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Estonian E-Residency: a gateway to the world for emerging market entrepreneurs

A case study based on Indian e-resident founders

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Abstract

In 2014, Estonia launched e-residency – a unique concept of a digital identity. Even though this identity does not give possessors equal rights with physical residents, it allows holders to access a variety of public services online. Among these is the possibility to establish and run an Estonian company 100% remotely. This means that anyone from anywhere in the world can establish a legitimate EU company over the internet after being granted an e-resident status. Such programme can open doors to the world for those that otherwise can find internationalisation complicated. Among those, entrepreneurs and companies from emerging economies.

The paper is based on a qualitative case study analysing 10 Indian e-resident companies. The data is complemented with theories like the Uppsala model, the OLI, born global and network approach of internationalisation. The aim of the study is to provide insight into the specific issues that emerging market firms and founders face when running an international business. Then, it will be explored how the Estonian e-residency can help them during their internationalisation process. This will provide an overview of the benefits that can be obtained through e-residency and potentially help entrepreneurs from emerging markets in their decision-making process. Later, it will be analysed how e-residency aligns with the traditional internationalisation theories and whether the emerging market e-resident companies tend to follow similar patterns.

The research showed a clear presence of different struggles for Indian companies and entrepreneurs. These include among other things an undeveloped business culture, negative perceptions and low trust, bureaucracy, time- and resource-consuming compliance work, poor service quality and responsiveness by the authorities, lack of access to multicurrency accounts and to modern financial service providers. The Estonian e-residency was found to be able to eliminate or mitigate a number of the problems, while being easily accessible for emerging market entrepreneurs and providing additional perks like access to EU market. The sample companies aligned best with the characteristics of born global companies, but at the same time e-residency itself does not restrict e-resident companies to follow different patterns.

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1. Introduction

In the present highly globalised world, running a business that exceeds domestic boundaries is becoming rather a norm than exception. The rapid technology developments and the internet have made internationalisation possible also for companies that might be in an unfavoured position in terms of resource availability. Among these are entrepreneurs and firms from emerging markets who can serve customers located thousands of miles away over the internet. However, there are several struggles that these companies and founders from emerging economies have to face due to their domestic environment and high entry barriers for creating a firmer presence in Europe.

At the same time, there are many countries offering special programmes to attract foreign start-ups and bright entrepreneurs to get a share of these companies' potential success (Lau, 2018). All these programmes come with strict conditions and often minimum investment requirements, which leave them out of reach for many. Yet, there might be a solution. No other country has done anything as drastic as Estonia with its e-residency initiative, which in theory should provide entrepreneurs and companies, no matter their origin, an easy and cost-efficient way to enter the EU (European Union) market, completely remotely. It means that an entrepreneur from India would just need internet connection to file an application to become an e-resident, establish a company within minutes and run the company's daily operations. On paper, this sounds like a great opportunity for many. But as e-residency is still a very recent phenomenon, not much research has been done on the subject and it remains unclear what the programme can actually provide for entrepreneurs and firms from emerging economies.

In the next chapter of this paper, the problem statement of this report is presented. This is followed by an overview of the Estonian e-residency programme. Methodology of this study is presented in the fourth chapter and readers are provided with an understanding of the underlying principles and methods of this paper. Then, relevant internationalisation theories, which will be used further in the report, are presented. Theories are followed by the analysis chapter, where first the business environments of Estonia and India are described using secondary sources. Afterwards, the results of the interviews are given. Finally, the results will be discussed and linked with the theoretical aspects.

2. Problem statement

During my stay in India in 2018, I saw great potential in the country's current and potential entrepreneurs. The people of India came across as competent, motivated, innovative and surprised me with their technical knowledge. It seemed like a great foundation for success stories in entrepreneurship. However, although the entrepreneurs might have the knowledge and characteristics to become successful, they find themselves in a system that does not make lives of businesses easy. I could personally see the severe shortcomings in infrastructure, bureaucracy and efficiency, surrounded by a very conservative and traditional society. Having a great infrastructure, access to higher education and low bureaucracy levels are often things that are taken for granted in Europe, but still remain out of reach for many Indians. All such things appeared to me as factors that restrict the potential of newly started Indian companies.

Estonia's e-residency, which will be explained more thoroughly in the next chapter, is potentially providing these entrepreneurs and companies a platform to internationalise easily and eliminate some problems that have risen due to the domestic environment. To my surprise, many people among the business circles and university students in India were aware of the Estonian programme. These people, when planning to internationalise or establish a new business, have an extra option when making the decision. They could either complement their already existing business with an Estonian entity or bypass the Indian company creation entirely.

To find out whether my perception about the difficult business environment is correct and to see whether the Estonian e-residency can provide Indian companies and entrepreneurs an alternative way of doing international business, the subject must be analysed further. Putting these two sides together, a visible problem for Indian businesses on one side and an opportunity offered by Estonia to establish a presence in Europe easily, the following research question was developed:

What are the difficulties of Indian companies when establishing and running an international business and how Estonian e-residency can facilitate this process?

