). While both look at the internal resources and capabilities of organizations as sources of international expansion (ibid), their purpose and use in the field differ.

The Uppsala Stage model states that companies become multinationals gradually going from less committed modes of entry to fully owned subsidiaries, while they accumulate knowledge and experience from operating internationally (Forsgren, 2008, p.105). The theory tries to explain the globalization of organizations as an evolutionary process and assumes that without prior experience from a foreign market, firms have a major difficulty in establishing international activities (Johanson and Vahlne, 1977). There is a dynamic relationship between the variables - market knowledge and commitment, current activities and commitment decisions; in which the result from one cycle of the model forms the conditions for the next (ibid). Despite the realistic assumptions of the Uppsala Stage model, which accepts the bounded rationality of decision-makers in contrast with neo-classical theory, it does not discuss the different entry-mode decisions as simultaneous opportunities, but rather the understanding of the behavior of strategic components within multinationals (Vahlne and Johanson, 2013). It would seem that the Uppsala School offers a great tool for analyzing the motivations firms have for becoming MNEs, as well as their organization and development. However, that is not the aim of this study. Thus, the overall purpose of the theory makes it less suitable to a research that is not oriented towards exploring the process of internationalization as such, but instead would like to take a

practical business perspective on the mechanisms of entry-mode selection for a specific type of company.

An alternative approach, which is often contrasted to Stage theory, offers a broader perspective on internationalization strategy. The Eclectic theory (or OLI) outlines three key factors for the existence of FDI: ownership, internalization and location advantages (Dunning, 1979). Depending on the extent to which an organization possesses these competitive privileges, whether they arise from the industry or its internal characteristics, various options of entry may be chosen (ibid). By combining ideas from several methods, Dunning successfully expands the usability of his framework – it can be seen applied, for example, in research on trade, FDI, multinationals, internationalization processes of companies or even countries. Unlike the Uppsala School, the OLI looks at globalization in terms of choices, rather than stages.

Glückler (2006) argues that a third approach to internationalization strategy - Network theory, can be complementary to the OLI and Stage theory, since it stresses the importance of the firm's external relationships with the actors in the value chain – customers, suppliers and support agencies. Moreover, Network theory has introduced an extension to the Uppsala School, by arguing that market knowledge, instead of being inhibited by country borders, can only be achieved through direct contact with the network (Forsgren, 2008). Nevertheless, the two theories – Stage and Network, are closely related to the evolutionary view of multinational enterprises and provide single-sided explanations to internationalization. What is more, the key factors identified by the Stage and Network theories, for example, multinational experience, market knowledge and relationships, which are the core arguments of those frameworks, can all be interpreted as part of ownership advantages in the Eclectic theory to some extent. Lastly, the Uppsala School does not incorporate competition and its effects on strategy selection (Li, Qian and Qian, 2012), an aspect included in Dunning's universal framework as well. As a result, the OLI would appear to be a more suitable approach to international growth strategy for the project, based on its purpose and diversity of considerations.

2.1.3. INTERNATIONALIZATION STRATEGY: STAGES AND A WAY OF EXISTENCE

Interestingly, the Stage theory has been questioned on its suggestion of gradualism in the internationalization process from another academic perspective on globalization. International new

ventures theory, proposed by Oviatt and McDougall in 1994, challenges how well current theories on MNEs, including the OLI and Uppsala School, can explain the existence of the born-global phenomenon. Their proposition is that some characteristics of these organizations differentiate them from other international firms and that should be taken into consideration in order to develop better frameworks.

The reason for criticism perhaps stems from the assumption evolutionary theories have of firms acquiring internationalization knowledge through the company's experience, while in the case of born global companies, the common background or familiarity with any market are close to none (Oviatt and McDougall, 1994). Since international new ventures often operate in volatile industries and seem to attempt FDI despite being young, this becomes a major difference to what the Uppsala School argues (ibid). Not necessarily all firms go through the stages that the evolutionary approach suggests (Zimmerman and Blythe, 2013). Moreover, born-globals tend to differ from other international companies also in terms of size (Oviatt and McDougall, 1994), development stage and access to resources (Efrat and Shoham, 2013). It would seem that for some of these global start-ups, international markets are even a way of existence, because a large part of their revenue comes from foreign clients and also represents a core competitive advantage for these firms (Oviatt and McDougall, 1994). Although Stage theory focuses on important factors for global expansion, it predicts a different process, than exemplified by the born-global phenomenon. Oviatt and McDougall (1994) oppose its ideas on the very mechanisms of internationalization, which makes Stage theory even less suitable to the analysis of the two case companies in this project.

To sum up, the Uppsala School does bring forward two interesting arguments in literature. It is simultaneously contrasted to two other major theories - one in economics literature and one in international business research. There seems to be a discussion between the OLI and the Stage model, and also between the Stage model and International new ventures theory. In contrast, there appear to be few if any authors that try to incorporate Dunning's framework to born-globals, even though the two approaches are not contradictory. Maybe the Eclectic paradigm, deemed as a macroeconomic tool by Vahlne and Johanson (2013), is not outdated and has predictive power even for this relatively new phenomenon. Born-global theory, in fact, bases some of its ideas on the ownership-location-internalization advantages, which gives all the more reason for a combination of those theories to make

the research. Taking the generalized method of globalization economics and modifying it with the specific factors identified by international business' knowledge of new ventures, can presumably be beneficial to this research and produce a method that is tailored to the case problem and using the best of both fields. Therefore, the next two sub-chapters provide a more detailed insight into these selected frameworks.

2.2. THE ECLECTIC THEORY OF INTERNATIONAL PRODUCTION

One quick look in globalization strategy and foreign market-entry literature and one is inevitably familiarized with the Eclectic theory suggested by Dunning in 1977. The OLI framework that he outlined has since then become the basis of a large amount of research on FDI and other forms of international production (Glückler, 2006). It has shaped the academic understanding of multinationals and is still the dominant approach to market-entry economics (Ethier and Markusen, 1996). The framework proposed by Dunning in 1977 had the aim of uniting the three approaches to the problem of internationalization in literature until that time – the industrial organization method, the location theory approach and the international theory of the firm (Dunning, 1979). The former is the major influence for the first parameter, ownership, in the Eclectic model, while location has been mainly considered by the second approach, and finally, the latter is the source of inspiration for the last condition to international production – internalization (ibid).

The resulting theory, therefore, defines these three categories, ownership, location and internalization advantages that firms can have, to be the determinant of the decision whether to produce abroad, choose exports, licensing, or remain domestic. The first dimension of the OLI framework revolves around issues of firm size, multinational experience, and differentiation potential (Agarwal and Ramaswami). The model predicts that greater market power in terms of access to resources, position and labor, capacity from parent and economies of joint supply, as well as knowledge of markets and country differences can provide a strong basis to choose an FDI growth strategy (Dunning, 1979). Ownership advantages improve the conditions for economies of scale. The second factor – location, considers the market potential and investment risk in the home country and the foreign country of interest. Here what is important is the distance in space, culture, infrastructure, government controls, prices and quality (ibid). Those attributes of the environment are crucial for cost minimization. Finally, internalization refers to the contractual risk that arises when transfer of the ownership advantages

occurs to an outsider – for example, licensing, joint ventures, or other kinds of outsourcing. Property rights protection is a key factor in the model that helps contrast the high direct investment risks to those of working with a partner (ibid).

The Eclectic paradigm aims to answer the question of what factors influence the decision to start a subsidiary in a foreign country, by analyzing both the internal capabilities of the firm and the external conditions of the particular markets, both home and host. The resulting model suggests that the above described factors can be used as a methodology or a guiding framework to explain existing types of international firms worldwide (Dunning, 2001). Moreover, it is hypothesized that an FDI form would be preferred if three conditions are present – the company must have ownership advantages, most often intangible, over foreign firms; internalization must be important and create an incentive to keep full control of a subsidiary; and it must be beneficial for the firm to have the production in a foreign location due to the specific advantages arising from it (Dunning, 1979). Depending on the level with which those advantages are present, different entry modes may be preferred (ibid).

2.2.1. RELATED RESEARCH

There are a number of researchers that have tested and find evidence to support the OLI. Agarwal and Ramaswami (1992) focus on the interaction between the three groups of factors identified by the Eclectic theory, while Brouthers et al. (1996) are more interested in the applications of the theory to small and medium-sized service companies. The results of each one are described below.

According to Agarwal and Ramaswami (1992), larger firms with greater international experience are more likely to choose full ownership structures in lower market potential countries, while small firms with little such experience are expected to focus their efforts in places with higher potential and to choose less intensive investment modes, like joint ventures. Moreover, the article suggests that the more differentiation capability a firm has, the more likely it is to choose a full ownership type of entry mode in high contractual risk markets. Lastly, when high market potential is accompanied by high investment risk, companies show a preference to low commitment types of investment (ibid).

Their research also confirms the majority of previous findings in literature on the effects of the main variables in the OLI framework. Firm size and multinational experience have a positive effect on the internationalization decision, where a preference towards fully-owned subsidiary investments is

demonstrated over joint ventures (ibid). Differentiation potential also appears to have a positive impact on the foreign entry choice; however, such enterprises prefer exports over other options, which is in contrast with previous research. The wholly-owned subsidiary mode is shown to be preferred in high potential markets, exports are more suitable to intensive contractual risk markets and finally, large investment risk countries are avoided by firms (ibid).

Brouthers et al. (1996) find empirical evidence to support the OLI for small and medium-sized firms in a high-technology industry. Their research confirms that greater ownership and location advantages lead to more integrated forms of market entry. This shows that the Eclectic theory does not fail to explain the behavior of firms because of their size and market power, and still holds if the ownership advantages are considered together as a whole (ibid).

2.2.2. CRITIQUE

However, the detail in the selection of variables has been a reason for criticism to the Eclectic model. Its broadness can indeed seem confusing and, in terms of econometric usability, it may not have a very high prediction value (Dunning, 2001). Yet, it is well grounded by theory and helps explain a larger array of foreign activities than partial frameworks do, since they tend to focus on particular internationalization strategies (ibid). In fact, that makes it more suitable to this research, as it is a systematic guide on the important factors to consider when analyzing the choice of international entry for companies. It is believed to be a more thorough approach to the problem, since it tries to incorporate the most relevant variables specified by economic and organization literature.

Another aspect of the Eclectic paradigm that has been subject to discussion is the interdependence of some of its variables (ibid), such as ownership and location advantages. For example, a firm's restructuring and changes of strategy can affect its competitiveness in terms of access to resources in its domestic country, while at the same time improving its prospects in a foreign market. Although the decisions made by an organization can lead to potential changes in more than one of the OLI parameters or preferences over a particular market-penetration strategy, there is still a crucial distinction to be made on the source of the advantage – is it the internal capabilities owned by the company or the specifics of the environment in its location (ibid). Nevertheless, in a micro-economic context with the objective of choosing an appropriate growth strategy for a particular company, it may

not really matter if the factors are not independent from each other, as long as they are considered. Moreover, Agarwal and Ramaswami (1992) research precisely the effects of this interaction and their study can be used to balance out some of the negative effects from this disadvantage of the OLI.

Lastly, the framework has been criticized for targeting only large multinational enterprises with mostly manufacturing orientation (Brouthers et al., 1996; Glückler, 2006). It may be argued that financial resources can be a constraint and increase the riskiness of FDI for small-to-medium enterprises, due to the significance a green-field investment has compared to the assets of such a company (Glückler, 2006). In addition to that, the service side of a business is also important, because it shifts the intensity of investments from physical to human capital, thus reducing the costs of opening new facilities abroad while increasing the need for good staff (Brouthers and Brouthers, 2003). Since the size and service elements can have a large impact on the decision for a best course of action, the research of Brouthers et al. (1996) would be incorporated. Its main contribution - testing the Eclectic theory on small-to-medium sized companies in a service context, helps make sure the project provides a more valid conclusion.

Despite the earlier outlined critiques, the Eclectic paradigm remains widely used and offers a number of advantages for its application in the paper. The following extract from Dunning (2001, p. 5) summarizes one of the reasons for choosing it:

“...the purpose of the eclectic paradigm is not to offer a full explanation of all kinds of international production but rather to point to a methodology and to a generic set of variables which contain the ingredients necessary for any satisfactory explanation of particular types of foreign value-added activity.”

Considering that there are not any particular frameworks suited to born-global entry-mode strategy, the Eclectic paradigm could be a good place to start, since it is the most detailed and relevant framework in the field of economics. Moreover, it offers a systematic tool that connects the factors and choices in globalization strategy, which has been empirically tested, but also fits with the aim of this research. It gives the project an academically sound list of variables that can later be applied to the dual case context. Furthermore, the model helps establish theory-driven expectations for what suitable entry-options there may be for born-global companies. Lastly, it can be used to gain insight on the behavior

of the phenomenon in comparison to that of established multinationals, based on the gap between predictions and reality.

2.3. INTERNATIONAL NEW VENTURES

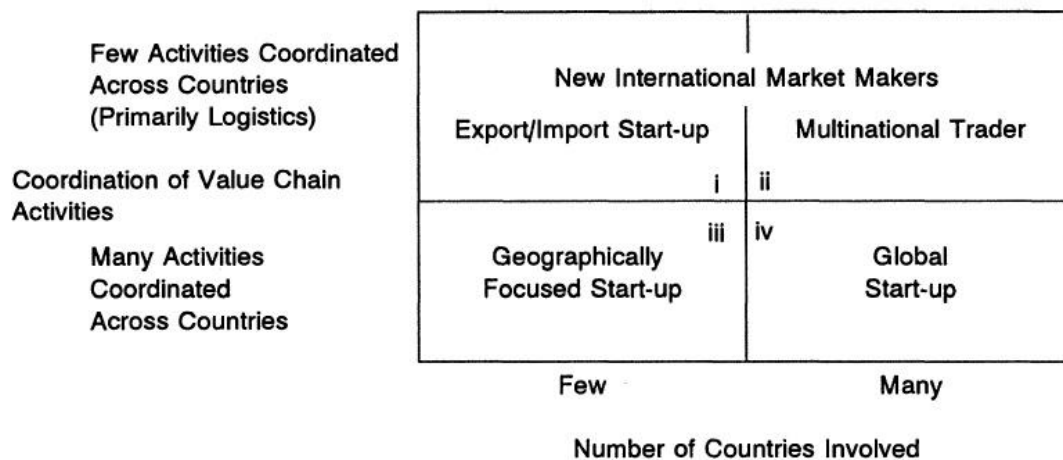
Oviatt and McDougall (1994) argue that literature on multinationals has focused too little on companies born global and set on to find the elements that make up a successful international new venture. According to them, firm size is not the sole provider of competitive advantages. The new economic, technological and social environment of the late twentieth century and after, have been the reason for the increased importance of other special firm capabilities that stimulate internationalization (ibid).

There are four factors without which born-global companies would not exist – organizational formation, alternative governance structures, foreign location advantages and unique resources (Oviatt and McDougall, 1994). The first condition refers to standard theories of multinationals and the need for internalization of some economic transactions, which happens in the presence of market imperfections (ibid). The second element implies that new ventures often need to be savvy on resources, which results in heavier reliance on networks and partners to achieve results, compared to established companies (ibid). The foreign location advantages relate to the OLI and are what characterizes an international venture as opposed to a domestic one. Lastly, in order for an international new venture to be successful and exist in the long-term, there needs to be some unique capability or resource; which in knowledge-intensive industries is both valuable, as it can be scaled easily, and tricky, due to the risk of copying (ibid).

Since companies appear to rely on these conditions differently, Oviatt and McDougall (1994) also classify international new ventures into four categories. *Figure 2* shows their systematization of the phenomenon. Depending on the amount of activities a start-up coordinates in its value chain and the number of countries in which these are spread, there can be Export/Import Start-ups, Multinational Traders, Geographically Focused Start-ups and Global Start-ups (ibid). The four types of firms are mostly meant to represent the extremes in a continuum that includes various companies, which might have mixed features from the two dimensions or even switch them over-time, according to Oviatt and McDougall (1994). Nevertheless, the classification reveals that each kind of international new venture develops a different competitive advantage. For example, geographically focused start-ups specialize in

supplying a particular market or area by exploiting resources from abroad, while a global start-up actively seeks to obtain and distribute – both inputs and outputs, from and to where the value is highest (ibid). Multinational traders and export/import start-ups, on the other hand, simply transfer goods and services between countries of production and demand, as suggested by Oviatt and McDougall's (1994) classification.

Figure 2. Types of International new ventures



Source: Oviatt and McDougal, 1994, p. 59

2.3.1. RELATED RESEARCH

The theory of International new ventures (abbreviated as INV) has gained the attention and approval of scholars in a variety of disciplines. In fact, two researchers come close to the idea of this thesis – Laanti et al. (2007) and Efrat and Shoham (2013).

On the one hand, Laanti et al. (2007) try to empirically show that born-global companies are indeed different from other multinationals, thus confirming the major characteristics specified in INV theory. Their paper analyses the globalization processes of business-to-business international new ventures in the rapidly growing industry of wireless technology. According to Laanti et al. (2007), globalization strategies consist of three elements: product, market and operation. It is suggested that the main resources and capabilities of born-global firms are the founders' expertise, international networks, access to financial support, and innovation (ibid). The empirical results show that although such companies lack the means and capacity accumulated by established firms attempting to enter foreign

markets, born-globals acquire them either through the previous experience of the founders or from connections with external networks (ibid). Moreover, the identified key characteristics of international new ventures help them overcome the difficulties of globalization and skip some of the traditional stages.

On the other hand, Efrat and Shoham (2013) focus on entry modes for international new ventures in an empirical research of Israeli high-tech born-globals. The article suggests that such enterprises should be defined based on their strategic orientation instead of the speed of internationalization. International new ventures are viewed as prospectors – firms specializing in finding and taking advantage of market imperfections. Therefore, the research stresses that it is the venture's vision in combination with the foreign country's environment what affects the entry-mode decision the most (ibid). The results confirm that born-global companies choose green-field investments in larger and more stable markets, while in markets that differ to a large extent in their perception of risk, the choice is of lower commitment modes of entry (ibid).

2.3.2. CRITIQUE

While the theory of International new ventures outlined by Oviatt and McDougall (1994) is the key approach defining the born-global phenomenon in international business literature, it has a couple of limitations that should be addressed. Firstly, it does not discuss the entry-mode selection for firms and the factors determining it per se, rather it defines the concept and some of its key characteristics. This is why it is only used as guidance on what could be included in the analysis or be given more weight in the estimation of the decision. Moreover, it should be kept in mind that the model provides a narrow view over internationalization in the face of born-globals. While this fits with the context of the case companies in the project, it does not necessarily provide a thorough investigation of their behavior.

Nevertheless, INV theory represents a structured analytical tool for the thesis, which would improve the understanding of what considerations are important to such entrepreneurial entities. In addition to that, the classification of born-globals on *Figure 2* can be useful in determining the applicability of the project's discoveries to a specific kind of organizations. This would be due to the example case firms' background and business orientation belonging in one of the four categories. Moreover, Laanti et al. (2007) provide a closer look at one valuable aspect of becoming a multinational – the internal

capabilities of the firm, which although looked at as ownership advantages, are not given enough detail in the Eclectic theory. Therefore, the inclusion of that study, concerning the resources and competences of born-global firms, gives more credibility to the research of this project. Lastly, Efrat and Shoham's (2013) findings can further enrich the empirical insights on globalization strategy for the case context and compensate for Oviatt and McDougall's (1994) model not including entry-modes.

2.4. IDENTIFIED FACTORS AND PREDICTIONS

The discussion of theory in the previous sub-chapters has shown that two major frameworks and some research related to them can be used for the construction of an analytical method adapted to the needs of born-global companies. The following sections explain the factors that have been included in the research and their influence on the phenomenon in order to form predictions and later solve the problem defined by the thesis.

2.4.1. OWNERSHIP ADVANTAGES

As it was mentioned earlier, ownership advantages represent the internal resources and capabilities of a firm. Five elements were recognized to determine organizations in this dimension based on the literature review and each is presented below.

FIRM SIZE

The first internationalization factor suggested by Dunning (1979) is firm size, which relates to the company's ability to support investments and bear the costs related to them (Agarwal and Ramaswami, 1992). Obtaining financing can sometimes be difficult for ventures without an established position and is often considered an obstacle (Laanti et al., 2007). However, Oviatt and McDougall (1994) argue that size does not necessarily matter for multinationality, since achieving large scale can both be a cause for and consequence of internationalization. As reasonable as that is, International new venture theory has a slightly different definition of MNEs, which is based on value added from foreign activities, instead of whether a firm has made an FDI. That leads Oviatt and McDougall (1994) to an interpretation that the OLI only predicts one kind of internationalization strategy, namely the establishment of fully-owned foreign subsidiaries. This is why, according to them scale is not a factor of internationalization, because they believe there are other ways to become an MNE like cooperative modes. In the end, it

would seem that they merely confirm that larger firms do have a higher incentive to make FDI than smaller organizations, precisely as the Eclectic theory predicts. Therefore, the theoretically-based expectation is that a company's size, expressed by its scale of operations, is positively correlated with the intensity of the investment commitment. This is believed to apply also to newly-started businesses. Since external funding can increase the speed of growth and born-globals that manage to receive it are able to choose direct foreign investments (Laanti et al., 2007), this is also viewed as a criterion for having ownership advantages relating to size.