As the Estonian e-residency programme is an unprecedented and recent phenomenon, not much research has been done on the subject till date. In terms of internationalisation theories, it remains unclear whether currently existing theories can explain the internationalisation patterns followed by e-resident companies. To bring more clarity to the subject, the second research question was developed:

How does internationalisation using the Estonian e-residency programme align with the traditional internationalisation theories?

For the first research question, it is assumed that starting and running an international business in a developing economy such as India is more complicated than doing the same in a more mature economy. The first research question is aiming to determine the obstacles that the case companies and entrepreneurs from India have had to face while running an international business. This will give an overview of the business environment in India from entrepreneurs' perspective and indicate both positive and negative aspects. The second part of the first question will look into the experience of Indian companies and entrepreneurs with Estonian e-residency. This will allow to analyse whether e-residency has met the expectations of the case companies and if provides a new and easy way for Indian companies to become international.

The second research question will focus on the internationalisation processes and patterns of the case companies. Based on the findings, it can be concluded whether the companies internationalising using the Estonian e-residency programme tend to follow any specific model or pattern familiar from traditional internationalisation theories or does e-residency initiative provide a completely new way of internationalising that does not comply with any current theories.

2.1 Delimitations

There are some limitations that must be kept in mind while reading this report. The analysis covers only businesses and entrepreneurs that have an Estonian private limited liability company. The research puts mainly emphasis on small and young enterprises as they are believed to be the most affected by external factors and might find internationalisation the hardest. Furthermore, the study focuses only on founders that were Indian residents at the time of writing this report.

3. Estonia's e-Residency

3.1 Journey towards a digital society

Being a tiny and a relatively young country can make it difficult to compete with stronger and older economies – Estonia has just over 1.3 million inhabitants (Statistikaamet, 2019a) and the nation's independence was restored only in 1991 (Heritage, 2019b). Estonia has tried to break free from its history, but the stigma of a "former Soviet state" often still remains (Mäe, 2017). The governments of Estonia have throughout the past 28 years since the country's independence realized that to put Estonia on the world map, one needs to do something special and find its own niche. It is not enough to replicate the things other countries have already done and hope that it will work for Estonia. The former managing director of e-Residency has said: *"A small country like Estonia only has one natural resource and it is located between our ears. We must be innovative and find unique ways to attract talents, resources, revenues and develop our soft power"* (Pickup, 2018). Other successful small countries have shown that becoming a significant power despite the physical size is possible – take Singapore that is known for being an international financial centre (Woo, 2016) or Luxembourg that hosts several EU institutions and the headquarters of many conglomerates (Tasch, 2015). Both of these countries have found a niche and have focused on it to become the best. This is also the goal of Estonia – to become the world's best in digitalisation and transform the country into a digital society (Heller, 2017).

So far, Estonia has been successful in doing that. The country is known for their digital ventures and most of the services offered by the government can be accessed online – including voting, filing tax returns etc (E-Residency, 2019e). It has already been considered as the most-advanced digital society in the world by some (Pickup, 2018; Greenwald, 2018). The tech-savviness of Estonia already begun in the beginning of the nineties, shortly after Estonia's independence from Soviet Union. There was a state-funded initiative Tiger Leap that provided schools with computers and internet connection, but also stood for a wider digitalisation of the whole society (Runnel et al 2009, cited in Tammpuu & Masso, 2018). In 2001, a platform X-Road was launched to connect public systems and services together to provide a single-window platform through which public services can be accessed and linked easily (Anthes, 2015). The idea of the system is to follow a “once only” policy, according to which no information should be entered twice – for instance, when visiting a new doctor, there is no need to provide your contact details again as they can be pulled from the system (Heller, 2017). The launch of X-Road marked the beginning of Estonia’s e-services and paved way for further development. Soon followed electronic tax filing (Anthes, 2015), next the national ID card which can be used digitally, and then online voting which makes physical presence at polling stations no longer necessary (Kalvet, 2007, Vassil, 2015, cited in Tammpuu & Masso, 2018). In 2008, Estonia implemented blockchain technology into the system and started an e-health platform (Pickup, 2018). Currently, the Estonian X-Road connects over 1700 services and 900 public or private organisations (Margetts & Naumann, 2017). This means that all bureaucratic processes with the exceptions of getting married or divorced and transferring physical property can be done online (Heller, 2017; Pickup, 2018).