MULTINATIONAL EXPERIENCE

Another element that has been considered by researchers – also part of Dunning's (1979) Eclectic paradigm, is multinational experience. It is expressed in the ability to take advantage of market differences, manage operations for a wider set of opportunities and threats, as well as the ease of transition and adaptation to different environments. Previous involvements with foreign companies or conducting operations abroad can increase the international experience of an organization. Also, the skills and background of founders or management of born-globals can introduce some advantages in regards to knowledge of how to deal with foreign activities (Laanti et al. 2007; Oviatt, McDougall and Loper, 1995). Agarwal and Ramaswami (1992) point out internationally inexperienced enterprises may overestimate the risks associated with FDI, while underestimating the potential returns on the investment, causing them to avoid making larger commitments abroad. For that reason, multinational experience is expected to stimulate the choice of more integrated entry modes – like starting a fully-owned subsidiary, for companies in general and that includes born-globals as well.

DIFFERENTIATION POTENTIAL

The next factor influencing the choice of globalization strategy that was identified in literature is differentiation potential (Dunning, 1979). A firm's ability to develop products and use its resources in a unique way can be beneficial in overcoming the barriers of internationalization. Innovation and entrepreneurship are an important part of international new ventures' competitiveness (Laanti et al., 2007; Oviatt et al., 1995). The dedication to quality and creativity, as well as the use of advanced technology, are characteristics that allow born-global firms to successfully expand outside of their domestic markets (Knight and Cavusgil, 2004). Moreover, the experience and skills of the founders are

an invaluable source of knowledge that also contributes to early adoption of globalization strategies (Laanti et al., 2007). Overall, the differentiation potential of companies gives major ownership advantages and the stronger it is, the more a firm has an incentive to keep its proprietary knowledge within the boundaries of the enterprise (Agarwal and Ramaswami, 1992). Therefore, a born-global company that is dependent on having a differentiated service offering is expected to prefer serving a foreign market on its own, either by opening an office or by exporting, rather than licensing, franchising or doing a joint-venture partnership. In that sense, the objective is to retain control over the operations and specifically the product development.

STRATEGIC ORIENTATION

Another relevant factor for internationalization that concerns ownership advantages is the strategic orientation of the firm (Efrat and Shoham, 2013). It is important to account for a company's business model and way of managing operations, as that can have an effect on the choice of an entry-mode. One of the key elements of sustainable international new ventures is, in fact, their global vision (Oviatt et al., 1995). With the organization opening up to global markets, there can be a lot of opportunities for the business that would not exist if the mind-set of the management is focused only on one country (ibid). This characteristic, which is typical for born-globals since their founding, is believed to broaden the horizons for these start-ups and be one of the reasons for their early internationalization (Knight and Cavusgil, 2004). International new ventures strategically oriented towards finding and developing new markets or products, are expected to select high-commitment investments in countries with a high market potential, despite the related risks (Efrat and Shoham, 2013).

NETWORKS

The last element promoting ownership advantages is networks. The reliance on external connections to achieve complementary resources is crucial for born-globals (Laanti et al., 2007). Strong networks globally can help with various parts of the business, such as marketing, distribution and even production (ibid). It is an alternative to traditional governance structures, caused by the scarcity of assets (Oviatt and McDougal, 1994). The influence of these relationships and interactions with external entities on the entry-mode decision is expected to be positive towards cooperative forms, such as joint ventures or licensing and franchising (ibid). The effect of this factor depends on the nature and extent

of the connection between the born-global company and its partners. Moreover, cooperative entry may not necessarily be prohibited by the risks of proprietary knowledge dissemination (ibid).

2.4.2. LOCATION CONDITIONS

The second dimension of the project's framework is location conditions and considers the environment of the home and host countries of the international new venture. Three factors were identified to have an impact on the decision of globalization strategy in that regard and are discussed in the next sub-sections.

MARKET POTENTIAL

When considering an expansion to a foreign market, one of the first things that come to mind would be to check its potential. It is a major determinant of how attractive the country is for new businesses (Agarwal and Ramaswami, 1992). Based on the size and growth of a market, one can gain a general insight of how much possibility there is for economies of scale or scope (ibid). Competition is also a factor affecting the environment and signals the demand, but also the challenges of establishing a presence in the location. Other important aspects of market potential are the differences in culture, and how well a firm's service offering is matching with the tastes and customer needs (Brouthers et al., 1996). Moreover, the ability to exploit the location by either reducing costs or increasing prices can bring additional competitive advantages to the international firm based on the external situation (ibid). However, the lack of familiarity with language, laws and the acceptable ways to carry out business can be a problem for a foreign company new to a market (Oviatt and McDougall, 1994). For example, the distance in the social perceptions of risk can negatively affect the amount of resources a born-global firm is willing to commit due to the larger chances of conflicts with running a subsidiary in such a climate (Efrat and Shoham, 2013). Nevertheless, all these conditions define the attractiveness of a location, and the more promising it is, the more interested a firm would be in establishing facilities there (Agarwal and Ramaswami, 1992). Therefore, a born-global company is expected to have an incentive to make an FDI when the market has a high potential.

INVESTMENT RISK

Another factor of the country's environment relates to the risks it imposes on an investment (Dunning, 1979). The stability of the political, economical and social conditions is a key factor to the long-term existence of a business and also gives a sense of security on receiving the profits generated by an investment (Agarwal and Ramaswami, 1992). The position of the host country's government toward the industry and foreign companies can have a major effect on the entering international firm through tax rates, import/export controls and other kinds of restrictions (ibid). Moreover, there can be currency risks that also affect the flow of generated earnings back to the parent of a subsidiary and in some cases there can be a threat of profit seizure (ibid). As a result, the investment risk associated with a market is believed to have a negative impact on the intensity of the resources an expanding firm is willing to commit on internationalization in that location (Brouthers et al., 1996). The same type of uncertainties is expected to apply to born-globals as well and discourages the establishment of fully-owned ventures in places associated with a high level of such risks.

COMPETITIVENESS

The ability to offer a competitive service in a new market is one of the crucial factors identified in literature. It does relate to multinational experience, market and differentiation potential, but stresses the importance of successfully dealing with local competition and infrastructure. It is one thing to have internal capabilities that make a firm stand-out in its domestic market, but it is another matter to adapt these to an unfamiliar environment (Oviatt and McDougall, 1994). Access to customers is vital to service delivery in particular and some strategic assessment of the comparative advantages needs to be made in regard to transport and labor costs (Markusen, 1995). The market infrastructure determines whether there would have to be large learning curve effects and introduces uncertainty to operations management, which may encourage the use of partners by the company and overall discourage the undertaking of larger investments (Brouthers et al., 1996). Therefore, it is assumed that born-globals would prefer lower-commitment ways of establishing a presence in a market with features that diminish its core competencies and require more efforts in achieving competitiveness.

2.4.3. INTERNALIZATION INCENTIVES

The last dimension of the analysis is concerned with internalization incentives. The focus here is on protection of the special knowledge and other intangible assets that a firm may possess. There are two elements that were found to have an effect on the choice of foreign market-entry and the following subsections explain them.

CONTRACTUAL RISK

The first factor of internalization is contractual risk. There is a tradeoff between the costs of integrating the special skills and knowledge into the business' own facilities abroad and those of forming relationships with external agents (Brouthers et al., 1996). The problem with delegating the task of servicing a market to another company is that there may at some point be a conflict of interests or opportunistic behavior by the contractor. Since contractual risk arises with formal interactions between a firm and its partners in the value-chain, it can be expressed in terms of transaction costs (Agarwal and Ramaswami, 1992). This is why the costs of establishing and enforcing contracts with various counterparties need to be estimated and included in the decision of a globalization strategy (ibid). For instance, born-global companies often capitalize on transfer of knowledge when performing activities abroad, which can easily be copied by the host-country's business actors (Oviatt and McDougall, 1994). The sustainability of the venture's advantage then depends on how well it can be protected from leaking to outsiders. Therefore, when the contractual risks in a country are high, this provides an incentive to internalize the foreign expansion (Dunning, 1979). It is expected that with a larger threat of expropriation of knowledge and more expensive legal enforcement, a firm would prefer to enter a market on its own, either through exports or a green-field investment (Agarwal and Ramaswami, 1992). The described principle should also work for international new ventures.

UNIQUE RESOURCES

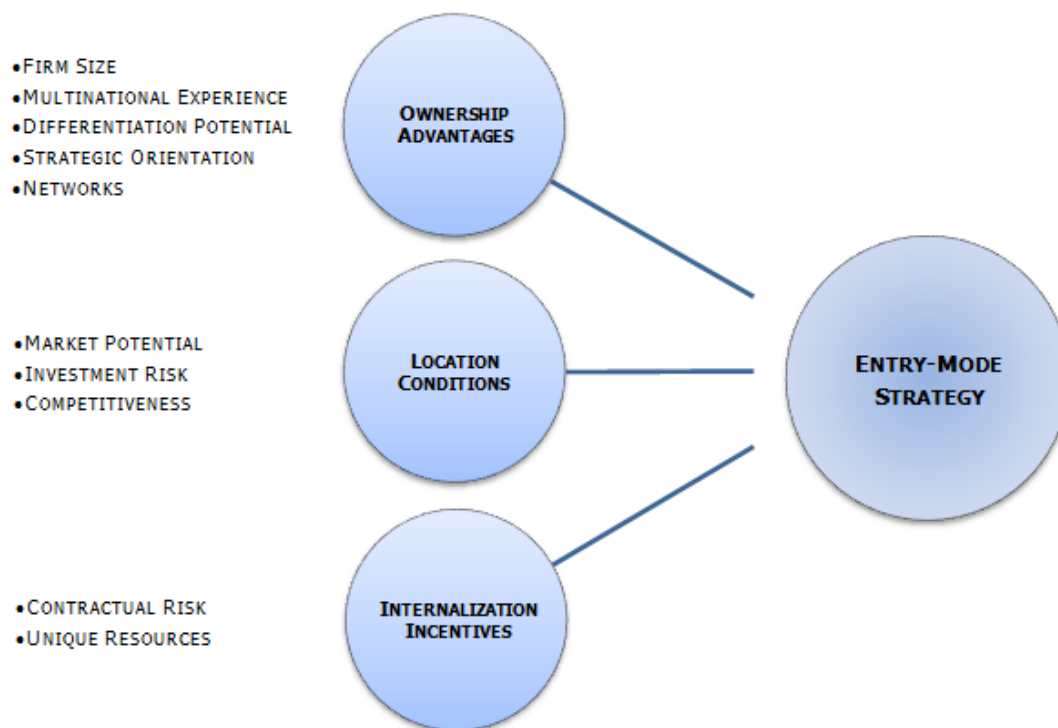
The second and final factor for the choice of a globalization strategy that defines the internalization dimension is the uniqueness of resources. This element is about the nature of the competitive advantage. Knowledge is considered largely a public good, but some features of a firm may be inimitable (Oviatt and McDougall, 1994). The extent to which an organization's acquired skills and developed products can be protected via contracts, property rights, trademarks etc., depends on their

essential properties. For example, the uniqueness of a business may stem from a kind of tacit knowledge that is not transferable to actors outside the firm (ibid). This type of advantage becomes inimitable both by competitors, but also by potential partners and even by foreign units of the company itself in other markets (ibid). It is believed that the presence of such unique resources may induce born-globals to have the preference for a less involving type of investment, such as exports/imports.

2.4.4. SUMMARY OF FACTORS AND PREDICTIONS FROM THEORY

A summary of the selected elements for the analysis from the previous sub-sections is shown on *Figure 3* below. Ten factors were identified to determine the ownership advantages, location conditions and internalization incentives of international new ventures. The presented analytical framework of Factors for Foreign Entry-mode is central to the project and is later referred to as the FFE model.

Figure 3. Analytical model of Factors for Foreign Entry-mode selection



Source: Own creation

Firstly, the preference for green-field investments is expected to be positively affected by firm size, multinational experience and differentiation potential, while contractual forms of entry are associated with high network effects. Strategic orientation, in a combination with high-potential market, predicts

the choice of FDI as well, whereas differentiation potential may also lead to a choice of exports/imports for a born-global, if it does not wish to commit a lot of resources in its international growth strategy. However, considering the ownership advantages together as a whole, the greater they are, the more likely it is for a company to select a high-involvement in foreign activities; and similarly, the lower they are, the less involved the organization is expected to be.

In contrast, location conditions have a more varied impact on the entry-mode decision. On the one hand, high market potential is supposed to invite born-globals and other internationals alike to make an FDI. On the other hand, investment risks and competitiveness considerations can work in the opposite direction and stimulate low-commitment forms of entry. This is why the dimension for location is labeled “conditions” rather than “advantages”. Nevertheless, if a company has the advantageous position to be facing an attractive market, with low risks and adaptation requirements, the paper expects there to be a preference towards making an FDI.

Lastly, there are two major internalization incentives, which support the choice of integrated international growth strategies – contractual risks and unique resources. The latter predicts a low-commitment form of entry, while the former stresses the importance of knowledge protection by not forming partnerships and can go either way when it comes to the amount of resources involved.

In conclusion, these are the ten major variables of consideration that are tested in the paper for their effect on born-globals strategy selection. On the one hand, evidence from experienced professionals in the field would be used to confirm the relevance of these variables; while on the other hand, the factors would be applied to the two case firms briefly described in the introduction. Depending on how the aspects appear from the empirical analysis of the dual case, they might lead to different suggested outcomes. That would then fuel the discussion of how accurate the predictions of theory are, based on a comparison with the facts.

3. METHODS

The following chapter describes and discusses the research methods of the thesis. The typology, objectives, data and case selection are all important parts of understanding the validity and reliability of the study, as well as its limitations. Therefore, each one of these key aspects is reviewed in detail in the next sub-chapters.

3.1. RESEARCH TYPOLOGY

The project follows a realism philosophy, which assumes there is a reality existing independent from the conscious perception of it, but the generation of scientific knowledge is affected by the mind and senses, either by incompleteness of information or by differences in interpretation (Saunders, Lewis and Thornhill, 2012). This asserts the belief that scientific questions can be answered objectively, rationally and based on empirical evidence, even though depending on the situation, principles and trends can change and may not be universal (ibid). As a result, the study does not represent an attempt to broadly describe the behavior of the social unit of examination – born-globals, but rather to explore the driving forces that affect its decisions in a specific context – globalization strategy in the advertising industry.

The nature of the research is mostly applied with a focus on solving an existing problem from business, but also enriching the academic knowledge in the field of globalization strategy, as it was explained in the introduction. The paper is furthermore considered to be part of the broader discipline of economics – the “*social science that studies the choices that individuals, businesses, governments, and entire societies make as they cope with scarcity*” (Bade and Parkin, 2002, as cited by Backhouse and Medema, 2009, p. 2); and in particular applied economics, which employs such theory into practice. A multiple case study is used in order to form a thorough understanding of the internationalization context and discover mechanisms of entry-mode selection for global new ventures. However, since academic knowledge of the phenomenon does not give an exact framework for examining the problem, it was necessary to modify existing approaches in literature and interview experts on the subject. By exploring the relevance and application of the ten identified factors in the FFE model, the project tries to see how they influence specifically the choice of a foreign-entry mode for companies similar to the dual case. This makes deductive reasoning a more dominant logic in the thesis. Because the research

takes on a theory – the Eclectic paradigm, and modifies it to born-globals, there is often a discussion of interplay in theoretical and empirical understanding of the phenomenon, which involves both deductive and some inductive reasoning. Therefore, it may be seen as an abductive study (Eriksson and Kovalainen, 2008; Saunders et al., 2012), which also fits with the purpose of the project.

3.2. PROJECT OBJECTIVES

The aim of the project is to analyze the globalization strategy of Pixelete and Artventure as two holistic cases, while at the same time addressing the need for a systematic approach to international expansion of born-global organizations in the academic and business literature. Therefore, the thesis is an exploratory research viewing the phenomenon of international new ventures in a new context of entry-mode selection (Saunders et al., 2012). The study on globalization strategy decisions was enabled through the analysis of both environment and internal factors concerning the two case firms. Essentially, the project is meant to serve as a stepping stone towards a better assessment of the behavior of born-global companies and to question the accuracy of traditional theories of internationalization in explaining modern business practices.

3.3. TYPE OF DATA

The choice of a method for gathering and interpreting data is closely related to the objective of the research, which is why the thesis is based on multiple methods to give a better insight on the problem². The project uses mostly primary sources of data in the form of semi-structured interviews with experts and the founders of the two case companies. Moreover, the analysis of the qualitative information includes summarizing and categorization processing of meanings in the statements of the interviewees. The perception of founders is one of the main sources of data, because it gives a clue on how the decision-makers in the examined phenomenon comprehend the world. So the project looks at their knowledge of the situation and their choice, to understand how their logic works. The opinions of experts serve as additional insights into the strategy-selection process of born-globals that bring some diversity in perspectives, but also facilitate the application of the identified factors to the real-life examples.

² Saunders et al. (2012) provide a good discussion of research philosophies, design and methods.

Overall, six interviews were made throughout the period August-September, 2014. All interviewees were provided with information about the purpose of the interviews and were given a list of guiding questions through e-mail a few days before the respective meetings took place, so as to be familiar with the topic and prepared to talk about it. A semi-structured form of the interviews was preferred, because it allows a good amount of flexibility in the process to gain deeper knowledge on the problem, if unexpected or interesting information is discovered and needs to be explored further (Saunders et al., 2012). The interviews were conducted with the consent of the interviewees and took between half an hour and an hour each. The questions were open with the intention of gaining as much of the perceptions and views of the interviewees as they wish to communicate out. Each conversation was recorded with a tape-recorder, except for an introductory meeting with Pixelete in March 2014, which is not considered as part of the interviews, but its notes are referred to in Chapter 4. The appendices contain all the interview questions and respective interview summaries in an alphabetic order of the last names of the interviewees.

Three of the interviews were with professionals in the field of new-venture expansion strategy. Thorbjørn Machholm was one of the interviewed experts, since he is experienced in internationalization and new business development. Per Nygaard was another interviewee and contributed to the research with his professional knowledge of technology-based born-global growth strategy. Lastly, Carsten Snedker specializes in applied born-global strategy, so his views were extremely useful to the purposes of the project. The questions asked to the experts are very broad and general to minimize the researcher's influence on the responses and receive pure opinions on the important considerations around globalization. It is a sort of "let the data speak" approach, which is believed to be useful in cases where it is not known what the exact mechanisms around the behavior of a phenomenon are and theory is not well-established on the subject (Saunders et al, 2012). Each of these three interviews starts by asking who the interviewees are and what their experience with internationalization and born-globals is. The interviews continue to establish what factors are advisable to consider before entering a market for international new ventures and find out if there are any aspects that make them different from established firms. The final question is about the experts' impression of common mistakes entrepreneurs should avoid making.

The other three of the interviews were with the founders of the case firms; two of the meetings were with Tomas Michailovas – one of the co-founders of Pixelete and also the vice president of the firm, and one interview was with Peter Martin Holst and Marie Høpfner-Dahl, who started Artventure and currently manage it as well. The purpose of the first interview with Michailovas was to provide insight into Pixelete and the web-design business from the point of view of the founders/management³. The second interview aimed at receiving information about the conditions in and around the firm, and the questions were in line with the ten factors of the FFE model. Similarly, the interview with Høpfner-Dahl and Holst was to first understand Artventure's business and then the agency's situation in each of the identified factors for globalization strategy.

The information from the interviews can be found summarized in the appendices for ease of reference and for presentation to the reader, while the whole conversations have been documented in the form of digital-recordings. The resumes represent as close transcripts to the original speech of the interviewees as it is possible – some of the imperfections of spoken language have been cut, such as repetitions, informalities or language difficulties. This was done without compromising the evidence and was meant to keep the text brief and comprehensible (Sounders et al, 2012). The principal for the summaries has been to preserve the speech of the interviewees, but present it more as a monologue type of statement, while the researcher's questions are shown separately. The reason this format was preferred is that the information can be viewed without the interruptions from the interviewer, which makes it easier to read and understand (ibid). To stress again, the summaries are not retelling what the interviewees have said, but merely giving an almost exact copy of the speech only with a substitution of pronouns like "I" and "we" with the respective name of entity or person that it is referring to. For example, if someone says "I do this and that" it is transcribed as "Carsten does this and that". Again, this is done to extract the information, but keep the speech as it is so there is a minimization of interpretation error. The digital records contain the raw data to ensure the complete and accurate preservation of the data used in the research and can be obtained from the researcher if necessary.

Finally, various empirical evidences from secondary data sources have been used to support or explain some of the findings, but mostly to develop the analytical framework for the thesis – the FFE. Special use has been made of the works of Laanti et al. (2007), Agarwal and Ramaswami (1992), Efrat and

³ Throughout the paper, the terms management and founders are used interchangeably when referring to the leadership or decision-makers in a born-global firm.

Shoham (2013), and Brouthers et al. (1996) among many others. Furthermore, some minor facts and details have been extracted from the companies' homepages and other websites to complete any gaps of information. Also, all sources have references in the text of the thesis for better reasoning and clear connectivity with evidence. This secondary data was also subject to summarizing and categorization textual analyses and includes both quantitative and qualitative types of information.

3.4. CASE STUDY

The project uses a multiple case strategy that allows an in-depth analysis of two similar firms that represent an outlying phenomenon, born-globals, from the traditional views of international players – multinationals and established firms. This allows the detailed exploration of a greater number of variables than would otherwise be possible with a large sample or standardized questionnaires (Saunders et al., 2012). In that sense, the multiple-case approach suits the purpose of the research and enables the exploration of the born-global firms Pixelete and Artventure to answer the problem formulated in the beginning. Ultimately, the collected data, which was described above, is more or less part of the dual case and thus applicable in the context of the thesis.