Being digital and offering vast amount of online services for the citizens can be great from the perspective of efficiency and convenience. Still, that does not change the fact that Estonia is a tiny country and the number of people benefitting from Estonia’s services have been limited to the number of citizens and residents of Estonia. As the ambition is bigger than that, it was necessary to find a way how to make these services available for non-residents. For example, Estonia has expanded their X-Road technology - the core technology for connecting the national databases - to Finland (Pärenson, 2017). This move makes possible cross-border online services and data exchange. For example, when buying a prescription medicine in Finland, the pharmacist can see your electronic prescription written by an Estonian doctor (Heller, 2017). Estonia has also assisted and exported X-Road model to other countries (Margetts & Naumann, 2017). However, these are just small steps when considering the wider picture. Expanding the Estonian X-Road technology gradually across the world or even across Europe would take time and possibly face resistance. As an alternative, a more drastic solution was created to make Estonia’s e-services global.

3.2 The birth of E-Residency

First ideas of a digital identity for foreigners emerged already in 2007, but the idea really took off in 2014, when Taavi Kotka, Ruth Annus and Siim Sikkut presented an idea for the Development Idea Competition organised by the Estonian Development Fund. The idea promised to create 10 million e-Estonians by 2025 through digital identities given out to non-residents (Kotka et al. 2014). The idea received support by the Estonian government and the idea became reality already in December 2014, when the digital identity of Estonia – E-Residency – was launched (E-Residency, 2019e). E-residency is a programme initiated by the government of Estonia and enables foreigners to apply for a government-issued digital identity (E-Residency, 2019a). The creators of e-residency have defined it as *"a new personal status that countries can use to engage in cooperation across borders with citizens of other countries"* (E-Residency, 2018). Thus, the term itself is not bounded by the Estonian initiative specifically, but the term e-residency is used specifically in relation to the Estonian e-residency programme in this report[1]. With the help of e-residency, Estonia can become big despite its small physical size (Kotka et al. 2014) and can create a global market based on Estonia's own values (E-Residency, 2018). The e-residency initiative made Estonia the first country in the world to provide online government services, which normally are meant only for residents, to non-residents (Kerikmäe & Särav, 2015).

The digital identity will provide access to a wide range of Estonia's digital services among which are services that provide access to the business environment and will allow to run a company from anywhere paperless (E-Residency, 2019b). Some more specific opportunities that e-residency provides include: establishing and managing an Estonian company entirely online, organizing documentation (digital signatures, authenticity verification, encryption and secure sending of documents), easier access to EU digital business banking and payment services (E-Residency, 2019f), Estonian tax system with 0% corporate tax on undistributed profits (PwC, 2019a) and online tax declaration (E-Residency, 2019f). Furthermore, e-residency can provide access to services such as Amazon and Paypal which are not available in some parts of the world (E-Residency, 2018). In addition, in some cases, e-residency helps businesses to increase their credibility (Kerikmäe & Särav, 2015). However, the e-residency card does not give holders equal rights with actual Estonian residents - it is not a physical identification document and cannot be used for travelling (E-Residency, 2019b).

The programme mainly targets entrepreneurs and business owners. More specifically, four categories of such e-residents have been identified: digital nomad, freelancer, start-up company

[1] In 2018, Azerbaijan became the second country to launch their own version of e-residency (Korjus, 2018).

and EU company. The first, digital nomad, includes people who own an online, location independent business. Freelancer is for people that want to access EU markets and payment systems to offer their services. Start-up Company is for people wanting to access EU market, start-up space and funding. EU company includes business owners, who want to use e-residency as their go-to-market strategy in the EU hassle free (E-Residency, 2019a). In the E-Residency 2.0 White Paper (2018), a higher emphasis on entrepreneurs who want to run their company from distance is stated. Thus, the focus of the programme is mainly on small companies that are often run by a solo entrepreneur and can be managed remotely.

3.3 Application procedure

To apply for e-residency, one must file an online application with the Estonian Police and Border Guard (PPA). The applicant needs to submit a coloured copy of their identification (passport or EU ID-card), photo and a motivation statement. The procedure is straightforward and costs 100€ euros in non-refundable state fees. After sending the application, the PPA will do a background check and might ask for additional information. If the application is accepted, the e-residency kit will be sent to a pick-up location that was chosen when filing the application. It will take up to 8 weeks for the card to arrive at the pick-up location from the moment of sending the application. During the pick-up process, the identity of the applicant will be identified physically, and fingerprints will be taken (E-Residency, 2019c). There are currently 42 pick-up locations in 38 countries. Most of the pick-up locations are Estonian Embassies or consulates. Due to lack of Estonian presence in some areas (such as South America), easy access to pick-up locations is limited and applicants need to travel to obtain their e-residency kit (E-Residency, 2019d). The e-residency card is valid for five years and the renewal costs another 100 EUR in state fees (E-Residency, 2019g).

If an e-resident wishes to engage in business activities, an Estonian company can be established. The registration of a limited company in Estonia costs 190 EUR in state fees. Although it is not mandatory, most e-residents use a service provider to facilitate obtaining a juridical address in Estonia and use bookkeeping services. This costs from 60-200 EUR a month depending on individual needs and service provider (E-Residency, 2019g).

3.4 Statistics

As of May 2019, there were around 55 000 e-residents (E-Residency, 2019h) from more than 165 countries (E-Residency, 2019b). Most e-residents come from Finland, Russia and Ukraine. India is placed eighth with over 2500 e-residents, which accounts for 5,38% of all e-residents (E-Residency, 2019h). The most common motivation when applying for e-residency is establishing a location independent international business – this has been stated as the motivation by 41,1% of the applicants. This is followed by "bringing business to Estonia" with 26,9%. Other motivations include being a fan of e-residency and being able to use the secure authentication technology among others (E-Residency, 2019h).

There were 6 934 Estonian companies created by e-residents as of early May 2019. E-residents from Ukraine have created the most companies – 725, followed by Germany (630) and Russia (603). India is placed eighth with 353 companies (E-Residency, 2019h). The trend of more and more e-resident companies being established by Asian and especially Indian e-residents was already present in 2016 (Sullivan & Burger, 2017) and is still continuing. The increase in the number of Indian e-residents and companies was also noted during the research period despite the short timeframe. In February 2019, Indian e-residents accounted for 4,95% of all e-residents (now 5,38%), which placed India 9th overall (now 8th). Also, 45 new companies were created during the period. This is supported by the fact that Singapore, India and US are some of the target countries for promoting e-residency (Sullivan & Burger, 2017). The top three economic activities of e-resident companies are business and other management consultancy activities, computer programming and non-specialised wholesale trade. Other popular activities are mainly in relation to IT, online and business support activities (E-Residency, 2019h).

The initiative has so far proven beneficial for all the parties involved – citizens of Estonia, the country and e-residents. E-residency has generated extra income through taxes and new jobs have been created, while the e-residents have gained access to new ways of conducting business globally (E-Residency, 2019e). More specifically, in relation to e-residency, 1200 new jobs have been created (E-Residency, 2019i). The e-residency programme has generated 17,8M € in tax income and state fees, while the total costs to establish and run the programme have been 7,8M € (E-

Residency, 2018). The programme has also brought immeasurable benefits by sharing Estonian values and culture (Korjus, 2018).

3.5 Examples of well-known e-residents

There are several well-known individuals who are e-residents. For example, Microsoft founder Bill Gates, Pope Franciscus, German chancellor Angela Merkel and Japanese prime minister Shinzo Abe. However, in these instances e-residencies were gifted either by the government or by the president of Estonia and not issued due to their own interest (Liive, 2018; E-Residency, 2018).

E-residency has not remained unnoticed in developing economies. The best-known Indian to have obtained Estonian e-residency is Mukesh Ambani, the founder and chairman of Reliance Industries and the richest person in India. As of 2016, his fortune was equal to the entire Estonia's GDP (ET Online, 2018). He is passionate about digitalisation and has said: *"Anything and everything that can go digital is going digital. India cannot afford to be left behind."* (Forbes, 2019). After getting to know Estonia through e-residency, Amani has decided to provide a gateway to Europe for his telecommunication business Reliance Jio by establishing an entity in Estonia. He has said: *"We believe your solutions are easily scalable to India. We wish to have a very close cooperation with your talent in Estonia"* (Baltic Course, 2018). The Jio's Estonian unit Jio Estonia OÜ was established on 22 Nov 2018 (Inforegister, 2019) and Reliance has promised to invest 1,5M € into the Estonian unit (ET Online, 2018; Baltic Course, 2018).

3.6 E-residency and emerging economies

The E-residency (2019j) has pointed out several issues that people from emerging markets face when running an international business and how the e-residency programme can solve these. One of the aims of e-residency is to provide people with new opportunities no matter their country of origin. Companies and entrepreneurs from emerging markets can struggle when making or receiving international payments as many widely-used financial service providers are not available in these countries. For example, PayPal, Paysera or Stripe which facilitate the international payment processes. Next, the country of origin can diminish the trust in the European market among potential customers or partners. Furthermore, in the emerging markets, the financial and political situation can be unstable and hinder the business environment. The business administration costs are often high due to excessive paperwork and bureaucracy. Moreover, it might be difficult to access funding in the emerging markets and convince foreign investors.

E-residency claims to solve all these problems by being able to create a trusted EU company with access to a wide selection of financial providers together with a stable and trusted system that has low levels of bureaucracy. It will also give access to European investors and open a door to a new pool of customers and partners in the EU market (E-residency, 2019j).