3.5. RELIABILITY, VALIDITY AND LIMITATIONS OF THE METHOD

To ensure reliability and validity in a qualitative research can be difficult, where alternative criteria may be used for the ability to replicate the results of a research and to accurately measure the unit of examination (Bryman and Bell, 2003). This is why detailed records have been kept of the research process and sources of evidence have been accounted for in various parts of the thesis, which improves the transparency of the method. Moreover, the project uses a multiple-method approach and triangulation (ibid), which attempts to include a few measures for each factor in the FFE model. Nevertheless, the data has its limitations: interviews are bound to the personal opinions of the interviewees, thus information depends on the choice of respondent, whereas secondary sources may present results for different purposes than the interpretation in the project allows. Moreover, the researcher cannot fully assure the accuracy, completeness and reliability of the data provided to them by others. Apart from the access constraints, money and time availability also affect the extent of the research. Lastly, some subjectivity in interpretation may be found to impact the findings due to different understandings of reality among people in general.

4. CASE BACKGROUNDS

The main purpose of this part of the project is to describe the two cases by presenting the most important aspects of Pixelete and Artventure as companies. For that reason the history and background information, the business model and offering of the firms, as well as their organization are explained in the following sub-chapters.

4.1. PIXELETE LABS

Pixelete is a small, Lithuanian-based company that performs web-design and development services for other businesses. The enterprise currently consists of four employees and two interns (Michailovas, 2014a). The office in Vilnius is the main production site for the firm and facilitates the majority of operational activities. For the first half of 2014, the enterprise has earned around 30 000 to 40 000 euro in revenues, approximately 50% of which is generated by their international sales (ibid).

The company was created in 2012 by the two founders - Tomas Michailovas and Carlo Verso, who have gained between five and ten years experience in the field working on various projects (ibid). Pixelete's offering varies from brand creation and graphics design to the elaboration of online and mobile software, as well as printed materials for advertising (Pixelete website, 2014). What the enterprise differentiates itself with is the high quality of their service at a lower price than competition (Michailovas, 2014). Currently, the firm provides all kinds of services of digital advertising from the idea to the final product, although the managers would like to focus only on branding in the future (Michailovas, 2014a). Their marketing is almost exclusively based on word-of-mouth from their customers, who are usually satisfied and recommend them to other businesses (ibid). The company is not targeting a certain kind of organization and does not make an effort to attract a particular group of businesses, since it does not seem to have a preference over the industry of their clients.

Pixelete is privately held by the co-founders, both investing in the venture an amount of around 6 000 to 7 000 euro in total (ibid). Since the formal establishment of the organization, all financing has been done internally through the profits generated by the enterprise, which is essentially what organic growth means. The company has invested mostly in the office facilities, technological equipment and increasing staff – from two people in the beginning, to six including interns (ibid).

The team consists of Tomas as the vice president and art director of Pixelete, Carlo as the creativity manager, a finance director, as well as a graphics designer. Tomas has studied in Denmark and is familiar with the way Danish people work, live and their culture, which gives an advantage to the company and makes it easier to approach the market (Michailovas, 2014b). The main reason Pixelete is interested to expand in Denmark, however, is the difference in wages, and therefore prices, which are five times higher than in Lithuania (Michailovas, 2014a). This can make the firm's offering attractive to Danish businesses, since it has a comparable, if not superior, quality and is cheaper at the same time (ibid). The fact that Tomas is familiar with the culture and has connections in Denmark gives him reason to believe the transition would be manageable.

Lastly, the vision of Pixelete in five years includes an expansion in terms of size, client-base and profits. The management also has the ambition to focus on branding as a service and increase efficiency by having fewer, but larger projects per year (ibid). This would help improve time-management, thus it would enable a better quality and make the company more profitable.

4.2. ARTVENTURE

Artventure is a Danish-based company that organizes events and communications for large, business-to-business corporations. Currently, the firm has seven employees and its office is in Copenhagen, where the major part of planning, development and coordination of activities happens (Høpfner-Dahl and Holst, 2014). Artventure has not provided any financial data, but an unofficial source states the company's gross profit for 2013 was around 1.417 million DKK (Proff website, 2014). With a foreign exchange rate of 0.1344 euro per Danish crown (Bloomberg website, 2014) – loosely pegged, the enterprise has made approximately 190 000 EUR in gross profit last year.

The agency was founded in 2004 and 2005 by Peter Martin Holst and Marie Høpfner-Dahl, who became fully-dedicated to it by 2008 (Høpfner-Dahl and Holst, 2014). Artventure offers a variety of services including preparation of events, establishment of concepts and campaigns, production of web-, video- and graphic design (Artventure website, 2014). The company is fond of building experiences and knowledge that promote memorable communications (ibid); core values are creativity and quality with a strategic approach (Artventure website, 2014a). Artventure delivers communications for corporations both business-to-business and business-to-customer, although it is mainly making

campaigns for the former type of organizations, since there is less competition there (Høpfner-Dahl and Holst, 2014). In terms of marketing, the company relies on professional networking and contacts, as well as systematically establishing relationships with large organizations through phone calls (ibid). However, just like Pixelete, the organization is not focused on advertising for clients in one specific industry.

Artventure is privately held by the two founders and has not had financing from external investors, so the company is generating sufficient resources for an organic growth (ibid). A distinctive element of the firm's operations is its heavy reliance on external partners and networks to expand its productive capacity and capabilities (Artventure website, 2014b). The team specializes in coordination and management of projects and development of concepts, where Peter has the role of creative director and Marie is the managing director (Høpfner-Dahl and Holst, 2014). Since the beginning, the company has had international suppliers and partners abroad, especially from Germany, which has been a great resource for them (ibid).

In five years, the agency plans to expand in terms of size and operations, improve efficiency and quality – “bigger, better, faster” (ibid). Moreover, the founders would like to have the opportunity to organize mega-events more frequently and to further explore the possibilities of “gamification”, including the promotion of their “Conference tool” mobile application (ibid). Big events help achieve larger scale, while games and interactive entertainments provide a memorable and exciting experience for the final users of Artventure's services, thus raising the perception of creativity and quality for the clients.

5. FINDINGS FROM INTERVIEWS WITH EXPERTS

The chapter presents a combined summary of the interviewees' opinions on the important factors for foreign market-entry strategy. The purpose of this is to see how well theory matches with the practices in real life based on the collective knowledge of experts. The FFE framework from *Figure 3* is used as the premise for the comparison.

Overall the answers from the respondents were very different from each other as it may be expected given the various backgrounds of the interviewees, yet their advice was very similar in essence and a number of factors were repeatedly brought up. For example, Machholm's (2014) perspective was not very much oriented towards factors that affect born-globals, since his main qualifications are in internationalization and development of new businesses. Nevertheless, he did mention some key aspects to consider that are, on a closer look, in line with the Eclectic theory of Dunning (1979). Nygaard's (2014) view was affected by his experience as well, as he specializes mostly in technology-based born-global companies and their expansion, so a lot of his ideas were about making an export plan, which is often a good idea for many of the ventures he works with. Lastly, Snedker (2014) was the person, who gave the most complete picture over the issues born-globals need to address when expanding to a foreign market and that may be because he is a serial-entrepreneur himself facing such problems on a daily basis. Despite how different the advice was in terms of expression and perspective, it all comes down to a number of variables of vital significance, but before that, the individual evidence from each interview is analyzed.

Machholm (2014) stressed on the importance of competition, the size of total addressable market and niche, and also the price level in the foreign country of interest. Another crucial element to plan is the target group, their preferences and the value proposition to them (ibid). This can be directly related to market potential as a location consideration in the analytical model from *Figure 3*, since these are among the characteristics signaling the attractiveness of a market. Moreover, the interview revealed that companies need to figure out the way of delivery to their selected type of clients and gain access to those customers by drawing attention to the business and establishing trust in the brand (ibid). For a web-based firm, like Pixelete, and for any firm in fact, the homepage represents the first form of contact and needs to demonstrate what the organization is all about (ibid). As it would seem, this kind

of issues are part of the adaptations a company is supposed to make in order to improve its competitiveness abroad – again a close reference to the identified factors in the FFE framework.

In relation to the internal capabilities of a firm, Machholm (2014) pointed out that a venture's value proposition should be clear and the management should have a mature approach towards the implementation of the strategy they have chosen. Furthermore, young firms need to be able to differentiate themselves and display the quality and efficiency that they stand for (ibid). Thus, the professional's advice, here, overlaps with the considerations in the Eclectic theory for differentiation potential – an aspect included in the method of the project. In Machholm's (2014) opinion, international expansion also depends on resources availability, such as labor and other costs. There are some limitations to small start-ups in that regard, so they should target one market at a time and not try to address demand from around the globe (ibid). In a way, this view brings up the problem of firm size and access to inputs, which was also on *Figure 3*. Another confirmation of a factor identified in that analytical model was found to be for strategic orientation. According to Machholm (2014), the choice of an expansion strategy is subject highly to the business model and the vision of the company.

Finally, Machholm (2014) did not speak of internalization incentives like contractual risk or unique resources. This may be due to his assumption that having a sales person in a selected foreign country would be a suitable market-entry strategy for companies like Pixelete (ibid). Since that form of entry would still be a kind of export, it does not require a lot of thought on the political and economical conditions of the location – relating to investment risk, or the dissemination of proprietary knowledge given that there would not be any transfer of that to outsiders. Nevertheless, the interview with Machholm (2014) provides evidence to support the relevance of five factors from the FFE: firm size, differentiation potential, strategic orientation, market potential and competitiveness.

Nygaard (2014) also seems to support the option of exports for born-globals, however, is not excluding the possibility of other forms appearing as suitable in an evaluation of conditions. His recommendations revolved around several types of issues of ventures' organization and environment. For instance, he also brought up the question of a firm's motivation for being global, its business model and mentioned that a lot of Danish firm's start to look for expansion abroad to enable their growth potential (ibid). Therefore, this is a second expert that confirms the relevance of strategic orientation and the fact that the choice of an entry is influenced by the way a company operates, especially with the

rise of technology and internet-based solutions to business logistics. In addition to that, Nygaard (2014) suggested that marketing and targeting a particular segment, as well as providing a service satisfying a specific need of those customers, is a vital aspect to examine along with competition. This supports the factor of market potential as well. Speaking of success-related characteristics, the selection of a suitable delivery system is also important, which goes hand-in-hand with distribution channels and adaptation, learning of management, but also administering of networks (ibid). That relates simultaneously to the element of competitiveness and that of networks in the FFE model on *Figure 3*. Nygaard (2014) believes that the connections with the actors in the value chain in both directions – towards the customer and towards potential partners, suppliers and colleagues, should not be neglected in the firm's research when making the globalization decision. Furthermore, the local unique conditions and market-entry barriers in the face of social, political and economic developments should too be investigated (ibid). Hence, that pinpoints investment risk as part of the required analysis, providing evidence for yet another part of the framework on *Figure 3*.

Based on Nygaard's (2014) interview, an indirect link can be made with the factor of multinational experience, since in his list of export-plan questions to start-ups, there are a few places where ventures are asked if they already have made international investments or support exports of their products or services to other countries. This is why, his views can be interpreted to value previous involvements abroad and support that element in the FFE model. Nygaard (2014) also mentions that one advantage of technology and web-based new kinds of businesses is that they do not necessarily need to have a physical presence in every market they supply (ibid). This turns the attention to the essence of a firm's capabilities and that in some cases it is sufficient to keep them concentrated in one location, which is part of the propositions for unique resources in the dimension of internalization incentives on *Figure 3*.

Finally, a lot of the interviewee's ideas were based on the concept of the lean start-up, which dictates that entrepreneurs need to accomplish some form of confirmation to the value proposition of the business before scaling the operations of their start-up (Ries, 2011). In that regard, Nygaard (2014) leads to another problem for internationalization. In order for a venture to be able to convince investors to provide it with financing, there should be a proof of business' offering that can be scaled in foreign markets. Therefore, firm size can be seen as an impediment for the access to resources, which is why start-ups often cannot establish facilities abroad from the beginning (ibid). In Nygaard's (2014)

opinion, entrepreneurs should not take for granted that there would be unlimited demand for their product or service, so making a budget plan and allocating the resources to only a few focus areas at a time is advisable. From that follows that there are reasons to believe firm size is a factor for globalization strategy and should be a part of the analysis of born-globals.

In summary, Nygaard confirms the use of all but two of the ten identified variables in *Figure 3* – the exceptions being differentiation potential and contractual risk. However, innovativeness and entrepreneurial skills can be considered as implied characteristics of the lean start-up (Ries, 2011), which suggests differentiation potential may be subliminally included in Nygaard's perspective. As for contractual risk – its omission in both interviews could mean that protection of knowledge is not the priority of young enterprises' expansion concerns. An explanation to that could be hidden in the idea of "pretotyping" – the equivalent of prototyping, but for services (Nygaard, 2014). To test an idea, an entrepreneur is often advised to share information about it with outside people to collect as much feedback as possible, before tying resources down on a project (Blank, 2007). Hence, the protection of knowledge for new ventures works a little different than with established organizations. Of course, core sources of competitive advantage and important details should not be given away; but exchange of skills and information with networks and partners is believed to have positive impacts on the development of start-ups (Prashantham, 2008).

The insights from Nygaard's experience are not far from what Snedker has found as relevant to globalization strategy of born-globals as well. According to Snedker (2014), firms should be careful when they evaluate the risks of globalization. Several recommendations for how to avoid underrating the dangers can be drawn on Snedker's interview. Firstly, meeting demand and customer needs with a company's offering is crucial for sales, which basically means that firms should have a communications and marketing strategy prepared (ibid). Understanding client preferences towards the product or service is again part of evaluating the location's potential in the FFE model. Secondly, the organization should examine its human resources capabilities and see if there are any partners or networks that can be found (ibid). Here, the key question is if the company has the required staff for an expansion, both in terms of size and skill-sets (ibid). The assessment of the team is part of recognizing the firm's strategic and human resource capacity and is about the differentiation potential of the enterprise; while external connections are part of networks as a factor for globalization strategy

selection on *Figure 3*. The third consideration is the business model and whether that matches the practices in the new country of interest (ibid). Hence strategic orientation is brought to attention again and Snedker's experience is in line with what theory suggests.

Another aspect to look at is the delivery channels, as well as the limitations imposed by the skills of a venture's management (ibid). The need for adaptation and especially selection of proper infrastructure is a crucial element affecting foreign-market entry and the decision to expand, according to Snedker (2014). At the same time, the interviewee's opinion confirms the relevance of competitiveness as a factor in the FFE framework. The next important detail for a venture to evaluate is its financial capacity and how easy it is to get funding for the preferred international growth strategy (ibid). For established organizations that have a history of previous commitments with banks and a record of previously generated earnings, it is not a problem to obtain financing (ibid). However, Snedker (2014) points out that for new enterprises there may be problems in acquiring these resources, so the barriers to expand are greater for born-globals. This provides further evidence to support the use of firm size as a factor in the analysis of the thesis.

In addition to these insights, Snedker's interview was also helpful to confirm some of the less discussed issues in the other two professionals' perspectives. For example, contractual risk was briefly mentioned in the comparison of organizations with transaction costs being perceived as greater for new companies than for established ones. It seems Snedker (2014) is under the impression that there are higher contract-related costs for start-ups, which can make market-entry harder for them. That gives a reason to believe the inclusion of the element in the FFE model was not without practical implications. Similarly, investment risk came into the dialogue through the emphasis Snedker (2014) made on the importance of judging the friendliness of a country, its development and the challenges it entails. Although this was not the focus summarizing market attractiveness, it does seem to matter for the choice of entry. The decision for internationalization is also affected by the execution power of the venture and specifically the amount of experience the leading team has (ibid). There should be a certain level of preparedness, which can be achieved with systematically measuring risks, but also elaborating various scenarios to face the different conditions that may come to pass in an unfamiliar environment (ibid). While the necessity of such analysis may be common sense for the majority of academically-trained business managers, for an entrepreneur with an engineering background, the knowledge of how

to perform such analysis and the very idea of why it should be done, could likely come from previous involvements in international activities. Nevertheless, multinational experience appears to have an impact on globalization strategy in Snedker's view and should therefore remain as part of the FFE framework. Lastly, the lack of explicitly defined business policies, rules and governance structures in a new venture can be beneficial to its development in the sense that there is a lot more independence and flexibility in the way to run things (Snedker, 2014). That is an example of a unique resource, which accompanies smaller size and freedom from bureaucratic complexities. As a result, this type of advantage may be difficult to replicate in or transfer to new business units, which can provide an incentive to serve a market through exports as suggested in the literature review. This suggests that certain unique resources of born-globals do have an impact on internationalization and should be considered when selecting an entry mode.

In conclusion, Snedker's interview has provided evidence to support the ten factors of the analytical model in the project. While some aspects may have been more directly relatable to the FFE framework, all appear to have an effect on globalization strategy. However, before moving on to applying these to the two case companies, a summary discussion of the professionals' experiences is presented.

SUMMARY DISCUSSION

Overall, the main findings from the interviews with experts are informative in two directions. On the one hand, they confirm all the identified variables for the analysis are indeed relevant, while on the other hand, they help recognize some of the mechanisms in the process of devising a globalization strategy for international new ventures. *Table 1* below contains the list of variables suggested by theory and whether those factors were identified in the interviewees' statements, thus summarizing the key results. The column titled *Variables* is where the factors of the FFE model are listed. Moreover, each of the three experts is given a separate column named after their own surname, with the symbol "✓" signaling the mention of issues relating to the respective factor.

Firstly, it should be kept in mind that even though these are only the experiences of three professionals, the interviews were organized in such a way that the factors they mention were in no way suggested by the interviewer. The opinions were given by the experts pure of the theoretical context, which was attached to them in the analysis made afterwards. That is, the ideas are a representation of the practical

experience and observations of the interviewees. The fact that it was possible to match them so well to theory is believed to signal the suitability of the approach. Moreover, the information that was provided and the key criteria for internationalization suggested by the interviewees are fully incorporated – there are no important elements that were left out to fit better with the academic framework. This is considered further reassurance for the choice of the variables in the FFE model. While opinions from experts cannot prove or disprove any specific theory of internationalization, they confirm the relevance of the research question and also the need to include both approaches – the Eclectic paradigm and the theory of International new ventures.

Table 1. Factors for Foreign Entry-mode selection and the opinions of the three professionals

Variables	Machholm	Nygaard	Snedker
Firm size	✓	✓	✓
Multinational experience		✓	✓
O Differentiation potential	✓		✓
Strategic orientation	✓	✓	✓
Networks		✓	✓
Market potential	✓	✓	✓
L Investment risk		✓	✓
Competitiveness	✓	✓	✓
I Contractual risk			✓
Unique resources		✓	✓

Source: Own creation

This leads to the second reason why the findings are useful – they provide guidance for how imperative the ten considerations in *Figure 3* are in the choice of globalization strategy by born-globals. The evidence suggests that several factors may influence the entry-mode decision more explicitly than others. As displayed in *Table 1*, some of the variables were confirmed by all three interviews with experts, while others were only mentioned in two, for example. This may imply that more weight should be assigned to aspects such as firm size, strategic orientation, market potential and competitiveness. It would appear that ownership and location advantages are somehow the core considerations, based on the number of interviewees acknowledging them and also the amount of detail

given to those issues in their statements. In contrast, internalization incentives may be assumed to have a slightly less significant impact on the choice of strategy given the fact that they were hardly mentioned and the link is rather indirect. Therefore, if there are any mismatches in the suggestions of a foreign market entry from the analysis of each factor in the next chapter of the paper, the final decision would be enabled through the discovery of this slight apportioning in the influence of the major variables. However, the sample of opinions was small and there may be unknown biases that could have lead to the stronger presence of some factors over others, which is why the findings for this can only be used as a reference point with caution.

Ultimately, the answer to the first research sub-question – what are the important considerations to make before entering a foreign market for an international new venture – is contained in *Table 1*. Furthermore, the FFE model that collected the ten factors for market entry can be accepted as adequate based on the gathered evidence. Lastly, the empirical findings presented in this chapter can be used as an indication on how important each consideration is for a born-global firm, which is part of understanding the mechanisms of strategy selection.

6. CASE FINDINGS AND ANALYSIS

After establishing an overview of the subject and the dual case – Pixelete and Artventure, and presenting the information from the interviews with experts, it is now possible to discuss the main findings of the research and the factors affecting the companies with the theoretical framework that was introduced previously on *Figure 3*. The aim of this chapter is to apply the FFE model to the two firms and form a prediction of a globalization strategy suitable to the identified conditions. In essence, this would help answer the second research sub-question on how the factors affect the decision, since the expectation can be compared to what is done in reality. The sub-chapters from 6.1 to 6.10 are organized in the following way – each starts by briefly reminding the reader about the respective factor from the FFE, then continues by explaining how it is evaluated and finishes with an analysis of the case firms with it. The final sub-chapter summarizes the presence or lack of all three OLI advantages and makes suggestions on the expected choice of strategy, which is afterward compared to the actual entry-modes of the companies.

6.1. FIRM SIZE

As it was explained earlier, this element determines the availability of resources for a company. There can be ownership advantages to firms due to their scale of operation, such as cost reductions from inputs when efficiencies from division of labor or access to financing increase (Dunning, 1979). The exclusive connection to inputs and the ability to obtain those in favorable terms are not necessarily present for small international new ventures. Concluding the chapter on theory, the effect of small firm size on globalization strategy was believed to be negative, thus suggesting lower commitment forms of entry for such enterprises. This is part of the positive association between the variables size and investment. To find out the extent to which scale acts as an inhibitor to FDI, it is first needed to figure out whether the case companies are in possession of the advantages of firm size.