3.7 The future of e-residency

In the end of 2018, a white paper for E-Residency 2.0 was released with ideas and plans to make the programme more secure, profitable and convenient for all stakeholders. Among other things, the idea is to increase the number of e-residents with higher influence and positive impact (E-Residency, 2018). There are several more specific plans for the future (E-Residency, 2018). The e-residency team is working on a marketplace platform, where e-residents can access different public and private services conveniently. For example, when an e-resident needs an accountant, it is possible to match him or her with a local service provider. This platform will also act as a place to exchange business contacts and thereby boost growth of both local and foreign companies. The aim is to become a collaborative platform providing access to a global community (E-Residency, 2018). Other future plans include: increase co-operation with universities, inform e-residents better on the subject of Estonian values and legal environment, and introduce e-residency to more female entrepreneurs to diversify the e-residency community. In addition, at some point, e-residency team plans to start providing additional support for e-residents to file their taxes in their home countries. During 2019, a bank account wizard tool is to be developed. The tool will help to select a suitable financial institution based on company-specific characteristics and will facilitate the bank account opening process for e-resident firms and banks. In the future, more and more materials will be provided in English, the e-residency card issuing network will be expanded, and a franchising model to establish e-residents' centres will be established (E-Residency, 2018).

4. Methodology

To understand how such results were obtained during the research, it is important to understand the principles of the study. This chapter will provide an overview of the research design, philosophy and processes related to the data.

4.1 Research design

4.1.1 Strategy & approach

The paper is based on a qualitative study as the research deals mainly with non-numerical data and to an extent uses loosely structured data collection methods. The study contains small amounts of secondary quantitative data, which is used merely to understand the context of the study and provide foundation for the further parts of the research (Saunders et al. 2012: 161-165). This research follows a case study strategy as the analysis is conducted in a specific context of 10 Indian founders and Estonian e-residency (Saunders et al. 2012: 179-181).

The paper starts by presenting relevant theories and previous findings, which will then be tested and validated. This is especially relevant when answering the second research question, where already-existing theories will be generalised to a specific topic and the theories will either be verified or falsified in the context of this report. These characteristics are common in a deductive approach (Sauders et al. 2012: 143-148). When answering the first research question, data is used to generalise from a specific context to a wider picture. Even though no specific theories will be developed, this can be classified as an inductive approach as the aim is to find factors related to a phenomenon which does not have any already-existing theories. Thus, combining the two approaches, it can be stated that the research follows an abductive approach, where data collection and theory do not follow one clear pattern throughout the research (Sauders et al. 2012: 143-148).

4.1.2 Purpose

This study is a combined research, meaning that there is more than one purpose in the research design. First, it has characteristics of an exploratory study, which aim is to gain insight into a topic of interest and help to clarify understanding of an issue, problem or phenomenon. It is often a qualitative study and answers questions “What” and “How”, while the interviews used to collect data are relatively unstructured. In addition, parts of this study can be characterised as descriptive. A descriptive study aims to get an accurate profile of events, persons or situations. The questions answered are usually “Who”, “What”, “Where”, “When” and “How”. It is usually an extension of exploratory studies or a foundation for an explanatory research. Finally, the research also has characteristics of an explanatory study, which explains causal relationships between different variables by answering “Why” and “How” questions (Saunders et al. 2016:174-177). All these are present as the study aims to gain more insight into the subject of e-residency and Indian firms, but on top of that describe the internationalisation environment together with the struggles of these businesses and explain e-residency’s role in it.

4.1.3 Time horizon

The research took place during a short period of time from February 2019 to May 2019. Thus, this restricts conducting a longitudinal research by conducting follow-up interviews or multiple observations. During the collection of primary data, for example, only one interview was conducted with each participant. This provides a “snapshot” of the current situation and is called a cross-sectional time horizon. Still, despite that, there are elements of longitudinal study present in this research (Saunders et al. 2012: 190-191). Both the primary and secondary data provide information about events taken place earlier in time, how they have developed during time and what the future could bring. Nonetheless, due to the time horizon, it is not possible to conduct more specific analysis of how the effects of e-residency or business environment on sample companies have developed over a longer period. Furthermore, as the e-residency initiative has been around for a limited time, the effects and developments of the programme can be analysed only for a limited period.

4.2 Data

4.2.1 Selection

The study makes use of both primary and secondary data. The primary data comes from interviews with e-resident founders. The sample selection is non-random, as not every e-resident Indian company had an equal chance of becoming a part of the sample (Saunders et al. 2012: 281). The interviewees were found mainly using online channels like Facebook, LinkedIn and Inforegister.

While the first two are well-known social media platforms, the last-mentioned website displays publicly information about companies registered in Estonia. On Facebook, a group called *"E-residents of Estonia"* was used to identify potential Indian e-resident founders. After identifying, their names were searched on LinkedIn and Inforegister, after which the potential interviewees were contacted either directly on LinkedIn or via email found on the Inforegister website. Due to the nature of such sample selection, it was not possible for other e-resident Indian founders who were not present on Facebook to become part of the sample. One of the interviewees was known to the author before conducting the research and therefore bypassed the selection procedure. All the participants voluntarily accepted to participate in the interviews, therefore, not everyone that were contacted during the sample selection end up in the final sample.