There can be several measures on the scale of operations for companies, such as revenues, assets, number of employees or volume of domestic sales (Agarwal and Ramaswami, 1992). For instance, Brouthers et al. (1996) define small- and medium- enterprises to have annual sales between one million and one billion US dollars. However, revenues only shed light on the possibilities for economies of scale, which can be judged in other ways as well. Since Artventure has not provided any financial data,

in the project, the main indicator for size could be based on the amount of full-time employees of the firms. This helps simultaneously determine how much resources are available to the companies, because salaries represent the majority of costs for services (Brouthers and Brouthers, 2003) and whether there are possibilities for economies of scale.

According to Danish Statistics, a micro-business has between 0 and 9 people, while a small-enterprise consists of 10 to 49 employees; medium firms range in number of staff from 50 to 249, and big organizations have 250 people or more (Danmarks Statistik, 2014). The project assumes this classification can determine where the case companies are positioned in regards to size. From the interviews with the founders of the companies, it has become clear that Pixelete has four full-time employees (Michailovas, 2014a) and Artventure has seven (Høpfner-Dahl and Holst, 2014). Based on the Danish Statistics' categorization, both would then be considered as micro-firms. Since the two born-globals are of a very small size, they might have a competitive disadvantage in terms of the amount of resources they have to face the costs of international expansion. There is a simple logic behind this – if Artventure can afford to have only 7 employees, a new office could be an investment as big as the company itself, whereas a large firm making the same investment would have to involve resources equal to maybe 5% of its total value. Another problem with this smaller size is that the number of employees may be insufficient to allow their total dedication to perfecting a single type of task. Moreover, employee specialization and standardization of the offering to achieve economies of scale is not really associated with creative services such as advertising, where differentiation is important (Fitzsimmons and Fitzsimmons, 2008). For these reasons, it is expected that both Pixelete and Artventure would be inclined to select exports/imports as an entry to their respective markets of interest.

Because the first measure can seem a little crude for an in-depth research, it could be interesting to review some other kind of information to check the accuracy of the categorization and therefore prediction. For example, the presence of external funding to projects may be used as a secondary measure for firm-size related ownership advantages. The findings from the interviews with experts have given reason to suspect it has direct implications to the strategy decision-making process, as obtaining external financing appears to increase the speed of development of ventures and enables the establishment of facilities abroad. For instance, Machholm believes it is not realistic for a new venture

to try to address many markets at once – a view also supported by Nygaard (2014), who explains that is precisely due to the resource constraints in the start-up stage of a venture. Snedker (2014) also mentions that compared to established firms, young ventures do not have a track record, which they can present to banks and receive financing on favorable terms. Considering that Pixelete is very young and has been in formal existence for only about a year, this type of problem could easily be expected. Whatever the explanation, neither Pixelete, nor Artventure, have had private investors or debtors come into the business. Internal financing of operations, as much as it signals independence and healthy operations management, it also presents the organizations with limitations on how many markets they can address. For example taking on debt, if used to modernize or expand a company, can allow faster growth at a relatively low additional risk cost (Berk and DeMarzo, 2011), a consideration that neither case firm appears to have made. Nevertheless, the lack of external investors suggests there may be a deficiency in resources to the case firms, which slows down their growth. This is why it may be concluded that both Pixelete and Artventure are not having any particular ownership advantages associated with firm size, based on the measures of employee number and presence of external funding. From that follows, theory would expect their choice of globalization strategy to be with a low-resource commitment mode, such as exports/imports.

6.2. MULTINATIONAL EXPERIENCE

The second variable from the FFE model is multinational experience and represents the capabilities of a company on a global stage. The advantage is accomplished mostly through previous interactions with international markets and is believed to stimulate firms to make larger investment commitments in foreign countries. In order to determine a firm's ability to operate abroad, it is necessary to identify the extent and nature of its involvements outside of its home country. The following discussion presents how multinational experience is measured in the paper and the findings from the dual case.

Evaluating intangible assets, such as knowledge or skill, poses a difficulty to researchers with its vagueness and freedom for interpretation in empirical applications. Therefore, the thesis uses a set of criteria to estimate the level of multinational experience of the two case firms. Firstly, the founders were asked to explain the significance of their international operations to their business. This provides insights in two directions – the percentage of revenues generated abroad and the number of countries they are familiar with. Moreover, the opinions of the founders on how well the firms have dealt with

internationalization and whether they feel prepared has been included in the analysis as an attempt to evaluate the organizations' experience. Thus, the paper is using similar measures to the ones applied by Agarwal and Ramaswami (1992). Lastly, the skills of the founders in regard to globalization are considered due to their major influence in the ventures, a consideration inspired by the research of Laanti et al. (2007).

Regarding international operations, Pixelete owes around half of its revenue to its non-domestic activities and has set foot on several continents – Europe, Asia, North America and Australia (Michailovas, 2014; Michailovas, 2014a). Artventure does not perceive its income very international, yet it derives its key competitive advantage from imports (Høpfner-Dahl and Holst, 2014). It is also fairly acquainted with the German and Swedish markets, while the company has also had some experience with clients in Italy and Dubai. So in terms of organizational encounters, it can be said that both firms have not only a connection to the outside world beyond the borders of their home countries, but they are also quite dependent on it. This can be interpreted as a clear sign that the companies have had previous involvements internationally and therefore have a certain amount of experience in dealing with globalization issues. However, there is one detail that should be acknowledged, since it may be important. While there is this familiarity with global operations, neither Pixelete nor Artventure have attempted to make an FDI. In the previous sub-chapter it was mentioned that the benefits of leverage do not seem to be recognized by the firms, which can also signal conservative behavior in their growth strategies. As a result from this first measurement aspect for multinational experience, the project estimates that the companies have an average experience in internationalization, limited to exports mostly.

The second consideration in this factor of entry-mode selection is the assessment of management on the firm's performance in the process. Michailovas (2014b) believes that there have not been any major problems to Pixelete in relation to their technological, financial and managerial capabilities to cope with international expansion. The company has latest technology and is able to communicate with clients fairly easy through the internet, where a face-to-face connection is established to initiate a smoother, subsequently digital, interaction (ibid). There is one main issue with international clients, however; Pixelete needs to do more research for their final product, familiarize with culture, taxation or other differences with its home country (ibid). Otherwise, Michailovas (2014b) is confident in his

team's ability to cope with globalization. The perception of Artventure on their expansion is rather different. The management of the company does not think internationalization is really a part of its business, since they perceive their foreign counterparts as suppliers. The firm has even integrated partially with some of those partners (Høpfner-Dahl and Holst, 2014). The fact that the founders seem to be unaware that Artventure is in fact international could imply there has not been any difficulties in coping with foreign vendors. Moreover, the conversation overall gives an impression that the company has indeed been able to manage its activities abroad successfully. Despite Marie and Peter's perception and based on the evidence imbedded in the statements of all interviewed founders, it is believed both Artventure and Pixelete are capable of dealing with issues of globalization.

The final indicator for multinational experience is the background of management. Michailovas (2014a) commented on Pixelete's founders – himself and Carlo, to have previously worked with international clients as freelancers. Moreover, on multiple occasions it was mentioned that Tomas has lived and worked in Denmark for three years, so he is well aware of the way business is done in the country, the customer's preferences, etc. (ibid). It seems that Pixelete's management is internationally experienced and familiar with their target market for expansion. Artventure's founders said they have a business education and that gives them an advantage in understanding key aspects of strategy (Høpfner-Dahl and Holst, 2014). An academic knowledge of organization and leadership is believed to signal the skills of management in the company are not oriented towards temporary improvements, but work on a deeper level to the long-term success of Artventure. In addition to that, Marie and Peter have personal and professional contacts from previous work for international enterprises, so they are used to interacting with multi-cultural audiences (ibid). Generally, it can be concluded that the founders of the case companies seem to have skills and experience to cope with globalization.

Given the three measurement considerations, which were all positive except for the first one pointing out a minor setback, the project evaluates Pixelete and Artventure as having above average multinational experience. The analysis then suggests that the firms have an ownership advantage in that aspect. This means theory would predict them to choose FDI as their preferred foreign entry-mode.

6.3. DIFFERENTIATION POTENTIAL

The third factor for international market-entry selection was differentiation potential, which focuses on the internal capabilities of the firm to generate unique products or services. There are a few enablers to such competitiveness for born-globals, such as innovation, entrepreneurship, strive for quality and creativity, as well as the characteristics of management. The suggested outcome for globalization strategy here is closely intertwined with the need for control to preserve this ability to make changes happen. From the theory review it was discovered that the larger this advantage is, the bigger incentive a firm would have to keep it within its boundaries, so direct exports and FDI would be preferred. To be able to evaluate that effect, however, the thesis first needs to analyze its presence in the case firms.

The criteria for differentiation potential in the thesis is based on the statements of the founders about how they perceive their own firms in terms of the teams' skills and organizational capabilities, the properties of the product and the management style. Each one of these acts as a measure of the advantages Pixelete and Artventure have to develop unique products or services with their available resources. The choice to include some of these considerations was made based on ideas from Agarwal and Ramaswami (1992), while others came from the works of Laanti et al. (2007).

Attracting and training highly skilled personnel is extremely important in services that wish to stand out and brand themselves as creative (Fitzsimmons and Fitzsimmons, 2008). In that regard, Pixelete's team demonstrates a good performance with on-time delivery and customer satisfaction, confirmed by their positive referrals (Michailovas 2014a; Michailovas, 2014b). Furthermore, there is a good coordination of their skills to achieve superb quality in the company's services (Michailovas, 2014b). Every employee is selected to complement the team with a special set of abilities for the making of projects, but all have a good understanding of web-design (ibid). In Artventure the emphasis is put on experience and personality of employees and less on academic knowledge (Høpfner-Dahl and Holst, 2014). The founders believe a structured, yet creative, approach is something rare and that their team should consist of people with that capability (ibid). Other important qualities in employees are curiosity, ambition and whether they can work well with each other (ibid). Both Artventure and Pixelete seem to value professionalism and creativity as that is the core for their business organizations. In addition to that, the founders of the two case companies evaluate their teams as very capable and

highly skilled, which can also suggest there is a good base for development of unique and valued offering to customers.

The next criterion for differentiation potential in the research is innovation in both service development and its delivery. The comments from the founders of both companies were that it actually depends on the client, since not all are interested in imaginative advertising material and events (Michailovas, 2014b; Høpfner-Dahl and Holst, 2014). Basically, the case firms try to match the creativity of their offering to the demand in each situation. Nevertheless, incremental change and entrepreneurial resourcefulness appear to be a crucial part of the culture in Pixelete and Artventure (ibid). Another point was made in the interview with Marie and Peter, who said that it has not been an issue for them to deliver a creative product, the more difficult part is winning the trust of the client (Høpfner-Dahl and Holst, 2014). This is in line with service-management theory (Fitzsimmons and Fitzsimmons, 2008) and was also brought up by Machholm (2014). To address the problem of customer reassurance and presentation of its brand, Pixelete is preparing a new and improved website, the development of which was initiated in the course of writing this thesis. Moreover, both case companies pay special attention in establishing a clear message to their clients, shaping their expectations and building stable relationships. Therefore, it can be concluded Pixelete and Artventure have a lot of differentiation potential with their varied offering targeted to the customer needs and the constant strive for keeping up with latest trends.

Lastly, the characteristics of management can provide an insight on how productivity and innovation is achieved. Here, there is a major difference between Artventure and Pixelete. On the one hand, Michailovas (2014b) believes in a top-down approach, where he and his partner are the main decision-makers on how the end product looks. Even though they value the opinions of their stakeholders, they have the final word. The reason to have that leadership structure is Tomas's observation of firms having superior designs when management acts as the visionary (ibid). On the other hand, Artventure has a more relaxed structure and appreciates ideas from partners, employees and clients alike (Høpfner-Dahl and Holst, 2014). For them, the concept has more significance than where it came from (ibid), so the leadership has a role of an orchestrator (Bilton, 2007). The benefit of this approach is that it mitigates the chance of the final product being too far off what is expected. Either of the two

management styles, orientation or animation⁴, can lead to creative outcomes (Bilton, 2007). Despite the difference, both companies's founders evaluate their leadership as flexible; with Michailovas (2014b) defining it also as skilled, and Høpfner-Dahl and Holst (2014) stressing on experience and analytical power. Therefore, it can be concluded that the management characteristics of the two enterprises are enabling innovation in the firms as well, representing another sign of differentiation potential. As a conclusion, it appears Pixelete and Artventure have another ownership advantage in regard to this factor of globalization strategy. Based on that, the analysis of the factor differentiation potential suggests a preference toward high-integration forms of entry. To decide which would be better – direct exports or FDI, it can be assumed that having an office in the respective foreign country has bigger benefits to exploiting that advantage by better specialization in servicing the market. On the other hand, there may be constraints from the availability of resources to finance larger investments, which could point towards supplying from a distance. The final sub-chapter would discuss this in relation to the other factors to see how that affects the decision in the end.

6.4. STRATEGIC ORIENTATION

Another part of the FFE model is strategic orientation. The organization of the company with its value-capture mechanisms play a central role to the entry-mode decision and it is important to understand the impact of the vision and motivation for internationalization. The effect of this factor was expected to be positive towards starting sole ventures in foreign countries as described in the theory section of the paper. Before finding out whether that is true though, the project needs to analyze the firms' plans and the mind-set towards globalization.

The measurement of the extent to which the case companies have ownership advantages from strategic orientation is two-fold. For one argument, the project evaluates the current approach to strategy of Pixelete and Artventure, while for the other it reviews the attitude expressed by the way interviewees perceive internationalization. The former criterion has been inspired by Wild and Wild (2014), whereas the latter is based on Oviatt and McDougall's (1994) work. The evidence for both aspects is taken from the impression made by the founders and their overall answers to interview questions.

⁴ Orientation style is represented by Pixelete, while animation relates to Artventure's management. A good discussion on the two types of management can be found in Bilton (2007), Chapter 4.

Pixelete and Artventure, in terms of their internationalization approach, are both doing direct exports/imports in an unstructured way. Neither of the companies is making a deliberate effort to establish a position in any of their target markets. For example, Michailovas (2014b) points out that Pixelete is trying to enter the Emirates with getting the connections etc, yet that does not give an idea of what they want to achieve in that country. With Artventure there is not even a targeted foreign market, since the founders believe Denmark provides enough opportunities to generate sales (Høpfner-Dahl and Holst, 2014). Basically, both companies simply take orders from clients, no matter the location and then execute the tasks. The fact that both are randomly responding to export demands from the markets is deemed as one of the major mistakes of firms entering the global scene and it is recommended that they should instead develop “*coherent export strategies*” (Wild and Wild, 2014, p. 351). Oviatt and McDougall (1994) also mention proactive internationalization plans as an advantage of born-globals. Somehow this is not true for either case company and it can be said that they have a disadvantageous approach to globalization.

Further evidence for this lack of a systematic attitude is that neither Pixelete, nor Artventure, actually include internationalization in their plans for the firms in five years’ time. Judging from the interviews, Pixelete’s orientation is mostly market-seeking, while with Artventure it is resource-seeking (Efrat and Shoham, 2013). It is interesting that both companies are very dependent on being international, but at the same time are not deliberately pursuing conquering any specific international markets. Maybe it is not necessary if the world is their market, but there are no indications of such a vision either. Nevertheless, the project believes there is some type of conservativeness that shapes the founders’ mind-set. Pixelete and Artventure appear to not be so oriented towards exploiting country differences, so they could be seen as not having a strong advantage in this element of the FFE framework. As a result, theory would not expect them to make a green-field investment abroad⁵.

6.5. NETWORKS

The last variable determining ownership advantages, according to the literature review was networks. What matters here is the extent to which a company is dependent on its external relations with partners

⁵ This is where the evolutionary view of internationalization demonstrated by Johanson and Vahlne (1977), sort of seeps through Oviatt and McDougall’s (1994) work. A firm’s overall strategy and way of doing things has an effect on its future choices as well and should not be neglected, something not considered by neo-classical approaches to entry-mode selection.

to accomplish complementary capabilities. It is believed that strong connections may lead to cooperative outcomes, such as joint-ventures, licensing or franchising.

The measurement for the element in the analysis is based on the case firms' answer to a question about how much they rely on networks to develop, distribute and sell their products. It was inspired by Laanti et al. (2007) and gives another insight into the perceptions of the founders.

In that regard, Pixelete acknowledges that its networks provide it with significant resources in terms of legal advice, marketing and other types of information or competences (Michailovas, 2014b). Similarly, Artventure recognizes its stakeholders as strong allies to the business (Høpfner-Dahl and Holst, 2014). Furthermore, it seems the connections with outside partners are not temporary either, since the founders of both firms mention the interactions are somewhat recurring. Therefore, it can be concluded that the stable and numerous relations with network actors provide Pixelete and Artventure with ownership advantages. Based on that, it is expected the two organizations would prefer undertaking cooperative foreign entry-modes.

6.6. MARKET POTENTIAL

Perhaps one of the most important environment aspects of globalization strategy, is the market potential of a location. It helps orient the decision-maker to the opportunities for the business in volume of sales and future growth. From before, it was identified the factor induces companies to make green-field investments where there are attractive conditions. To check how this affects globalization strategy though, the thesis has to understand the empirical context of the dual case.

Several indicators are used to determine the location conditions and explain the advantages of Pixelete and Artventure in the situation as they are perceived by the founders. The interviewees were asked to characterize their industry domestically and globally, which helps explain the overall circumstances around the ventures. Moreover, a question about the target-market needs of customers versus the offering aims at evaluating the demand. Another indicator for that is the potential of the respective markets in terms of volume and growth, as well as competition. Lastly, the position of local governments towards foreign companies and the industry is taken into account to find out if entry is acceptable. All of the measures for estimation are based on Agarwal and Ramaswami's (1992) research method.

The first indicator demonstrates the incentive to search for alternative sources of revenues, in case the home country provides insufficient demand or other unfavorable conditions. In that respect, Pixelete perceives Lithuania to not have so many opportunities for the kind of service the firm strives towards specializing in – branding is not assigned big importance by local businesses (Michailovas, 2014a). There is also an expressed opinion by the founder of the venture that the Western and Eastern world has a more developed need for such services and that motivates the desire to become international (ibid). In contrast, the management of Artventure does not find their home country as poor in generating demand; on the contrary – there are a lot of big clients in Denmark, but the competition is also more intense and diverse (Høpfner-Dahl and Holst, 2014). The domestic conditions also bring another key consideration of competitive advantages – the price-cost difference. Pixelete incurs very low labor costs in Lithuania, but has a small demand in its home country, which also determines a lower price for its services there. Artventure is in the opposite situation – there are high labor costs if it would produce everything in-house, so it imports cheaper products and services from Germany, for example, and sells them in its own county that has a big demand, and therefore a higher price, for advertising. Therefore, home country considerations for both firms suggest a certain type of advantage, which pushes them towards internationalization.

Another indicator of the market attractiveness is the match between a firm's offering and the customer needs in the foreign country. For Pixelete, there seems to be no problem with understanding the clients in Denmark, since one of the founders has studied and worked there (Michailovas, 2014b). The management feels there are some differences in culture, like a preference for minimalistic style, darker sense of humor, to which the company can adapt because the team is prepared for that and also Danish people are also very professional and reasonable (ibid). In order to attract high-end customers, Pixelete's new website is supposed to prove their credibility by revealing some of the elite projects in their portfolio (ibid). Basically, it seems the venture is well-aware and capable of meeting demand in its target market. For Artventure, even if a client is from Germany or Denmark, the audience of an event can still be global, so the company has to account for that (Høpfner-Dahl and Holst, 2014). Keeping that in mind, the founders perceive some difference between Denmark and Germany, and Sweden (ibid). Overall, they think the two foreign countries have a little more conservative views of the industry, which has to be adapted to with moderating the amount of creativity they put into advertising concepts (ibid). Despite the cultural gaps, Artventure has managed well in satisfying its clients and is

evaluated as very creative (ibid). Therefore, one can say the company is prepared to make the necessary changes in its offering to satisfy the German or Swedish customer's demands. To sum up, this indicator is also positive and signifies another form of advantageous conditions for the two ventures.

The next issue of consideration is the volume and growth potential of the chosen foreign markets. Pixelete's management believes Denmark offers a good environment for their luxury product, since the people there value quality, whereas in Lithuania cutting costs is a priority (Michailovas, 2014b). Therefore, the perception is of a bigger Danish market, which is also growing (ibid). Copenhagen is a center for entrepreneurial and young businesses – another desirable customer segment for Pixelete, and at the same time that signals a propensity for development (ibid). In regard to competition, Michailovas (2014b) speculates there are a few big players in every market, which is probably the case with Denmark as well, but Pixelete can compete with their quality and prices. Artventure also believes its target locations have a high potential, since both Sweden and Germany have bigger and more international markets (Höpfner-Dahl and Holst, 2014). However, the founders presume establishing a position there would require the company's true presence with an actual office (ibid). Furthermore, they are unsure about competition, but are positive about the countries having a lot of diversification possibilities (ibid). In conclusion, it appears there are mostly optimistic perceptions about the foreign locations, which makes them attractive to enter.

Lastly, it seems neither Pixelete, nor Artventure, think there are any negative attitudes from the respective governments of interest towards the industry or foreign companies. Michailovas (2014b) is more concerned with the venture's own plans about its expansion and asserts that if the firm does not want to open an office abroad in the near future, the question is irrelevant. In a way, his views can be interpreted as being quite calm about the possibility to start a business in Denmark. A brief example from Artventure's founders about taxation of hotels in Germany and Sweden demonstrates their rather supportive governments to the industry (Höpfner-Dahl and Holst, 2014). As a result, there appear to be no specific barriers to enter the markets based on the opinions of the management in Pixelete and Artventure.

Ultimately, the indicators have shown the Danish and German/Swedish business environments are perceived as attractive by Pixelete and Artventure respectively. This provides an incentive to maximize

sales in those countries, which would best be achieved through opening subsidiaries there, according to predictions from theory.

6.7. INVESTMENT RISK

A second type of considerations for location conditions was determined to be investment risk. What is important here is the understanding of the political, economical and social situation, its stability and other kinds of threats from the foreign markets. The expectation is that there is a negative association between the factor and the level of investment commitment. To review that relationship, the project first evaluates the risks through the opinions of the founders of Pixelete and Artventure.

Two were the main measurements for the element in the FFE model – one question asked the interviewees of how they view the political and socio-economical situation, the other tried to find if there were any expected finance-related threats in terms of profit seizure or foreign exchange risks. Both indicators are based on Agarwal and Ramaswami's (1992) paper.

In regards to both aspects, Pixelete and Artventure do not see any major problems. Each country is perceived as having a stable environment and posing no threat of profit expropriation. As for exchange rates, all four countries – Lithuania, Denmark, Germany and Sweden, are in the European Union and have fixed or loosely pegged rates to the euro, mentioned partly in the statements of Michailovas (2014b) and Høpfner-Dahl and Holst (2014). Furthermore, it was explained in the previous sub-chapter that the attitudes in Denmark, Sweden and Germany are very open and pro-equality. In conclusion, the founders of Pixelete and Artventure did not express any particular concerns for investment risks, which suggests the firm's would be expected to prefer a sole-venture entry-mode.

6.8. COMPETITIVENESS

Final factor for location in the FFE model was competitiveness. This element is about adaptation, infrastructure, learning and competitive advantages associated with international expansion. The effect of necessary large transformations is negative on the choice of entry in terms of the desire to make bigger commitments.

To measure the competitiveness of Pixelete in Denmark and Artventure in Germany and Sweden, the project looks into two types of issues. Firstly, one of the questions in the interviews asks how big

changes are necessary for meeting demand abroad in the views of the founders. The measure is drawn on ideas from Oviatt and McDougall's (1994) views of internationalization. Secondly, an interpretation is made on the core competitive advantage of the case firms to understand its transferability in a foreign context. This indicator is inspired by Markusen (1995) and Brouthers et al. (1996).

On the one hand, Michailovas (2014b) says there is only need to make small technical adaptations to execute projects for Danish clients, since Pixelete already knows the culture. On the other hand, he admits there are some legal, political and other location aspects that he is not so familiar with (ibid). So there might be some hidden costs of learning that would be discovered if the firm decided to open an office in Denmark. Høpfner-Dahl and Holst (2014) believe there are substantial differences in the way of doing business, because professional relations are more formal in Germany and Sweden. Moreover, German companies stress on hierarchy more, whereas a Swedish client is looking at equality and has other types of strict rules, which Artventure has to comply with (ibid). As previously pointed out, the distance in business practices makes it difficult to serve the Swedish and German markets from abroad and local presence is assumed necessary for achieving a stable market position (ibid). To sum up, Pixelete and Artventure have slightly contrasting perspectives on the adaptation requirements of their respective countries of interest.

The second indicator for competitiveness is evaluating the entry-mode choice from a comparison with some organizational and running costs between the home and host countries. For example, Pixelete is aware that sale prices in Denmark are higher for advertising services, but the costs of labor are high as well (Michailovas, 2014a) Overall, its competitive advantage is precisely the lower running costs in its base versus the higher prices for advertising services in places it exports to. So, if the company would start an office in Denmark, it would lose its core competitive advantage of good quality work for less pay. Similarly, Artventure is able to select the most suitable and cheapest supplier for each project it makes without any constraint from a prospective joint-venture partner (Høpfner-Dahl and Holst, 2014). This is what the team specializes in – the development of concepts and the organization of their execution in an efficient way (ibid). Again, if the firm decides to open a subsidiary abroad, that might prove detrimental to its ability to compete. As a result, it can be concluded that both case companies face a challenge in transferring their core competitiveness to new locations.

In the end, it is the ability to adapt a business to a new environment that makes it possible to expand and neither Pixelete, nor Artventure, have a major incentive to undertake larger commitments in their respective markets of interest.

6.9. CONTRACTUAL RISK

Moving on to internalization incentives, contractual risk is one element to consider from the FFE model. Protection of knowledge and minimization of transaction costs are the main drivers for choosing independent forms of entry in relation to this factor. The following analysis determines the position of the dual case in that respect.

On the problem of the measurement indicator, Brouthers et al. (1996) argue there is no definite way to estimate transaction costs accurately before they are incurred. This is why their research does not attempt to include the factor in their analysis. However, since the thesis is trying to understand the behavior of born-globals, a good way to do that may be to evaluate their choice by using their own perceptions of the world. Whether the opinion of the founders represents an exact calculation in monetary terms matters less when put on a low-average-high costs scale, because the chances of reality matching expectations are greater. Moreover, if there was a precise quantitative measure of reinforcing contracts, there would still be the problem of how the sum is seen by the decision-maker due to relative size, for example. This is why in the interviews Pixelete and Artventure's founders were asked how they perceive the transaction costs of administering formal relations with stakeholders and whether they expect a consistency in quality from them.

According to Michailovas (2014b), there would be much higher costs of legal intervention in Denmark than in Lithuania, so he perceives high contractual risks for Pixelete. Even though partners may be trust-worthy and provide services and products of great quality, there is always a risk of proprietary expropriation and the price to pay for enforcing a contract is seen as substantial, but acceptable (ibid). This is not unlike what Artventure's founders believe; any kind of confrontations in court would result in a loss of a relationship as well (Høpfner-Dahl and Holst, 2014). Furthermore, in the event and communications business it is normal to present one's idea before the client has approved it and signed a contract, which makes proprietary knowledge very difficult to protect (ibid). However, in the EU and with big corporations, signed agreements appear to be respected and Høpfner-Dahl and Holst (2014) do

not perceive large issues in that sense. Nevertheless, it seems there are somewhat high transaction costs with contracts being difficult to defend and the necessary sharing of concepts and designs for establishing a good portfolio to present to clients. In addition, the founders of Pixelete and Artventure admit they have not thought about these issues or that they are not very familiar with the contractual risks of forming and supporting partnerships (Michailovas, 2014b; Høpfner-Dahl and Holst, 2014). Therefore, the legal aspects of international expansion suggest the firms should be less inclined to cooperative forms of entry than to integrated ones.

6.10. UNIQUE RESOURCES

The last variable of analysis is unique resources, where the essential aspects of a business are reviewed. Based on the academic understanding of this factor, it is expected that the more difficult it is to copy the organization, the more likely it is to choose a low investment globalization strategy such as exports.

To measure the unique resources of Pixelete and Artventure, the thesis must look into what makes them special, what kind of competitive advantages these firms have if it were not for the location-driven cost-price benefits described earlier. Since both ventures are not in an industry where patents are customary and intellectual property rights are too expensive to establish for all the numerous projects of advertising firms, the question comes down to the organizations' tacit knowledge.

From Chapter 4 that presented the case backgrounds and the interviews with the founders, evidence can be gathered to provide the necessary insight to the special advantages of the businesses. Some researchers show that young ventures' rapid responsiveness is a core capability allowing innovation to quickly become part of the firm's practices, which in turn results in a better performance of such companies (Knight and Cavusgil, 2004). The bottom line is that increase in size and age of new ventures makes them more productive up to a certain point when the expansion becomes burdening (ibid). For example, Michailovas (2014b) recognizes that less bureaucracy in Pixelete makes their delivery of projects faster. The same appears to apply to Artventure, where ideas from employees are heard and there is a small distance between people in the production line (Høpfner-Dahl and Holst, 2014). There are also inherent advantages to the case companies from the composition of their teams, because the main assets for them are the people, their experience, skills and professional networks. The kind of knowledge they produce may be perceived as unique, since it is generated through the

interactions of these individual elements. Such special advantages may seem very abstract, but that is also what makes them inimitable. If Artventure and Pixelete decided to open subsidiaries abroad, they would have to find and then train people to the same business practices as they have themselves or just let the new teams be different. Both options have their drawbacks – tacit knowledge takes time to transfer, whereas a new composition of skills would result in a change of competitiveness. Overall, it can be concluded that direct exports might be a good option to continue the growth of the two case firms, because generating higher revenues abroad and then expanding the current offices with more people might provide the necessary base to transfer employees at a later time.

SUMMARY OF PREDICTIONS VERSUS REALITY

Finally, the results from the previous sub-chapters can be put together to figure out what theory predicts the outcome strategy would be and compare that with reality. *Table 2* below summarizes the findings from the analysis of the dual case with the FFE framework. In the first column, like in *Table 1*, is a list of the main factors. The second column, *Importance*, refers to the results from the interviews with experts. It serves as refreshment for stronger effects from some of the variables and uses the same number of check marks as in *Table 1* for each row. The final two columns of *Table 2* show the respective expected globalization strategies based on the ten factors for each firm. The results are marked with “E” for exports, “FDI” for green-field investment, “JV/L/F” – abbreviations of joint ventures, licensing and franchising respectively.

The findings’ summary is that: four of the factors suggest exports, three predict making an FDI, two factors are indifferent between these independent forms of entry and one element stimulates cooperative strategies for Pixelete and Artventure. The companies seem to have average ownership advantages – their knowledge, expertise, relations, professionalism, etc. makes them capable of expansion and internationalization. However, they have no special access to resources, which MNEs would normally have, or the global vision of acquiring strong positions in preferred markets, typical for some of the other players in international space. Location advantages are found to be above average, as Danish, Swedish and German markets are all considered to have a potential for sales and a low investment risk, but there are cultural differences to take into account and a need for adaptation of the offering. There are above average internalization incentives as well. Ultimately, that should mean that theory predicts a moderate level of investment commitment. That is one way to interpret the results –

take the broad OLI dimensions and identify a satisfactory outcome. However, in doing so, some of the underlying mechanisms of the separate factors for strategy selection in international new ventures could be masked and hence, lost.

Table 2. Factors for Foreign Entry-mode selection and the case firms

	Variables	Importance	Pixelete	Artventure
	Firm size	✓ ✓ ✓	E	E
	Multinational experience	✓ ✓	FDI	FDI
O	Differentiation potential	✓ ✓	E/FDI	E/FDI
	Strategic orientation	✓ ✓ ✓	E	E
	Networks	✓ ✓	JV/L/F	JV/L/F
	Market potential	✓ ✓ ✓	FDI	FDI
L	Investment risk	✓ ✓	FDI	FDI
	Competitiveness	✓ ✓ ✓	E	E
I	Contractual risk	✓	E/FDI	E/FDI
	Unique resources	✓ ✓	E	E

Source: Own creation

This is why the thesis attempts an alternative analysis. If the elements are instead split in a way that it is visible which theory was the source for their use, then a more clear understanding of their effects might be revealed. From the ten factors in the FFE model, only six came from the Eclectic theory – firm size, multinational experience, differential and market potentials, and investment and contractual risks. A closer look at the suggested outcome from all these elements is more conclusively pointing towards FDI as a prediction. Now considering the ten factors, including the ones contributed by International new ventures theory, there is a stronger implication for exports being the dominant choice. This outcome is further reinforced by the weights assigned from the interviews with experts – three of the four strongest factors suggest exports – namely firm size, strategic orientation and competitiveness.

As it has become apparent by now, Pixelete's plans to expand in Denmark are to start exporting. Artventure's choice in reality also falls within low investment forms of entry demonstrated by importing/exporting activities. That is the actual selected foreign entry-mode by both case companies. If the factors from the Eclectic theory alone point towards FDI, while Pixelete and Artventure choose

to make exports, then there is evidence to suggest that born-globals may behave differently from other international actors. Furthermore, this means the understanding of economics over the phenomenon may have to be improved, since there is a substantial difference between the prediction and reality. Lastly, the inclusion of additional aspects to globalization strategy in the FFE model seems to have improved the accuracy of the prediction, because it matches with what the case firms actually do. The findings suggest born-globals may tend to consider their internal capabilities and strategic direction with a special focus on resources and competitive advantages, while high market potential and low investment risks, as well as multinational experience, may be less motivating aspects of their situation.

Here the second sub-research question of the thesis becomes relevant – how do the identified factors affect the choice of market-entry in the specific situation of the case companies. Firm size, strategic orientation, unique resources and competitiveness might have a stronger effect on the choice of strategy by born-globals than anticipated. The attractiveness of a location does not appear to provide as incentivizing conditions as expected, whereas internalization might be more important to new ventures than previously outlined.

In conclusion, the evidence from this analysis is believed to promote the suggested expansion of the Eclectic paradigm with the special considerations of International new venture theory. The inclusion of all ten factors of the FFE model is, therefore, supported and believed to have a role to the final decision on a globalization strategy in born-global, advertising firms.

7. IMPLICATIONS

In order to draw implications from the findings in the research to organizations with similar needs as those of the dual case, it might be useful to see how Pixelete and Artventure are positioned in Oviatt and McDougall's (1994) classification shown on *Figure 2*. Considering the number of countries that the case firms have entered, it might be reasonable to say that although Pixelete has had clients on more continents than Artventure, neither of them has a presence in many locations. In the interviews, Høpfner-Dahl and Holst (2014) mention five countries, whereas Michalovas (2014; 2014a) gives examples of around four – plus one or two more may be expected from his account of continents. Regarding the number of activities coordinated in the value chain, it has become quite clear that both Pixelete and Artventure are mostly involved in delivery of services to or from foreign markets. That means they have few operations abroad and those are mostly in terms of logistics. So even if the dimension about number of countries can be interpreted either way, it matters less, because they still stay in the quadrants of new international market makers (Oviatt and McDougall, 1994). Such enterprises are expected to specialize on management and coordination capabilities, while relying on partners and networks for other types of skills (ibid). This sounds very similar to what both case companies do as well. One contrasting with the theory characteristic of Pixelete and Artventure, however, should be discussed. The advertising industry is not a new market and that makes neither case firm a market maker, so some of the ideas that Oviatt and McDougall (1994) bring forth on the advantages of different categories of born-globals may not apply to Pixelete and Artventure. Keeping that in mind, the location privileges of the two case firms are mostly in “*discovering imbalances of resources between countries*” (ibid, p. 58), namely the lower labor costs in Lithuania and Germany/Sweden and the higher value of advertising services in Denmark. Moreover, to be able to sustain that advantage, organizations like Pixelete and Artventure should perfect their ability to expropriate such location-related opportunities, acquire a thorough understanding of market potential and assert strong and lasting relationships with partners (ibid). This can partly explain the findings in the previous chapter – export/import start-ups can use the same types of advantages that would be expected to lead to FDI or cooperative forms of entry, but do not see a reason to grow physically, since their core advantage is independent of tangible presence.

Company size does seem to matter for Pixelete and Artventure, especially in terms of financial inputs, because neither one wants to make large investments in foreign markets, since they know they may not have enough capital. This expected lack of resources is however not impeding them from exporting and importing services abroad. For example, Pixelete has had no problems in generating sufficient resources to finance its projects (Michailovas, 2014b) and it has had organic growth since its founding, just like Artventure has (Høpfner-Dahl and Holst, 2014). The whole development style of both case companies appears to be focused on using only available to them resources, which could also partly explain their selection of a low-investment entry mode.

Finally, insights from the interviews with experts pointed out that making clear business plans and risk analyses are important elements of success. Born-global firms should have a more structured approach to internationalization if they want to achieve good results and prevent failure. Basically, if Pixelete and Artventure want to expand more, that is to establish a substantial presence in target market of their choice, they need to commit more resources. From the analysis of the thesis, it appears direct exports and green-field investments are very close to each other in essence and nearly act as substitutes when there is a scarcity of resources. So if Pixelete and Artventure develop systematic plans of how to position themselves through exports, it might be that one day there would be enough demand to push them towards making a green-field investment. But in general, export/import start-ups are not often associated with FDI (Oviatt and McDougall, 1994) and this is somehow confirmed by the findings of the project. As a result, it can be expected that a lot of the discovered mechanisms of globalization strategy selection may apply to other born-globals in the advertising industry that specialize in exports or imports.

8. CONCLUSION

The aim of the project was to improve the understanding of an understudied phenomenon in economic theory, namely international new venture globalization strategy. The research set out to identify the factors that affect the behavior of born-globals in the advertising industry with regard to choosing a foreign-entry mode. In order to do that, the paper used a number of theoretical frameworks and empirical studies to develop an analytical model to tackle the problem. Moreover, it included opinions from experts to gain additional insights on the considerations young international ventures need to make before expanding into a market. Furthermore, an application of those factors to the dual case of Artventure and Pixelete was used to exemplify how they may impact similar organizations within the industry and what that implies.

8.1. SUMMARY FINDINGS

In the theory part of the thesis, there were ten recognized determinants to globalization strategy. Firm size, multinational experience, differentiation potential, strategic orientation and networks were said to determine the ownership advantages of born-global companies. Location conditions were believed to include the factors of market potential, investment risk and competitiveness, while internalization incentives were driven by contractual risk and unique resources. Through the experience of the three professionals, it was possible to confirm the relevance of all ten factors for the entry choice of born-globals. Four factors seemed to be discussed in somewhat greater detail by all three experts, which lead to the conclusion that firm size, strategic orientation, market potential and competitiveness may be factors with a stronger influence over the behavior of the phenomenon.

Consequently, the ten factors were applied to Pixelete and Artventure in an in-depth analysis of their strategic position and direction. Based on the external conditions and internal capabilities of the firms, it was possible to derive an expectation of their preferred entry-mode and then compare it to their actual plans for expansion. The grouping of the factors, based on theoretical source – the Eclectic paradigm or International new ventures, lead to the discovery of two key findings. On the one hand, the arguments of the OLI taken as summaries in the three dimensions were weaker than if all factors were looked at separately. On the other hand, it became clear that the six factors from the Eclectic theory had weaker predictive power for the case context and the inclusion of the additional determinants in the

thesis was able to improve the accuracy of expectations. Overall, the evidence is believed to support the expansion of traditional approaches to internationalization, since the behavior of the phenomenon was possible to explain with the analytical model applied in the project. This means that born-globals in the advertising industry may indeed be seen as acting differently from other actors on the international scene.

Finally, it was found that Pixelete and Artventure are to a large extent classifiable as export/import start-ups, according to Oviatt and McDougall's (1994) categorization of the born-global phenomenon. This implies that similar to them enterprises could be expected to act in similar ways in their own assessments of market-entry strategies and their benefits. That is, there may be a preference of low-investment forms of entry even in markets with high potential and low investment risks for firms that have a small size, limited competitiveness and more conservative strategic orientation. Differentiation potential and contractual risk appear to affect the decision of born-globals towards independent forms of entry, but they can assume an outcome of exports or FDI depending on the results from the analysis of other factors, which suggests they may have a secondary role in the globalization considerations. Networks were found to not have a significant effect on strategy, which can be explained with a desire to keep a large number of relations with numerous partners and to preserve the flexibility of an entrepreneurial enterprise, such as Artventure and Pixelete. That relates to unique resources proving a level of importance that is undermined by some internationalization approaches. Lastly, multinational experience does not seem to affect born-globals as anticipated – stimulating high-investment forms of entry, which can be due to the nature of international knowledge and previous involvements. Even though a born-global may have above average experience with foreign activities, if the enterprise has not started a sole venture abroad before, it may be discouraged to make the selection of such entry strategy given other factors.

8.2. FUTURE RESEARCH

It was mentioned earlier that the academic understanding of born-globals overall is still vague as to how these enterprises select foreign market-entry modes. There is a need to expand the traditional views of internationalization to include the phenomenon and increase knowledge in that direction (Knight and Cavusgil, 2004). Building on the findings of this thesis, an idea for future research could be to test the ten identified factors for a large sample, since one of the limitations of the paper is the fact

that it is focused on two examples of born-globals. Moreover, it could be tested on other types of firms beyond the industry of advertising or even beyond international new ventures. Perhaps the ten identified factors could be relevant for any kind of modern organizations and it may be a good idea to update the traditional frameworks. Another aspect that can be explored is the intensity with which particular factors affect the entry-mode choice. For example, an alternative organization of the factors, based on a division of advantages of new ventures against their disadvantages, could be more useful to see how their decisions are formed and explain the connection with the considerations. Lastly, improving the theoretical awareness of the phenomenon could improve the internationalization process for some born-global firms in the future, when entrepreneurs might learn from these new insights.

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APPENDICES

APPENDIX 1. GENERAL INFORMATION AND KEY INTERNATIONALIZATION FACTORS FOR ARTVENTURE

INTERVIEW WITH MARIE HØPFNER-DAHL AND PETER MARTIN HOLST ON 22.09.2014

QUESTIONS:

1. What is your position at Artventure and how long have you performed that role?
2. Would you describe the company briefly in terms of revenues, employees, service offering and geographies?
3. What do you consider as a market for Artventure and how do you approach your target customers? (*who is the client, marketing and strategy, rely only on relationships to attract customers?*)
4. How would you characterize the event and communications industry in Denmark and globally? Does it offer high opportunities for volume of sales or in terms of profit margins? (*how much competition do you have locally and abroad? Is it a mature industry?*)
5. What is the significance of your international operations to your business? (*how big sales, what percentage of operations, which countries?*)
6. How is Artventure financed? (*have the possibility to expand in the foreign market?*)
7. What is your vision of Artventure in five years? How do you plan to achieve it? (*mission and vision, strategy and implementation*)

Theory related:

8. How capable would you say is Artventure's team in successfully managing event and communications projects? What are your employees' skills and experience?
9. How creative and innovative do you think your company is when it comes to the final product or in the process of developing and delivering it?
10. How has your company coped with international expansion in regard to managerial, financial and technological capabilities? Do you consider your team prepared?