The sample comprises of 10 Indian-resident entrepreneurs who have all established a company in Estonia and are running it using the digital identity obtained through the Estonian e-residency programme. The sample size exceeds the minimum sample size of five, which is required for semi-structured and in-depth interviews (Saunders et al. 2012: 283). The founders are between ages 26 and 52 and are all male. The companies covered are the following: Coremantra OÜ, Forbix OÜ, GARS Infotech OÜ, Indoeuropean Consultancy OÜ, Infozeal OÜ, Mentaverde Technologies OÜ, MS89 OÜ, Tacticone OÜ, Virnobilis OÜ, Velmenni OÜ. No purposive sampling or quotas were used to create a sample of a particular kind. This means that no special efforts were made to include companies from different industries or to have founders with different backgrounds and characteristics. This might create a situation where certain types of participants are over- or under-represented and the sample does not represent the actual population of all Indian e-resident companies. However, despite that, the sample contains founders from different backgrounds and industries. In addition, as it is a qualitative study, the sample does not necessarily need to perfectly represent the population, but to be best suitable for answering the research questions (Marshall, 1996). Also, the population definition itself sets sufficient limits thanks to the specific context (India-based founders that run an Estonian company using e-residency).

4.2.2 Collection

The primary data is collected through semi-structured and non-standardised interviews for qualitative analysis. The aim of the interviews is to provide an in-depth insight into the research topic and provide a more detailed knowledge that cannot be obtained from secondary data. Each semi-structured interview followed the same set of indicative questions and topics, but depending on the course of each interview, some modifications were made during the interview. These included, for example, changing the order of questions and asking additional questions. The indicative interview questions can be found in Appendix 1. Thanks to the flexibility of semi-structured interviews, it is possible to understand a topic more thoroughly as the data is likely to have more significance and depth (Saunders et al. 2012: 374-375, 378).

All interviews were internet-mediated and conducted via Skype or Whatsapp in English. At the start of the interview, the interviewees were asked for a permission to record the conversation. Then, it was asked whether the respondents would like to stay anonymous. Some wished to stay anonymous, but all respondents agreed that the name of their company can be used in this report. Thus, only the names of the companies are used without mentioning the names of the founders.

The secondary data comes from academic articles, online articles, databases and books. All the data has been analysed in a qualitative manner. No statistical analysis such as finding correlations between variables was made. This is also the case with quantitative data, which has been used to provide factual evidence in a descriptive manner and are not used for further quantitative analysis. The list of all used sources can be found at the end of this report (see References).

4.2.3 Reliability and validity

Collecting data through semi-structured internet-mediated interviews can create few data quality issues. First, having a loose structure can create reliability issues as much is dependent on the interviewer's way of asking the questions and the answers might not be identical if another interviewer were to have conducted the interviews. This might create an interviewer bias, where respondents would answer the same question differently depending on the interviewer (Saunders et al. 2012: 381). Thus, it can be difficult to guarantee that another researcher can replicate the study identically. To minimize that, the interviewees were not in any way influenced to give answers of a certain kind and were completely free to give answers based on their experiences and opinions. Also, by providing detailed information in this chapter about the ways and methods of conducting this research will make it more likely for other researchers to be able to replicate the results (Saunders et al. 2012: 382).

The internet-mediation can create situations where due to a poor sound quality or internet connection it is not possible to hear clearly what the respondent is saying. This can be amplified by different accents which can be difficult to understand and by the fact that English was not the mother tongue for neither the interviewer nor for the interviewees. However, having the flexibility to rephrase questions and ask clarifications minimises this issue, but researcher-subjectivity when interpreting answers can still be present to an extent. To minimize researcher-bias, prior knowledge on the subject was acquired and appropriate preparation was made (Saunders et al. 2012: 384).

The collected primary data provides limited generalisability. All the data is based on individual experiences and might differ from one another or from country to country. Thus, it cannot be guaranteed that the opinions and experiences of an Indian company A can be applicable to a Nigerian company Z. This is due to the fact that emerging market countries cannot directly be compared to one another due to their country-specific characteristics (Khanna & Palepu 1997, Ramamurti 2009, cited in Stucchi, 2013:18). Having said that, the data is still expected to be generalisable in many situations and this is supported by the fact that the information gained during the interviews is aligned with the secondary data. Also, the main purpose is to identify different possible ways how e-residency can help emerging market companies rather than claiming that the problems and benefits are present in all possible scenarios.

The information gained from secondary sources is believed to be valid. However, in some cases, there might be some bias in the sources. For example, the e-Residency website or a government describing their business environment might want to highlight the positives and provide less information about the shortcomings or issues.