11. To what extent do you rely on your networks to achieve complementary resources like marketing, distribution or production?
12. How would you characterize the management of Artventure? (*Flexible? Entrepreneurial? International? Highly skilled?*)
13. How well does the service Artventure is offering meet the needs of German/Swedish businesses in your opinion? Do you think there are any major cultural differences to adapt to? (*Attitude towards events and communication and foreign companies?*)
14. What would you say is the potential of the German/Swedish market for event and communications services in terms of sales volume and growth? How about competition?
15. What do you think is the position of the government in Germany/Sweden towards the industry? How about foreign companies?
16. How stable do you believe are the political, economical and social conditions in Germany/Sweden?
17. Do you perceive any foreign exchange risks or a threat of profit seizure in Germany/Sweden?
18. What do you think about the costs of establishing and enforcing contracts in Germany/Sweden? Are they comparable to those in Denmark?
19. How confident are you in the consistency of quality and the protection of your proprietary knowledge when working with various international partners?

INTERVIEW SUMMARY:

Peter Martin Holst is the Creative Director at Artventure since 2004. Marie Høpfner-Dahl is the Managing Director and she has been doing that equally long. In the form they are now, they have worked since 2008. The company was established in 2004 and 2005; and from 2008 – they are both full-time. Peter and Marie founded the firm and it is theirs.

They [at Artventure] offer events and communications for corporate Denmark, basically large corporations. They have also moved into some international clients within the past year – a spin-off of their Danish clients, so international departments from Danish companies. They do communications and events and everything in between those two. At the moment, they are seven people.

The market for Artventure is basically any large corporation with the need to communicate either B2B or B2C. As things work, the company is mainly into B2B [event and communications]. At the moment, they are focused on B2B companies from the perspective that you have a harder competition with the B2C companies, as they tend to be more “sexy”. So, everybody wants to do something for Coca-Cola, not everybody dreams of doing something for DSV. How they approach customers is a combination of networking and personal professional contacts, and then also quite a bit of canvassing. Basically, Artventure calls them [the potential clients] and relate from there.

The event and communications industry in Denmark is a very diverse, diversified industry. There is not that much...very few really big ones [perhaps referring to competitors]. And in terms of the clients Artventure has, the companies approached, they all deal with it in very different manners. Some are very professional about their events, meetings, conferences and stuff like that, and have a very strict framework where you have to sort of fit your pitches into that model. That can also entail that they have very specific ways in terms of how you invoice them and how you calculate your prices, and transparencies, and so on. Other companies are not that organized, it is more a case-by-case thing and you are more free to do your quotations as you think is easiest for you. In terms of high volumes, you do have your big companies that will host big events and you also have companies who have a lot of events on a regular basis, but it is not a business where you often get the chance to become the sole provider of something. Even though you might have steady contracts with people, it is always a case of pitching and winning the assignment, even if you are doing it internally from a short list of providers instead of an open game.

The significance of Artventure’s international operations to the business is mainly in terms of production apparatus that they have. Their partners abroad do not generate particularly that much business for Artventure, but the company utilizes a lot of foreign vendors who supply them with all sorts of things from movie production to graphic design, merchandise and event, kit productions. They have been using foreign suppliers from the beginning.

About the financing, basically Artventure makes the money in order to do what they need to do. It is all about organic growth, they do not have a group of investors or anything of that sort. Artventure is privately held and owned; they do not even have an advisory board or management of some kind [referring to external management].

The vision of Artventure in five years is bigger, better, faster. Of course, they want to grow, but it is also a matter of utilizing opportunities. It is difficult to predict and having just a growth strategy and saying “we’ll achieve it like that”, because it is volatile in terms of what is going on economy-wise. Five years is a long way down the road, but they would like to have more mega-events and would like to have expanded their competences within gamification – so the entire sphere of making learning more fun and more efficient for businesses; they think that is a big part of the future market. And then there are technological aids that they [referring to Artventure] also need to be positioning in and pushing even more. They have a tool called “Conference Tool”, which is an app basically that you can use for various purposes – to engage the meeting attendees with more interesting and two-way communications. And then the mega-events, that is a thing of scale, that is the volume when you have the big ones (500+ people and at least one-day program).

Marie would say that Artventure’s team is very capable in successfully managing event and communications projects. They are professional, so they do this every day, etc. The person who gets a position there do not need to have any formal academic training, of course some academic training is always good. Marie thinks they [her and Peter] hire more on energy and on personality, ability to think; be creative and structured, which is a hard thing to match – being both. Sometimes the academic credentials will give you a hint that people are able to attain skills and be up on complex issues, but at the end of the day it does not really matter to them if you have a degree in Anthropology or if you have something from Business school – it could be both or none of them, or it could be somebody who has never attended university, but has a lot of experience and the real mind-set. Because at the end of the day, very few of these things are scientific. Peter knows the stuff they mentioned about gamification and learning, the potential, could be very scientific, as well as the part about the Conference Tools. But in the end it is also entertainment, so we have a lot of experts just within regular people as long as you are able to activate your brain in that sense. It is a people-business, so it is all about the personality really. Of course performance is key, key, key, but it is not worth anything if you do not have a personality that fits in with the rest of the team also, because they are not that many people [in Arvtventure]. So you need to be contributing to the atmosphere, the culture and the vibe. Marie thinks curiosity is a main thing - that you are actually curious for new things, you want to try things out; you do not always go for just the regular known choices, but you can also sometimes give it a twist. So,

people with ambition and good manners, a good work ethic, then after that it is actually quite open. [The whole part refers to employee skills and experience.]

Artventure is very creative and innovative in both the final product and in the process of developing and delivering it. That is what they... [stand for]. Clients come to the company, because they cannot be creative themselves. That is also the feedback Artventure gets. If they do not get a pitch, it is never because the concept [of that pitch] did not deliver, it is because of practicalities or price, or choice of vendor that comes down to the boss being more chummy with somebody else; it could be a million things, but they have never had the feedback that the concept was off. Marie usually says that their clients when they come to Artventure, of course they have a creative challenge they want the company to deliver on; if you are lucky that might be 20% of the assignment and the remaining 80% is a trust issue. It is a matter of them having the confidence that you will deliver, the practicalities that you would make them look good in the eyes of the audience whether it be employees or customers, investors or whoever their target group is. So, the creative part is more or less a given – if Artventure does not deliver on the creative part, the company does not have any justification of being here basically. Sometimes, the clients just want someone to handle it, sure, but they want a little bit of creativity in that as well. Even when Artventure delivers what they would consider to be off-the-rack solutions or the combination of just booking a restaurant, a meeting facility or getting people around, then the clients still expect them to deliver something that is a little more interesting than what they [the clients] could come up with themselves.

On the question of Artventure's managerial, technological and financial capability to cope with internationalization and their preparedness, Peter says it does not really relate to them, because they are not internationally expanded in the legal sense; their business is in Denmark, they have partners and informal connections elsewhere. Everybody they engage with is an autonomous entity (they do not have a subsidiary or...), so they have to manage the partners as you would normally in a supplier relationship. So even if Artventure has partner agencies that would help out with an assignment, the company has the setup that it gives them a briefing and then they run the ball. It considers them to be a supplier basically. The organization has, to some extent, integrated technologically with some of the vendors in the sense that they can share documents, spreadsheets and stuff like that; it is not on a very big scale. And is Artventure's team prepared – Peter does not know if they are looking for international

expansion at the moment. He thinks there are a lot of great opportunities in the Copenhagen area and Denmark, as such, at the moment. They have not seen the need to physically expand and open up a branch somewhere with an office, in a different market, not yet. As of now, the international dimension is as they [Peter and Marie] have said before – suppliers really and what the company executes abroad. Artventure also does some of the events abroad; that is because it goes travelling with its clients – if they go to a fair and want to activate the fair stand or if they have a meeting, because it is an international business, they need to meet up in Stockholm instead of in Copenhagen or in Berlin instead of in Copenhagen, then Artventure goes with them and executes there. The firm is quite often in Sweden, they have also been in Italy, Dubai and Germany, but that is because of their clients and the projects are executed there.

They rely on their networks to achieve complementary resources almost completely, because Artventure only has project managing and concept developing skills.

Characterizing the management of Artventure [which is basically Peter and Marie], Peter is not sure if they are highly skilled, they are at least very experienced, flexible – he would say so as well. Marie thinks they have a different approach and a different point of view in them being from a Business school background, rather than an advertising [person] born-out-of-some-agency-gone-self-employed-at-some-point. She thinks it is a different way of approaching challenges and brainstorming such, and the assignments as a whole, because they have a better understanding of the business behind the need to communicate an event or a meeting or conferences. So, that might be a bit different from other event-based agencies. Peter would also say they are quite entrepreneurial; they develop a lot of things from scratch – apps which were mentioned before, games that are tailored to the customers' needs and whenever there is a successful launch of such a product, they might from time-to-time resell it as a concept. There is a steady inflow of new products in their pipe-line. And in terms of management, Marie would say that they try to develop a culture where if you have the skills, you are allowed to use them and activate them. The management of Artventure likes to give people responsibility, if they are up to it. In that sense, she thinks also the structure is [less hierarchical/more relaxed], because the company is not bigger than it is, they are never very far away; so if you have something, they ask people to come and talk to them, share your thoughts and ideas. She would like to think that is also

perceived as something they actually enjoy when people come with something; it is not just packed in a corner. If it is a good idea, it does not matter who comes up with it.

Artventure often has clients from Germany or Sweden. They also have clients who invite people where they have a very mixed crowd culturally, so they very much have to take into consideration what the audience is. [...] For example, a German company could approach them and say it wants to do an event in Denmark, it could also want to do it in Berlin, but it would be invoiced by a Danish firm [by Artventure]. They do not have a subsidiary in Germany that they can do business with. [Here a clarification that what they do is also international operations was added and Peter agreed]. Actually, their first case was international, in Berlin; then there was a huge while where they only did for Danish companies and then in recent years they have been doing [events] for German companies – this year they have had four/three; and some Swedish as well. But Artventure does not have a legal department placed in Germany.

There are major cultural differences [with German/Swedish businesses] and they meet the needs, what Peter means is they are perceived by their German and Swedish clients as quite creative – they have only had really happy clients in that regard. He thinks that the businesses abroad seem a bit more conservative and traditional than in Denmark. Which also means the services that businesses, who normally provide services in terms of meetings or conferences, are also a bit more conservative. Which means that when you come in [to Germany or Sweden] even though you are not totally reinventing the format, just by tweaking it or giving it a little bit of creative twist, they [the clients] think it is mind-blowing basically. So, a little goes a long way. Sometimes for Swedish or German clients, Artventure has to watch it – what the agency would think could be creative, could be in their eyes over the top, so it has to modify it [the offering]. In terms of the audiences, the company has to take into consideration that there is a different tone of voice, different way of doing business; it is much more formal, very formal. Also, they [the clients in Germany and Sweden] are a bit more ambitious and long-term in their view on business than Danish businesses traditionally are. The German clients might be very much about hierarchy – who is the boss; and they focus very much on...for instance, if Artventure needs to do documentation, films, or interview somebody, they are very much into the company interviewing somebody from all the different branches, everybody needs to be heard; because it has something to do with hierarchy. The Swedish model is also [different], you need to be very careful about inclusion, you

cannot leave anyone out, they are very equalitarian – everyone has to be equal. So, you have to communicate to the women, the men, the disabled, the minorities of all kinds; you need to consider them all. It is built into their mindset but also into their legislation in many regards; you cannot do anything that would potentially exclude somebody. If by offering a team-building event on an island, you would not be able to bring people in wheelchairs, so you have to have some sort of solution to cater to that when you have Swedish clients, otherwise they would not choose it.

About the potential of the German and Swedish event and communications markets, they are, of course, way bigger markets both of them [than the Danish one], more international, more industrial. If you were really to do, say “this is something we’re going for”, you need to be there. It is not an option to be here and then the distance... it works for Artventure, because it has the references from other clients within; but if you want to do a full push, you need to be there, you need to speak the language – you cannot just rely on business-English. But not only the language – you also need to have an understanding of the cultural differences, even though they might not be obvious, they are there and they are profound. About the competitors, Peter and Marie do not know; definitely they are there, it is still a very diversified industry in all three countries. [...]

About the position of the government in Germany/ Sweden towards the industry, just one example is the taxation on hotels and accommodation – that is much more lenient in Germany and Sweden than in Denmark, which is a competitive disadvantage for Denmark. So the governments in Germany and Sweden are better at providing a good playing-field for the industry than Denmark is.

In relation to stability of conditions in Germany and Sweden, Peter and Marie read the papers and they are quite stable. It is not Iraq.

They do not perceive any threat of profit seizure or foreign exchange risks. They consider the currency, but it is fixed – Denmark is fixed to the euro, so are Swedes.

Peter does not think they have enough experience to pin that one down [compare the prices of establishing and enforcing contracts in the three countries]. Normally, if they do contracts with companies, it is because they do a contract for a bigger collaboration – like, they are a preferred supplier with X number of companies; and there they do the contracts based on Danish laws, because the clients/suppliers are Danish entities and Artventure is a Danish company. If they do small

assignments where they do not have sort of a framework agreement on a contract that binds them, they do it with their contracts and there, of course, the wording and everything is based on Danish legislation. As long as they are within the EU, Marie does not consider it a problem; if they were to go and have American clients, she would have definitely had to look at the legal part of it as well.

On the question of consistency of quality and proprietary knowledge protection, the quality – that is always top notch, because they [at Artventure] have good ideas. And the protection of it is always a different story, because they live in an industry where they need to actually provide a concept up-front before they are paid or even regarded worth paying. So they have an inherent risk that they take into time – they pour in time and it is disproportionally more time than they see other industries do, because they need to find new ideas and in that sense actually invent a new product before they can go to their clients. Basically, in order for Artventure to come up with a price framework for an event, the company needs to do the concept, because they cannot price it unless they know what is in it. And the clients would never buy anything where they did not know what was in it. You might be able to buy four chairs for 100 DKK per chair, without seeing the product, just hearing about it or seeing older versions of it. This is different. So Artventure always has one pitch that is free, but if the clients want to modify or get the agency into a deeper research mode, they have to pay a concept-development fee as a very minimum. If after Artventure has modified the concept, they do not want to buy it after all, which the company cannot oblige them to do, because sometimes it is such a commitment as two million – they would never do that. But then they at least paid a concept-development fee for the agency's time and effort even though they might not want to buy the concept in the end. If they end up buying a concept, it is still fair to pay a concept development fee, so that stays the same. Exactly this is something Artventure has spent quite a lot of time figuring out how to cope with, how to make sure that the clients understand what they can expect from the agency, but also what Artventure expects from them. What usually happens, if something goes wrong, is because you did not balance out expectations, so they [at Artventure] try to build that into the whole pitch phase – they vocalize that the first draft is free, after that they expect something back. Of course, they also have had experiences where people have looked at the first draft and then take it to somebody else or do it themselves. That is a difficult situation, because you do have intellectual rights, but it is really hard to enforce them – you cannot own the concept of a dinner or it is too expensive to protect that concept, you would be meeting the client with a whole list of things. And then there is always the consideration – is this a client you would like to

continue working with, because if you end up having to pursue something with legislation, then can be pretty sure the client relationship is over. So, that is always something you have to balance out. And that is, of course, no different when they move in working for foreign departments of companies or foreign clients here [in Denmark]. There you also have the cultural aspect of it all. But Marie thinks it has gotten easier and they have not had that many bad experiences with that lately. Artventure does have business with very big companies and they can be brutal as well – no doubt about that, but if they have something signed, they would do it as they promised. It is very important to have a contract – to have in writing what is included and what is not, they [authorities] do not do one segment of protection without a signed agreement.

APPENDIX 2. GLOBALIZATION STRATEGY

INTERVIEW WITH THORBJØRN MACHHOLM ON 12.09.2014

QUESTIONS:

1. What do you do and what is your past experience with internationalization strategy and in particular of how a market entry-mode is selected?
2. What is the first thing to look at when deciding whether a foreign market is attractive to enter?
3. What factors do you think are important to consider in order to determine if a company should expand to that market?
4. How should organizations choose the type of investment commitment that would be most suitable for the selected market? For example, exporting, licensing, partnership or a fully-owned subsidiary.
5. Do you think there are any differences in the way established enterprises expand internationally as opposed to new ventures?
6. What would you advise entrepreneurs to avoid when formulating their globalization strategies?

INTERVIEW SUMMARY:

If it is web-design as advertising, in principle you could have customers all over the world. Which means that internationalization in such a context is probably a question of getting some traction there [in the market to enter], start having some customers and maybe try to build some credibility about that

service. Because if you buy something from somewhere in the world, are you sure to get the right kind of quality and delivery on time, how to pay for it. Eventually, Thorbjørn's take on internationalization in web-design is that you need to have a sort of full-fledged attitude that says "Ok, I have these services, I will put on my website that these are the customers that I have had historically" and you start building credibility.

Competition, for instance, is one of the first things to look at when deciding whether a foreign market is attractive to enter. What are the companies out there? What is their value proposition? Where is the niche they are playing in? How are they competitive? How should they address that market? Who are they targeting? Are they targeting, for instance, architects or what kind of clients are they looking for? How many are there of these? How difficult is that? How big is it? [Start-ups need to consider] Very basic things like what is the total addressable market and how can you address that. Can they actually expand? They can probably expand relatively fast; because what they would likely need is a sales guy in Denmark [speaking of Pixelete], someone who can go and visit the clients. The actual production, the servicing of that client, happens back in Lithuania, Thorbjørn would think. So, Pixelete probably does not really need a sales office with this kind of service, they need more a sales person who is then employed related to the company, who can visit the clients and sell the services. That would be, sort of, a step into an internationalization strategy. And eventually, if it was really scaling to a big company, they might have a production department in [Denmark]... Lithuania might be a good place if you have the right people there, they have relatively low salary cost. This is what internationalization is about – on one hand, it is about high quality, delivery on time, and web-design; but it is also about costs.

The important factors to consider determining if a company should expand to that market... Is it sort of an easy thing to do? Is it possible? Is it close by? Thorbjørn thinks it is and it would be realistic to think that if this Lithuanian company has a good service, a good product at the right price, then they are more or less competitive in that market. Why not go and target some customers in Denmark, Sweden, and Norway? It makes sense, because it is just around the corner. What about Poland? It is closer. They may be attracted to the high prices in Denmark, but they already have a relatively low cost base, being a Lithuanian company. So, Pixelete is very attracted to the potential profit they can get... but that is not how you do it, because you still have to deliver. Thorbjørn would put it differently, if they can go to Poland, assuming that it is cheaper, they would need to sell at a lower price, which might not be the

case. That depends on what kind of target audience they are going for; what are the segments they are addressing. Of course, if they address the local plumber, who needs to have his web-page designed; that is going to be dead cheap, because otherwise he cannot do it. But if they target corporates (let us assume they target corporates) that is a hard sell, because they would have a difficult time getting in there. Then, Thorbjørn thinks, the price is more or less international and a Polish company would not do less quality than a Danish one, and quality costs. So again, seen from an international point of view: what kind of segments are they addressing, what is the niche they are playing in, what is the relevant price level they need to comply with, how does competition look like? And all these questions should be addressed in a business plan.

Some of the questions, Thorbjørn thinks, are more relevant for larger organizations that have an internationalization strategy, because they go global and all that; whereas a very small start-up might be slightly different. Pixelete needs to consider... probably they cannot expand all over Scandinavia, if we narrow it down to Scandinavia in the first place, because it cannot be like “we will address the whole world” – that is not realistic. Thorbjørn would say that given the fact that this company is based in Lithuania, they should consider to target the key markets that are just around Lithuania - that is Poland, Denmark, Sweden, Norway, maybe part of Germany, etc. And then look at what key segments does Pixelete actually sell in today. That could be the first task - to see in these countries how do these segments look like in terms of size, number of potential customers, and competition in each of these markets. Based on that to look at where do we [Pixelete's management] start and how do we do this? Eventually, they could also try to expand a little to adjacent markets just next to where they play today. So, that is like making the pie bigger.

Then there is a whole range of things you need to consider. If you just look at the web-page they have today [there was a misunderstanding that was not detected at the time and Thorbjørn is referring to the web-page of Pixelet and not Pixelete], there is no reference at all to things they have done for other clients. Thorbjørn would not buy anything from that company at the moment [again Pixelet], because he has no clue at all of what they do. There is no explanation in here what they do, it just says “Pixelet by Pop Sprout”. [... keeps on about the website for a while] If they have customers in Asia and Middle East, Australia etc, then maybe you can say it is the world. But then anything in this case and this internationalization and growth happens on the website. Their website is the point of contact in

Thorbjørn's view. It should show their value proposition, showcase some of their previous work and have a world-class web-design in itself, shining quality and efficiency. Once you have done that, you can start targeting other people and you can expand further. Probably you can do this from home and have a call center in Lithuania searching interest in customers. For example, if they have airlines now, they should maybe make a list of the top one hundred airlines and start addressing them. Then they can expand to other businesses, maybe services around airlines, build from there. It is pretty simple, but it starts with this web-page, that is their business card.

And going back to the questions, "What do you do and what is your past experience with internationalization strategy and in particular of how a market entry-mode is selected?", there is a question that comes before that – what is it you want to sell and to whom. Pixelete should make a homepage, which is their business card. [...] They should think what they need to provide their potential clients with before they can even start to think about internationalization. Because if they have these clients and particularly, if these clients are recurring business (that means they buy their services again after they experienced it the first time), then it is an indication that Pixelete is actually providing a relevant service at the right price and quality level. But they need to exhibit that on their web-page, because that is their business card to the world.