4.3 Basic assumptions

The study follows post-positivistic paradigm, which in contrast to positivism allows the use of qualitative methods. The ontology is based on critical realism according to which the reality is believed to be “real” but not entirely apprehendable (Guba & Lincoln, 1994). It is possible that the findings might contain errors and theories can be modified (Trochim, 2002, cited in Kawulich, 2012). This is largely due to the nature of human senses which can deceive us (Saunders et al. 2012: 136). Thus, the results of this study are expected to give an imperfect representation of the reality and not describe it perfectly. It is believed that for this report to be scientifically acceptable, objectivity is important to make the results realistic and truthful (Kawulich, 2012). For that purpose, it is important that the researcher remains separate from the researchable phenomenon and does not let the personal values dictate the results of the study.

It might be argued that the researcher's involvement when using semi-structured interviews is too high to follow post-positivism. However, in this case, the semi-structured interviews were used to ask clarifying questions which minimize the subjectivity of interpretation. Also, the researcher is not affiliated to the e-residency programme or sample companies and therefore is believed to be separate from the research subject. One might also argue that participants might provide different answers to the same question due to their social, economic or political environment, which is more aligned to the constructivist view (Guba & Lincoln, 1994). However, this is assumed to be rather due to the difference in how people sense things, which is part of critical realism (Saunders et al. 2012: 136). Furthermore, the idea of this research is not to explore why such answers were given, but to constant a fact that such problem is present for a certain group. In other words, there is no investigation into the human nature of things but stays on a more factual level to observe how things are.

5. Internationalisation theories

In this chapter, an overview of a selection of traditional internationalisation theories will be provided – the Uppsala model, network model, the OLI and born global. In addition, some theoretical aspects of the motivation and location choices will be presented together with emerging market and SME-specific factors. This will provide theoretical understanding how and on which grounds the internationalisation processes take place. This understanding will be used as a basis for the analysis chapter of this paper.

5.1 Stage theory

The best-known stage model of internationalisation is the Uppsala model created by Johanson & Vahlne (1977). The model assumes that the company is aiming to grow while keeping the risks low, and that market knowledge and market commitment are key factors influencing internationalisation decisions. The market knowledge is assumed to be best obtained through experience and can be divided into two: market-specific knowledge, which is specific to a certain market and general knowledge, which can be transferred between markets. Having a higher knowledge on both dimensions can result in higher commitment to certain markets. Thus, to keep the risks low and grow at the same time, companies internationalise gradually, starting with activities of low market commitment. This usually means that the first step of internationalisation are exports, followed by sales representatives in foreign markets and then moving to wholly-owned establishments (Roy & Narayanan, 2016). Not only do companies expand gradually activity-wise, but also destination-wise. Companies expand first to markets with the lowest cultural or psychic distance (Johanson & Vahlne, 1977, cited in Sanfilippo, 2015). This means that both the country of origin and the destination country are similar in culture, language, political system, education levels, industrial development etc (Johanson & Vahlne, 1977, cited in Singal & Jain, 2012). Such internationalisation often means starting from the neighbouring countries.

As the times have changed and together with that the internationalisation patterns of companies, Johanson & Vahlne have revisited their original model several times (Johanson & Vahlne, 2009; 2013; 2017). In their newer papers, the authors have moved from a business environment where all companies act as independent players to a more network-based approach. Being part of a network is now a more important factor than psychic distance when making internationalisation decisions. When creating and maintaining relationships, softer factors such as trust and emotional dimensions play an important role. Trust, in fact, is considered as a prerequisite for international commitment. These network relationships also help to develop knowledge, which was and still is one of the main determinants of internationalisation (Johanson & Vahlne, 2009).

5.2 Network model

The importance of networks has been analysed further by not only Johanson & Vahlne but also other researchers. The authors of the Uppsala model admit that the networks play an import role if a company wishes to internationalise rapidly (Johanson & Vahln, 2003:83-84, cited in Prashantham, 2008:7). In the network model, the internationalisation process is not linear nor sequential, but can vary based on the network relationships (Ratajczak-Mrozek, 2012). Thus, entering a new foreign market requires creating and developing relationships on that market (Ratajczak-Mrozek, 2012). The company may choose either to extend, penetrate or integrate a network. The first means creating new relationships in foreign markets. The second involves developing current network positions further and the third uses coordination between different foreign networks that the company is part of (Johanson & Mattson, 1988: 294, cited in Ratajczak-Mrozek, 2012).

In a network, there is a coordination between the parties. Although in a free market situation companies are free to choose their partners, building relationships takes time and effort. Therefore, switching partners can be complicated. In the network model, the underlying assumption is that a firm is dependent on resources which are controlled by other companies (Johanson & Mattson, 1988). Without having access to a particular network, a firm cannot use those resources. In addition to external resources, having a vast external network helps to make most out of your own resources, which might be scarce (Prashantham, 2008:4-5). According to the network model, the degree of company's internationalisation can be determined based on the positions in foreign networks. Thus, a company can be classified as highly internationalised if the company has many strong connections with companies from many countries (Ratajczak-Mrozek, 2012).