About the entry mode selection, Thorbjørn says that is depends on their business plan. They want to expand their business internationally and that can happen out of Lithuania. As he mentioned before, one of the things they could consider is to put in a sales person in, for instance Copenhagen, who can go and see some of these clients. Or differently, to have someone who really knows the airline businesses very well, to sit in Lithuania or somewhere else, that could be the point of contact into that industry. Or Pixelete could have someone who comes from advertising and web-design world that has a lot of contacts and can sell these services into other, bigger companies, so they become a sub-supplier to those. So again, what is their role in the value chain; where do they play; are they sub-suppliers to big corporates and big advertising agencies that have these clients or are they addressing them directly? There is a whole range of things that need to be defined here and to know about, but depend on the specific situation. In general, after the firm has taken care of their value proposition and web-site, which is the starting point, they need to look into the market. [...] If Pixelete already has international customers in certain industries, so the next target would be to leverage that. Can we build on that and

are there some other airline companies that we can go and address? [referring to Pixelete] Probably yes, so they should build the strategy on that.

APPENDIX 3. INTRODUCTION MEETING WITH PIXELETE

MEETING WITH TOMAS MICHAIOVAS ON 17.03.2014

NOTES:

Pixelete Labs – company 2 years old;

- Partners have worked with it (web-design) for 10 years
- Expanding fast – Asia, Middle East, Australia, Europe, USA
- They like Scandinavian market and would like to enter it – do not have an idea how to enter it
- They have competitive prices – an advantage over Scandinavian firms
- They have good quality – better quality than Scandinavian companies

What they are interested in is how to enter? How to become competitive? How to start? How to approach the Danish market? => Making the strategy

- They can give data - which countries they have clients in, communication style, profits, etc.
- They are a small, very high quality company, consisting of 5-6 people

How to position and communicate with other agencies for outsourcing?

APPENDIX 4. GENERAL INFORMATION FOR PIXELETE

INTERVIEW WITH TOMAS MICHAIOVAS ON 04.08.2014

QUESTIONS:

1. What is your position at Pixelete Labs and how long have you performed that role?
2. Would you describe the company briefly in terms of revenues, employees, etc?
3. How would you define your business? What kind of services do you offer?
4. What do you consider as a market for Pixelete and how do you approach your target customers?
5. How would you characterize the web-design industry in Lithuania and globally? Does it offer high opportunities for volume of sales or in terms of profit margins?
6. What is the significance of your international operations to your business?
7. How is Pixelete financed, as it is an entrepreneurial venture?
8. Why are you interested in the Danish market in particular?
9. What is your vision of Pixelete in five years? How do you plan to achieve it?

INTERVIEW SUMMARY:

Tomas Michailovas' position in Pixelete is basically art director and part owner. He has performed that role since the beginning, which was in the summer of 2012. This half year, Pixelete has made around 30 – 40 thousand euro in revenues. Currently the company has four employees and two interns. The firm offers all services which include digital advertising, from branding to video promotions, advertisements; from the actual idea up to the actual product. There are not that many people that want advertising consulting services from them beforehand. The company is a production house, so if their client has an idea to sell, for example sugar in a country, Pixelete would think of the name, the strategy of the branding, advertising strategies, how to achieve the goal the client wants to achieve. They actually make everything in-house, like logo types, the whole branding and digital material, from the idea to production of the idea.

Pixelete's target customers are around 30 – 45 years old, middle and higher class. The company provides a business-to-business type of service to all kinds of organizations – there is not a one type of company – all of them: they work with small and big offices, everyone who needs redesign and re-approach to their firm style. There is no single target group of companies they work with. At the moment, new customers come from spreading the word – Pixelete does something for one company, which is happy with their services and then recommends it to others. That is how they get all of their clients, basically, because they value quality. Almost all of the firm's clients are satisfied with their work and that is why they get new ones.

In Lithuania, the market for web-design services is very small and there are not so many companies that can invest high amounts of money into design or branding. That is why Pixelete is trying to go to Eastern and Western countries, such as Scandinavia or in Eastern - Dubai with the United Arab Emirates and countries like that. The global market is pretty big and one can have clients who really have the money for web-design and advertising services, but not in Lithuania. There is a big potential and opportunities for sales overseas, but not back home. One more thing, in other countries customers value your work as the designer and the idea maker, but in Lithuania, the client says what you should do and you do it. It is more technical work and less creativity, therefore it is not that interesting as to work with clients from foreign countries.

Half of Pixelete's revenue comes from international operations. Currently the company is working with Australia, the UK and is trying to get into the United Arab Emirates, but they are just making the moves to enter it, like getting the connections and contacts and everything.

Pixelete was financed by the owners in the beginning and now the company is independent, so it is growing organically. What the venture earns is invested into office, into technology, into people. The organization started with two people, now they have four full-time employees and two internships, a bigger office etc. Basically whatever profit is earned is invested back into the company. There were two founders of the company. The story goes like this: before they created a full company, they were doing design jobs and freelancing; they invested around 6 000 euro into everything in the beginning of their own money, and that is it, it was like 6000 – 7000 euro maybe. From there they just continued working with their freelancing clients, whose numbers kept growing and growing and adding to the circle until now. The firm does not lose clients, since they are pretty happy with Pixelete's work, so they just sum up.

The company is interested in the Danish market in particular for a very simple reason. The minimum wage, between Lithuania and Denmark, is around 8 times bigger in Denmark; so Pixelete's prices if they are doing a project in Denmark are really small for their clients, but big for the company. This is because Danish firms are used to their agencies and their prices, therefore, Pixelete can win projects just because it is significantly cheaper. Pixelete can do the same thing better or with equal quality, but for five times less money than a Danish agency. The company thinks it should be interesting for the clients in Denmark, because everybody is counting money and when you have same result but just five times cheaper. The reason the venture is interested in the Danish, and not bigger foreign markets, is that Tomas has studied in Denmark, he kind of knows the people, knows how to talk with them. Previously, when the company had not been founded, he was working as a freelancer for some Danish entrepreneurs. He just knows how to deal with them and this is why Pixelete wants to start off from Denmark and then maybe other Scandinavian countries, because they are pretty similar. Tomas thinks it would be easier if he needed to go to meetings or something, to speak personally or come to Denmark. As he said, he knows the culture and has been living and dealing with Danish people.

In five years, the founders are hoping to have at least 16 people working. They are planning to expand their office, because the current one can fit around 8 people, but there is a bigger office downstairs and

they are thinking of moving some people there. In money terms, the founders want to double the profits every year, for example, if last year it was 15K [15 000 Lithuanian litas], this year it is 30K, so next year it should be 60. They are planning to significantly increase their profits and client base. The main job would be to find permanent clients who need Pixelete's services every month, so basically monthly clients, of which the company has few right now. If they have a few more, then it would be a really good thing. So in five years, yes – 16 people, higher profits and... Right now, Pixelete is working with all types of inquiries, from logo types to advertising, websites, but their goal is to focus only on one service, which is branding. At the moment, they cannot choose, because you need to live from something, right? So the basic target would be branding and two-three projects per year. The founders do not want all the small work and all small projects, which they have at the moment. In five years, Tomas hopes they will be able to have two bigger projects instead of ten small. To compare the big and small projects in terms of money and time, actually time is one of the key things; moneywise it could be from 20 to 30 times more/bigger in profits. Because now Pixelete is working with very small companies, so it has many projects, which do not give huge amounts [of revenue], but it has many of them. They want one big, because that is easier to make and you can do a better quality, you can more easily manage your time as it is one project, not ten, and things like that. Also, they are capable of doing that, so the company just needs to get there, to get those clients.

Pixelete does everything that is digital advertising, from design, mockups, branding, websites, the firm can do basically all the stuff, 3D rendering and modeling, coding. Their main goal is to ditch most of the work they do now and focus only onto one service, which is for example, branding. It is pretty similar with the small clients, because they have many clients, they have to do many services. When they would have one big branding project, then they can stop doing their other services, focus on one project and one service at a time. That would be more efficient quality-wise and moneywise.

APPENDIX 5. KEY INTERNATIONALIZATION FACTORS FOR PIXELETE

INTERVIEW WITH TOMAS MICHAILOVAS ON 16.09.2014

QUESTIONS:

1. How capable would you say is Pixelete's team in successfully managing web-design projects?
What are your employees' skills and experience?

2. How creative and innovative do you think your company is when it comes to the final product or in the process of developing and delivering it?
3. How has your company coped with international expansion in regard to managerial, financial and technological capabilities? Do you consider your team prepared?
4. To what extent do you rely on your networks to achieve complementary resources like marketing, distribution or production?
5. How would you characterize the management of Pixelete? (*Flexible? Entrepreneurial? International? Highly skilled?*)
6. How well does the service Pixelete is offering meet the needs of Danish businesses in your opinion? Do you think there are any major cultural differences to adapt to? (*Attitude towards web-design and Pixelete?*)
7. What would you say is the potential of the Danish market for web-design services in terms of sales volume and growth? How about competition?
8. What do you think is the position of the government in Denmark towards the web-design industry? How about foreign companies?
9. How stable do you believe are the political, economical and social conditions in Denmark?
10. Do you perceive any foreign exchange risks or a threat of profit seizure in Denmark?
11. What do you think about the costs of establishing and enforcing contracts in Denmark? Would they be comparable to those in Lithuania?
12. If you established a partnership with a Danish web-design company, how confident would you be in their consistency of quality and the protection of your proprietary knowledge?

INTERVIEW SUMMARY:

In relation to Pixelete's capability to successfully manage web-design projects, Tomas says that there are no perfect people in this world. But, the team evaluates themselves as highly skilled and trained regarding the experience and skills [required] in web-design projects, because they manage to meet their deadlines on time and manage to do technical tasks; before beginning a project, they manage to communicate with clients on what they want and need. So basically at this point, Tomas knows they can do really big projects and that their skills or expertise are not a setback or a problem. Speaking about skills and experience, not all of Pixelete's employees are web-designers, but all of them know the

basics for web-design. There is a person who is a coder who writes code; there are Tomas and his partner who understand user interface and experience, and design – basically two people of the team do the visual part of the project; there is a person who does the technical parts, such as coding, system integration and etc.; there is someone who is really good with choosing colors and layouts. Basically, then they combine all of their skills and do the project. So, not all of Pixelete's team is web-designers, but they all have basic knowledge of a design, even the guys that work with the company's accounts. All of the employees have basic skills and then they have their own branch, which they know the best.

How creative and innovative the company is when it comes to the final product or in the process of developing and delivering it, depends on who the client is. If the client is innovative, Pixelete can do a lot of innovative thinking and so on. But if the client is conservative, it is really hard to something innovative for them. So basically it depends on what project and what client it is, but if the question is about Pixelete, they all the time try to find out new ways and new processes how to deliver projects. For example, if they were doing a packaging design, there was an empty space [in an area of the package], so they used that for business cards. Pixelete tries to innovate and to sell that innovation, but not all people really want to buy it. Tomas thinks, the company is pretty innovative. They are more creative when developing the product, so it is the product that is creative, not the process so much. If the client leaves everything to their hands, then they can do creative stuff; if it [the customer] is not interfering much with their work, then they can do creative things really easily.

On the question of how the company has coped with international expansion in regard to managerial, financial and technological capabilities, Tomas says that in relation to technology they do not have to deal with anything. They are following the latest trends and techniques; they have newest programs and computers, etc. Regarding this, Pixelete does not have any problems and is not different from others in the world, because the company is using the same stuff. Financials have sometimes been a problem, like the differences between taxes in different countries, but they are coping on the spot. If they are dealing with Australia, they try to find out how to write bills and everything. They did not have to do much coping with that as well. They have had enough financial resources to serve all kinds of clients and they have not had any problems with that. In managerial regards, they basically try to deal with their clients live; so if it is a big company or project, they take some time and try to meet the clients eye-to-eye, and then communicate usually though email or just on the phone. But after Pixelete gets to

know clients eye-to-eye then it is really easy to speak with them and cope with all problems. In their world, it is really easy to communicate by email and it is usually done by email. The only thing that is different between domestic and international projects is that they need to do more research on the topics. Otherwise, it is pretty much the same, because they use management programs, such as Sana, where you can put works, deadlines, who has to do it and etc. In that point, everything is the same, except that they have to do more research regarding the subject. If it would be packaging or web-design, then they have to do a background check on the culture, on target group, and how the target group is different from the target group in their country. Those are the main differences – basically, it is the research. Tomas considers his team quite prepared to deal with international projects.

Pixelete complements the skills of their team with people from their external network. When they meet new people, they meet them from different types of businesses, such as a lawyers' company, where they met some great lawyers, with whom they continue to work as well today. These lawyers help Pixelete in contracts and other questions. So, the company uses its network for [complementing resources]. Since they are doing a lot of projects, they are meeting many new people and if they see that they can use their [the clients'] knowledge or skills, they try to keep in contact. [...] They have a friend in electronics who has a lot of connections in the Middle East, so they cooperate with him and then he helps them with finding new clients, networking and managing things. To answer the question, they do rely on their networks, yes, and Tomas would say it is highly.

Regarding the management of Pixelete, Tomas would describe it as flexible, highly skilled and a little bit communistic, because there is space for opinion, but they [the management] only choose the opinions which they think are useful. Tomas and his partner decide by hard hand what they [the employees and the organization] do and what they do not; so the management is selective. They have partners and they have friends in the same community who also have design and advertising studios or agencies, etc. and basically where the management of people is with high democracy, the overall product ends up being worse than it could be if there would be a person who would say something by hard hand and less count on all opinions. It is kind of a strange thing, but in the design world it is kind of like this.

When talking about Pixelete's offering and the needs of Danish businesses, and cultural differences; as Tomas had said in the beginning [in the previous interview], he has lived and worked in Denmark for

three years as he was studying. He got to know the Danish culture, the cold people, the dark jokes, and everything else. But they are still human and still capable to speaking with you. Basically there are some differences, but if you rule them out, Tomas thinks it is pretty easy to adapt - like minimalistic style, cold colors, everything else. Their design is really different than Eastern or Western European style, but it is not hard to adapt, because it is just a technical issue. You just set your guidelines and standards another way and you can, of course metaphorically said, turn off some tools in Photoshop, which Pixelete will not be using anymore, like radiance and everything else. So in that point, it is only a technical thing, if you know the culture. If you do not know, then you have to do some research on the culture and then to adjust who you are working with. But in this case, since Tomas was living and doing some work there, he knows their style, so it is not that difficult. It is really not much differences [doing web-design in Denmark], it is basic style, which is minimalistic color choices and things like that. Building credibility for Danish businesses to consider Pixelete is a good question. At the moment, Pixelete is doing their new portfolio, where you [the customers] would be able to find high-end, the most high-end products of all time that they did, such as big lawyer companies, airlines, etc. So basically, Pixelete thinks that their portfolio should speak for them. They are, at the moment, doing everything from scratch [and improving the website], taking pictures of the processes, brand books and everything else. As they are doing high-end products - that should be the key for saying they are credible to do it.

The potential of the Danish market [for sales volume], Tomas thinks, is bigger, reasonably bigger than the Lithuanian; because again here comes the different mentality of the people. Here [in Lithuania] most of them try to do everything as cheap as possible and in Denmark people love quality. So, Tomas thinks it is bigger. About the competition, in every country there are like five or four major and big agencies, who do really a great job; and the same thing is in Denmark. The only thing that Pixelete can play in (they can enter the market [with]) is that they do the same quality as the big companies, but just for a fraction of the price. That is their main advantage. And they do it faster, because they do not have much bureaucracy in the company and such. The Pixelete's main advantages are that they are faster and cheaper, while the quality is equal or better than the big companies in Denmark. Tomas thinks there is a potential for growth in the Danish market, because the Copenhagen Island is the hub for start-ups, new and young businesses; it is a really big hub actually. And where there is a start-up or a new

business, Pixelete comes long, because they are [in] branding and do everything. Tomas thinks there is a big potential.

The position of the government in Denmark towards the web-design industry and foreign companies is a good question, but Tomas does not think it is really relevant, because they are not actually going to establish anything in Denmark. Pixelete might make some meetings, they might come to the client and talk with them, but all the bureaucratic and other stuff regarding taxes and everything, goes back to Lithuania. Therefore, the Danish government is not having any influence on that. It would be a good question [relevant], if Pixelete was establishing an actual office in Denmark. Pixelete now is not considering establishing an office there; they are planning to find clients there and then work with them. Tomas is not saying that they are not planning to establish an office in general, just not at the moment, because they need to find basic client bases – if there is an office in Denmark. If they find potential clients in Denmark, which are interested in their work, then they can establish an office and work locally there. But before that, it would be a big investment without any benefits, for example, they could waste a lot of money establishing an office and then find out something is really strange and wrong, and nobody buys their services there. Pixelete wants to try to find clients, if they are happy and if the company can work with the Danish market, then they are establishing an office there. [A side-note discussion about the purpose of the project is not included here]. It is impossible that if Pixelete creates an office in Denmark, they would have no clients; but just to ensure themselves, firstly they want to find clients, do a few projects and then, open an office in Denmark for easier communication and growth, etc.

About the political, economical and social conditions, the question would be when Denmark was not stable. Actually, Tomas does not know. Denmark, Scandianvia has most stable economical and political situation since the First World War. So basically, there is no [problem]. Maybe it would be a problem, because as Tomas heard, there are some nationalists parties coming into power in Scandinavian countries. He heard that socialists are coming to power in Denmark? But he does not think that would be anything bad for foreign companies in Denmark, because there [everything] is pretty equal to everybody, equal to all races, and they emphasize the quality. So Tomas does not think that there would be some political reasons or boundaries to work in Denmark.

Tomas does not think there are any foreign exchange risks or threat of profit seizure in Denmark. Maybe it would be in some suspicious countries from somewhere. [...] If it would be Africa or South America, he might think there can be such risks. We are in the European Union, so Tomas thinks it is one big country, and if you do not do anything illegal, he does not believe there is a threat of profit seizure or to get sanctions. [...] It should not be a problem.

About the costs of establishing and enforcing contracts, it would be ten times more expensive to hire any employees regarding the design industry in Denmark, but profit-wise it would be twenty times more profitable. Basically, Pixelete would hire only design people [there] and keep the management in Lithuania, so they would save on that. [Tomas is perhaps referring to costs of running the business, and not internalization risk at first] For Pixelete there is no cost of establishing contracts with customers. In the case of enforcing them, it would be significantly more than it would be in Lithuania; it would be maybe thirty times more expensive in Denmark. Of course, they would not use the same contracts as they use in Lithuania and they would use the Danish law and everything else accordingly. They had not thought about all the legal matters, disputes etc. and Tomas thinks they should consider them as well. In one perspective, it is a bigger risk, because all the law suits, getting your money and such, would be more difficult in Denmark and more expensive; but the price for IT design and all those types of projects are many times greater than in Lithuania [price refers to revenue here]. They could actually pay a lawyer and send him to Denmark to live there for three months just to solve their problems. As mentioned, it is worth the risk.

When talking about consistency of quality and the protection of proprietary knowledge by a potential Danish partner, Tomas does not think Pixelete would that easily establish a partnership. They would try to do some test projects with the other company, see how they handle the pressure, all the aspects; after that Pixelete could try to do a partnership, but as Tomas knows Danish people, they are very sincere and not willing to trick you. He has not heard any Danish people who trick anybody and stuff. So basically, if Pixelete would establish a partnership, they could do an agreement, which defines how different parts of the project or of actual work have to be done, in what way. Tomas thinks it would be a contract-based partnership and the contract would define how they [the partner] should do the work. And the quality and consistency, Pixelete would do some test projects. You can never be sure that the company you are working with would be consistent throughout time. It might change; it happens in

design quite often, because people get tired from each other, they are not happy with the conditions which they agreed upon in the beginning, etc. It is not a very consistent thing to have a partnership in design business. The partnerships change.

To conclude, Pixelete is interested in establishing a contact with Danish customers, as they are doing in Lithuania and other countries; it is working word-by-word, mouth-by-mouth – the advertising of their work. They believe that if they manage to find two or three big or medium clients in Denmark, Pixelete would be able to continue that spreading as they are doing in Lithuania. When they find one or two clients with whom they can work, then they would try to establish a Danish office to make it easier for Danish customers – for meetings, briefings and everything else; they would continue to look for projects, which Pixelete would be capable of doing the best and if the client is happy, then they get advertisement, good testimonials, etc. Pixelete's management has an idea how they want to enter the Danish market, but are not sure it is the right one. Maybe there could be something better for them. This is Tomas's perception, but he is not very good in management, he is good in design. Pixelete is planning to finish the new web-site in a month, hopefully.

APPENDIX 6. KEY INTERNATIONALIZATION FACTORS

INTERVIEW WITH PER NYGAARD ON 17.09.2014

QUESTIONS:

1. What do you do and what is your past experience with internationalization of start-ups?
2. What is the first thing to look at when deciding whether a foreign market is attractive to enter?
3. What factors do you think are important to consider in order to determine if a born global venture should expand to that market?
4. How should international start-ups choose the type of investment commitment that would be most suitable for the selected market?
5. Do you think there are any differences in the way established enterprises expand internationally as opposed to new ventures?
6. What would you advise entrepreneurs to avoid when formulating their globalization strategies?

INTERVIEW SUMMARY:

First of all, Per's job at Væksthuset, if translated directly his position is a growth consultant, which is sort of business applied management consulting for small-medium sized Danish companies. Obviously, Danish companies that have a growth potential are typically oriented towards international markets. They might start-up with a few national customers, but in general, they tend to look for foreign markets quite quickly. And then, Per has created a program in Væksthuset, which is called Born-global. That is a sort of short "quick and dirty" process, where you can participate three times and it takes approximately three hours every time, and they [him and his colleagues at Væksthuset] bring in some people who have experience with internationalization of technology companies. When talking about born-globals, in Per's work, it is mostly tech companies. He knows there are also some other kinds of born-globals, for instance food companies that have a global perspective, but his specialty is tech firms. So the Born-global program that he has created there [at Væksthuset] is for companies that, for instance sell software as a service or cloud-computer-based services; that is, the typical digital born-global. And the thing is that technology companies nowadays are quite different compared to more traditional firms who sell tangible products – food or clothes or whatever, for example. Of course, they [tech companies] sell a service and they can distribute through the internet, which makes the distribution channels much more efficient and global immediately, compared to the more traditional born-global companies who have to go through more traditional channels. If you have software as a service, you can sell it straight away to all countries in the world more or less. Somebody who is producing clothes for instance, they have to establish themselves in one market at a time and maybe they have to identify local partners, agents or retailers who can sell the products. That is very different for technology companies; they can more or less have their operation based for instance in Denmark and then have customers all over the world without having offices or agents at the local markets. So in Per's opinion, that is a specific distinction there – if you sell a service or a software solution that can be distributed through the internet or if you sell a more traditional, tangible product. [...]

What Per does when he works as a consultant – he helps out approximately fifty companies a year and they have different challenges, but most of them want to go to international markets with their products or services. He talks to them about the business model – the internet have opened up for a lot of new business models. For instance, the freemium business model is very popular on the internet: you offer

something for free and you get a lot of traffic on your website, and then the next step is to find out how you can capitalize on all that traffic – do you want to sell advertising, do you want to sell affiliate marketing, do you want to have a... a lot of freemium companies have a premium category as well. That is something very basic. If it is a new venture, they [him and the venture] usually talk about the business model. When the business model is settled, then they try to find out if the business model is right – they try to talk to potential users or customers and find out if they want to use and pay for the service that the company offers. For instance pretotyping is a concept that Google has created. In a traditional world we have prototyping, where you make an early model of the final product that you want to create, but it is like a test model and you can go show it to potential customers to find out if they like it. [...] If you do a prototype, you usually do it in order to get some response from potential users, to find out “Have I done this correctly? Do the users want it to work or look in a different way?”. Then you can change the prototype before you do the final product. When we talk about pretotyping – that is a concept Google has created, because they are a very innovative company; so they come up with new ideas all the time and in order to find out if people around the world want to use the new services, they create a sort of prototype of a new service. For example, Google+ was tested before it actually existed. What they do is, they pretend that is a new service they created, make people use it and get response; [...] after that they can form the service in the way that the users want it to be like. The special thing about pretotyping is that they actually test if people want to pay for the service. It is not just about testing the new service and if it is working, but also test if people would actually pay money for it, before it exists. [...] Why Per mentions it is that when you work with these born-global technology companies, usually they are at a quite early stage, they have a lot of hypothesis about demand for the service, but they do not know if the customers are going to use that service. Of course, they believe that they will create value for a certain user segment, but they do not know for sure. [...] The whole Lean start-up theory – what they do [at Væksthuset] is they try to practice the lean start-up and help new companies test whether or not the formulated hypothesis would work out. The only way to find out is to test it among potential users. So that is for the early stage born-globals. [...]

With the more established born-globals, they [at Væksthuset] probably look more in the traditional exporting services that can help the companies in identifying agents or distributors in specific markets or countries. Maybe it makes sense to distinguish between the early-stage and the more established

start-up companies. It is his experience as well that a lot of literature these years is written about start-ups which are born-globals, but there is [less about the expansion strategies of established born-globals]. In Væksthuset they have a close collaboration with the Danish Ministry of Foreign Affairs, where there is export advice/counseling, because they [the Ministry] can give access to all the Danish embassies around the world, with staff at each one who can help out companies that want to export to those specific countries. Their goal at Væksthuset in that set-up is that they can do some sort of advice on exporting for small companies which are going to export, but might not have a lot of experience with exporting their goods or services to other countries. [...]

You might have a very great business idea, but if nobody wants to pay for that service you are going to create, then it is a waste of time and resources developing that service. Per thinks that is the good thing about the lean start-up; instead of spending a lot of resources in programming a specific software solution, the companies nowadays tend to test whether that solution is going to be popular before they actually produce the solution. [...]

Per shows some of the questions in the export plan they [the consultants at Væksthuset] are using with companies that want to export. The first questions are just some facts about the firm, but then they look at the profile of the company, its history, where did the product launch, the markets entered, key employments and the financials for the last three years; also if any export investments have been made before. After that, they look at the product information, what are the core products, what is the price range, are the products being exported today or is it planned. Then it is always good to look at the value proposition – what sort of value does the company create for a specific segment or target group, what kind of approach does the firm have in order to solve a certain problem and the benefits they create for a specific group of customers. The export considerations – the motivation for being global, maybe the company received interest from some countries or they identified some attractive markets, maybe they found partners for new market entry or it could be that they have to export in order to grow the company. The approach to export could be that you export to one market at a time; it could also be that you enter the market based on partnerships, distributors or agents; maybe export to multiple markets at a time; maybe have direct sales without partners (through the internet); also another model could be that the actual production of the products is taking place in other countries around the world. Then, when looking at the markets the ventures want to focus on, they have to tell Per why they have chosen

these specific countries for export; what are the reasons for the selection of these companies. He usually talks to them about the market-entry barriers – if they have identified any economic, competition, cost or technological barriers, maybe political or cultural barriers, and then they try to find what they can do about those issues if they are important. And then channel considerations, what kind of partners do they need in order to sell the product, who could be their potential partners, clients, colleagues, networks etc. Usually this is where they identify what kind of research is needed in order to export and that is where the embassies maybe can help them out, because they are located in a certain market and have access to data, networks and decision-makers in those specific countries. So usually, they [him and the venture] end up with finding the three most important questions for the embassies to assess the company with, what kind of information they need in order to decide if a certain market is attractive or not for that company. [...] But those are the typical questions you would ask when it comes to export. A lot of the companies they help out at Væksthuset are quite young, early stage, and typically they do not have a lot of experience with exports. That is why they [consultants at Væksthuset] have to go down to the basics more or less; the exception is tech companies that can distribute their service in a completely different way through the internet – they can go out there in a very short amount of time and sell the product to South America, Australia, everywhere in the world.

[Brief introduction to Pixelete] Per's first thought is that Denmark is a difficult market for a web-agency. There is a lot of competition within that field here in Denmark, but maybe if they [Pixelete] can find a niche, it could be a success. If you do web-services and web-solutions in general, then you would find out it is not a big ocean here, maybe quite a red one for that kind of service. [More clarification on Pixelete] There are a lot of services these days that could be a competitor to that kind of agency. For instance, Elance is a web-service... that is just an example; they are not the only ones. If you want a specific job to be done, for instance you want to have a mobile app developed or design a website, then you can post your job on the Elance website and typically you would have three offers within 24 hours from companies around the world. Last time Per used this he has an offer from Hong Kong and another one from Egypt, and a third one from the Philippines, he thinks. So they have a lot of programmers and designers in one, on this market space. If you post a certain project or job to be done, then you would have somebody – a freelancer or a team of designers, coming up with an offer for solving that within a very short space of time. Especially for Danish companies, you would find that

the price is very low, compared to the price-level in Denmark in general for similar services. So they [Elance] have created a market space for web-services. That is also a new sort of competitor to a company like Pixelete. Or it can be an opportunity if they could look into that business model - that could open a lot of doors around the world.

[Getting back to the questions] Per did a presentation short time ago on factors born-globals should consider before entering a market apart from their product and the entry barriers. He was hired by an IT organization to talk about export for IT companies recently, so he tried to wrap up the experience they have with the companies who have success in exporting – what are the characteristics. He spoke with his colleagues about it and there are like four important things usually. When it comes to choosing the right markets, usually the ones that do well in exporting, they focus on a few instead of trying to reach out to a lot of markets at once. They maybe choose three markets and then focus a hundred percent on those three markets, and later on start in more places. Per thinks it is an important lesson learned that it can be quite problematic to enter the whole world at once. The only ones, who can do that in his experience, are the ones who have an internet-based strategy and distribute their service though the internet, like in software business. They can attack the whole world at once. There might be something about languages for the ones who do software as a service and as a born-global, because obviously, if you want to sell in China, it cannot be just in English; if you want to sell in South America, it has to be in Spanish, maybe in Portuguese. So there are some factors about language versions and localization, but apart from that, you can actually sell a service to all countries in the world. The majority of the companies, Per thinks, have to find a few selected markets and start up only by focusing on those few markets.

When it comes to segmentation, usually they [successful exporters] are quite good at identifying which specific segments they want to sell to and then they are good at creating marketing communication, which appeals to those segments. So they do not go out with general messages, but with targeted messages to specific segments.

The third thing is about the sales channel. Usually, they have found out about the right channel strategy (the ones who do well in exporting). There are a lot of channel strategies that you can experiment with, but the ones who do well are the ones who found the exact channel that generates a lot of sales. There

can be different channels in different markets, but usually they have done a lot of research in identifying the right sales channel before they start exporting. That could be done with the help of the embassies, for instance.

And then of course, there is the budget – that is the forth. They [successful exporters] have made a clear budget and have allocated the resources, they have made a plan, so they do not do it random [the exporting investment]. They have planned what they do before they do it and have allocated the resources which are necessary to execute the strategy.

When choosing the entry-mode, it is important to consider what was mentioned before. If you are not that experienced (a company) within exporting, then it is very important to focus on few markets and few channels.... And to do enough market research in order to know what specific segments on a foreign market are the relevant segments for the company and its products; then finding out how to reach those target groups within that market. An example, in China Google is not the primary search engine, it is a local Chinese one most people use there. So if you do not know about that before you export to China, then you are going to have problems. It is really important to find out what the local unique conditions are. Are there any specific ones that you need to know about before you start selling your products?

It is very difficult [to say which entry mode should be chosen], because there are different stages in the life-cycle of also a tech company. From the beginning, usually there are very limited resources, so it is not an option for them [tech start-ups] to open up an office and hire a lot of staff to operate in a specific market. So usually they have to run the operation from the country they are based in. If they reach a certain stage, then they might have to move to a specific country and have some local presence, and staff which are situated in that market. But usually, they cannot do that from the beginning.

Per can give two examples of successful born-global tech companies he has helped out recently and they have two different models in order to conquer international markets. One company, they started out only having a web-service in Denmark and that service got quite successful, so they had a proof of content and proof of business very quickly. The web-solution they created could easily be replicated in other countries. Once they showed that the concept is working and you can actually make money out of that, then the investors found that company interesting, because they could see the business model

could work out in other countries as well. The whole scalability of the project was clear and that is what investors are looking at. [...] Now the company is opening up in Germany, England, Holland, Sweden and so on. They are able to do that, because they received a lot of money from investors to fund the operation. Now they can afford to open an office in Germany and in England, and in Sweden. So that is one way to go international if you are a tech company – to make proof of content and business in the country of location and once you can show investors it is a scalable business model (attract investors), receive the funding that makes it possible to hire staff and open offices in different countries. Usually that would be impossible from day one, because firms do not have the resources/funding for making an office abroad. [...] So that is one way to go global as a tech company.

Another way, that is from another company Per helped out recently. They were two Danish people who made a web-service. It was a virtual canvas, where you could post pictures and graphics and then upload it to their online canvas; you could share that with your friends on Facebook, for example. A lot of students started using the service, because it was for free and they could use it as a presentation tool. [...] Within quite a short time-frame, they had a lot of users, but the product was free. They could not make money out of that service – it was very popular and they had a lot of positive response and users, but they could not really earn any money, because it was free. They had to find out how they could change the business model to make it profitable. What they did was, they switched the target group from private persons (who were looking for free tools) to enterprises and became a business tool. They used the same technology, but they started to attract companies around the world that needed a solution for showing quite heavy graphics on the internet, for instance, architects or advertising companies. They changed the product in order to facilitate the needs of those companies and suddenly they could start charging money for the tool from the users. In a way, they experimented with the free version for private users and once they had a lot of traffic, they changed that to an enterprise model. They got very successful; they got some American investors and moved to Silicon Valley, now they have their offices in USA California. That is just an example of a company that created an interesting web-service and did not really know how to make money on that; they did not know who should use it, but just created it and through the interaction with the market, they got a lot of response and changed the whole setup. [Again convincing investors about relevance and scalability was key.] That is another way to become global within a very short time.

Those are two different models for tech companies. The first example was a little more traditional even though it is a web-service and the other one is more the typical lean start-up. [...] Traditional companies [here Per is referring to established enterprises] would usually go the traditional way, do research about the specific market before they enter it and then they have the resources to establish a local presence very quickly – either they have their own staff on the specific export market or they use some partners or local agents; then they start being active from that base. Usually, they would have this physical presence on the market that they want to conquer. Whereas, the new technology start-ups can go very far without having that physical presence on each market.

What Per would advise entrepreneurs when formulating their globalization strategies is to avoid thinking they can conquer the world all at once, because that would make the whole process difficult for them, if that is the ambition. It might happen to a few companies [conquering the whole world at once], like the last example Per gave, but it was not planned, they were lucky that they attracted users from all over the world. The majority of companies are not lucky like that and have to focus on just one or very few markets to begin with. [...] Also, the thing about segmentation – you should not believe that you can just sell your service to everybody; you really need to be clear about what segments you are attacking and the specific target audience's needs. That goes back to the whole value proposition again. [...] If you are not clear about that, then Per thinks, you are not ready for globalization. The important thing about strategy is to be crystal clear about what segments are you going to create value for and what problems you are solving for that group.

APPENDIX 7. GLOBALIZATION STRATEGY FOR BORN-GLOBALS

INTERVIEW WITH CARSTEN SNEDKER ON 29.08.2014

QUESTIONS:

1. What do you do and what is your past experience with internationalization of start-ups?
2. What is the first thing to look at when deciding whether a foreign market is attractive to enter?
3. What factors do you think are important to consider in order to determine if a born global venture should expand to that market?
4. How should international start-ups choose the type of investment commitment that would be most suitable for the selected market?

5. Do you think there are any differences in the way established enterprises expand internationally as opposed to new ventures?
6. What would you advise entrepreneurs to avoid when formulating their globalization strategies?

INTERVIEW SUMMARY:

Carsten Snedker specializes in three main things. One thing is that he starts companies, primarily firms that have a knowledge-based concept from universities, from academia. Then they are putting an interest start-up and they are commercializing the start-up. He has a lot of companies in this area. Another thing he does is, he goes into already established start-ups and he tries to accelerate, boost them by connecting them with the right sales partners in the market. So basically he calls this just giggling of start-up companies and getting go-to-market. The third thing he does is, he advises governments on issues of creating better business conditions, especially for start-up companies, and how start-up firms are related to academia to establish industries and how to create a better eco-system. These are the three things he is doing at the same time.

Carsten's experience with start-ups and internationalization of start-ups is central, because his start-ups are not only focused in Denmark or in Brazil, they are spread all across the world – in the US, South America, Europe, Asia, he does not have any one in Africa. So, he has an insight on how to manage a start-up company in international environments, also in terms of cultural aspects.

There are three things to look at when deciding whether a foreign market is attractive to enter. One thing is that everything is about sales. If you have a company, there is no idea to enter a foreign market, if you cannot achieve sales. So, the first thing to look at is how well does the start-up company's product or offering (it can also be a consultancy company, so it could be a service or a solution) to the market meet the market's needs. The customers in the market, they have a certain need. How well is the product or service meeting the customer needs? For example, Carsten has a company in Denmark that has a very interesting solution, but when they [him and his associates] took the company to Brazil, they discovered that the product was too innovative. It had too many features and by reverse innovating, reverse engineering the product to take all the fancy stuff away from it, they actually achieved a cheaper price of the product and also met the demand in the market. Because it was a very simple product, not fancy, but simple. So, this is just one very good example for the first thing to look

at, which is how well does your product meet the demands, the customer needs in the market you are entering.

The second thing is, what are the competences in that foreign market and in the start-up companies, do you need to hire people in the foreign country to take care of your business there or do you want to go yourself in the market? Do you want to pay partnerships? Is it a commission-based or is it an internal organizational thinking that you have? So, it is about strategy, strategy in terms of human resources. This is the second thing – about human resources, partnerships, networks, all this kind of stuff, this reflection about are you going in yourself or are you going through other people. That has a lot of sub-questions to consider for example. Which are the right networks? Where can the start-up find the networks?

The third thing to look at when entering a market (if it is attractive or not), that is, your financial and your business model. How is the product/service priced? What is the business model? Is this business model far away from how this country does business in general or is it similar? What is your financing of the product? Is it difficult to finance for the client or the customer to buy or is it easy? Do you need to make some kind of financial partnerships to sell your products or is it very straight forward – you sell and the client just pays cash? It is about the financial and the business model. For example, Carsten has a company in Europe that is selling to Russia. This firm has a lot of difficulties at the moment, because there are many trade obstacles due to the Russian-European crisis. So, the finance of the products has a high level of uncertainty, whether or not the client will pay and how the client can pay for them. In this specific case, Carsten and his business associates would go to the Danish Export Credit foundation (EKF) who would secure their sales from Denmark to Russia in terms of exchange rates and if the client does not pay, etc. This is the third factor – financial and business model aspects, for foreign market attractiveness in Carsten's experience.

Determining whether a born global venture should expand to a market is all about its capacity. Does the start-up company have the capacity to expand? It can be strategic capacity, it can be human resource capacity, it can also be financial capacity. It is about limitations, what are the limitations of the current company and putting those limitations up against the challenges that have been derived from the market analysis of the county you want to enter. For example, Carsten has a company in Europe that is going to the Brazilian market. To go into the Brazilian market takes approximately two years of

preparation, because you need to be in the market, qualify for all the rights, rules and regulations that the government has put up for you to do business in Brazil. So, that means you need to have a horizon of two years where you probably are not making any profits, but where you are preparing to make profits after year two. It depends on the maturity and the business friendliness of the market and, of course, the clients. But, it is all about the limitations of the company.

When talking about how international start-ups should choose the type of investment commitment that would be most suitable for the selected market, Carsten says that in all the cases he has seen as a start-up company, there are two ways to enter a new market. One way is with a joint venture and a partner that is already in the market, established with its own sales channel, organization, and financial resources. So, that is a joint venture partnership. The second way Carsten has seen working, is to have a very good business plan, strategy and financial plan for that market you want to enter and following that plan you have backed-up by investors – venture capital has a lot of money to give for this kind of expansion. Business angels are a bad idea if you are talking about market expansions. So, there are two ways – a joint venture or a venture capital investment. To establish a subsidiary in a foreign country can be costly and difficult. When you are within the European Union, it is actually fairly easy. If a company from Lithuania wants to come to Denmark, then it is fairly easy. Then, you could have a subsidiary established, it does not cost a lot of money, around 80 000 DKK, but you need to think about the staff you need to have in a company, how you want to move forward. Do you have the staff? Do you have access to the right networks, the right sales channels and all the things mentioned so far? It depends on which market you are looking at, but Carsten would always say that starting in a joint venture with a reasonable commission-based [resolution] would make sense.

Carsten thinks there are differences in the way established enterprises expand internationally as opposed to new ventures. Established enterprises have their own financial track-record, so they have already revenues and credit lines in the banks. They have the resources both strategic and human resource, as well as financial, to expand to all the areas, which would make it a fairly reasonable decision to make. And easy, because it depends on “Do we really want to go into this market? Yes or no? If yes, ok: we can just do it.” They have all the systems ready to do that; they have the organization, the capacity, and the capabilities ready. As a new venture, you have nothing, you have no infrastructure; you do not have a fancy check record or organizational infrastructure to do things. You

maybe do not have the network, the partnerships lined-up from previous contacts, so the obstacles are much higher. The energy and transaction cost that you, as a new venture, need to look at when entering a new market is, of course, higher than an established company. However, there may be many good reasons why a new venture is a born global company, because it does not have the boundaries of established companies, where they have the firm structure, regulations, and business policies about the market and how to do things. A born global company, a new venture is completely free of this kind of strings attached to the company, so it can be more flexible. In Carsten's experience as a born global entrepreneur, the freedom to not have the strings attached to the company makes the expansion much more fun and gives flexibility and more interesting opportunities in the market than established organizations can have. But the rate of failure is significantly higher for a new firm than for an established company.

Carsten advises entrepreneurs to avoid underestimating the risk when formulating their globalization strategies. Also they should avoid making the mistakes of others. What they should do is, they should have a very clear strategy about what they want to do based on four macro-dimensions. One is the offering – the strategy for the offering of the company to the market – the product, platform, distribution. Then they should be focused on the market needs, the communication strategy and how to market themselves, the experience they want to expose to the market. The third macro-dimension is internal operations; it is about the processes of the company, the value-capture, the business model and the organizational capabilities. The fourth macro-dimension relates to the eco-system. What are the supply channels, what are the sales channels, what are the partnerships in the market? To sum up, it is about having a very good strategy from the very beginning about all these dimensions just mentioned.

Then make a risk analysis of this strategy. After that it is about the execution power – do we [referring to any venture] really have enough experience in our team? Also the financial issues – do we really have the financial resources to do this? How can we meet the market? Entrepreneurs should not avoid doing the homework of the risk analysis and have a lot of scenarios ready. This sums up Carsten's experience and advice.