5.3 Born global

To be classified as a "born global", firms must have a global approach right from the start and see the whole world as their market (Rennie, 1993, cited in Singal & Jain, 2012). This phenomenon is also known as international new ventures and has been defined by McDougall & Oviatt (1994) as *"a business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries."* This means that foreign direct investments are not necessary in order to be born global, it is enough to generate sales in foreign markets. The born global companies also have an international vision from the start, an innovative product or service and a strong network. When traditional internationalisation theories usually focus on large and mature organisations, born globals are usually young and small (McDougall & Oviatt, 1994).

Born global companies, due to their young age, lack financial resources (Freeman et al 2006, cited in Kovacs, 2014). Thus, they need to use their knowledge-based resources in order to become international (Knight & Cavusgil, 2004, cited in Kovacs, 2014). If for traditional multinational companies, the main competitive advantage is their size, then for international new ventures, the competitive advantage is their knowledge or knowledge-based products and services (McDougall & Oviatt, 1994). Born globals often work with partners to compensate their lack of resources. Such partnerships can, however, sometimes be risky as the partners who are normally larger and more mature companies might expropriate the ideas and innovation of the born globals (McDougall & Oviatt, 1994).

Born globals emerge because of the restricted size of the domestic market. Becoming a global firm right from the inception is made easier thanks to the globalisation of sourcing activities and financial markets, but also thanks to technology developments and improvements in different infrastructures. Also, the human capabilities to deal with international operations have enhanced during the years (McDougall & Oviatt, 1994; Madsen & Servais, 1997, cited in Kovacs, 2014). These changes have made foreign markets more homogeneous, even if they are physically far away (McDougall & Oviatt, 1994). The companies do not see countries as individual markets, but rather for example, Europe, as a one single market (Kovacs, 2014).

The founders often have previous experience and knowledge about international markets and business (McDougall & Oviatt, 1994; Madsen & Servais, 1997, cited in Kovacs, 2014). Born global companies often provide services or products via the internet, and in these cases, previous international experience is not always necessary (Kovacs, 2014).

5.4 The Eclectic Paradigm

The eclectic paradigm, also known as the OLI model, is focused around the patterns of international production (including services). Dunning (2001) has said that this paradigm works best as a framework to analyse the determinants of international production. The OLI framework explains different forms of international production and selection of FDI destination countries (Ruzzier et al 2006, cited in Singal & Jain, 2012). These decisions about international activities are constantly under the influence of three forces.

First, the competitive advantages of a firm from one nation possess over firms in a different country. This might happen thanks to the ownership of some assets or to the ability to coordinate. This is noted as “O” which stands for ownership (Dunning, 2001). Overall, these competitive advantages are the reason why a firm decides to become international in the first place (Dunning, 1977, cited in Crescenzi et al 2015). During the years, the companies have not only tried to exploit their existing ownership advantages, but also to complement these advantages by getting access to foreign markets and ecosystems. Thus, the ownership advantages are no longer only internally-generated, but can depend on partnerships or alliances (Dunning, 2001). The internet and e-commerce give companies a new way to augment their ownership advantages by reaching scale and scope in a different way. It also changes the nature of competitive advantage – it can just be, for example, a pool of customer data (Dunning & Wymbs, 2001).

Second, to which extent a company decides to move value-adding activities abroad. This is marked as “L” that stands for the location advantages (Dunning, 2001). In the process of internationalisation, this factor determines the choice of destination markets (Dunning, 1977, cited in Crescenzi et al 2015). The factors affecting such decision can be labour costs, tariffs, market saturation or macroeconomic situation among others (Dunning, 2001). But as mentioned under the first factor, companies are more and more looking for ways to complement their ownership advantages, and therefore possibilities for strategic asset-seeking can be a decisive factor (Dunning, 2001). The availability of internet opens new destinations thanks to reduced virtual distance and costs. Furthermore, having a great telecommunication networks or e-commerce friendly legal and tax environments can be important factors for location decisions (Dunning & Wymbs, 2001).

Third, the extent to which a company decides to internalise these value-added activities instead of outsourcing. These internalisation advantages are noted as “I” (Dunning, 2001). In general, this part of the OLI model answers how the internationalisation is carried out (Dunning, 1977, cited in Crescenzi et al 2015). When choosing between one and another, the costs and benefits of both options should be evaluated and compared (Dunning, 2001). The internet can make outsourcing easier thanks to better communication means with the suppliers, or on the contrary can help to coordinate internal activities (Dunning & Wymbs, 2001).

5.5 Other theoretical aspects

5.5.1 Motives

There are several positives associated with internationalisation, which makes companies want to engage in international activities. If done appropriately, internationalisation results in vital growth (Luostarinen 1980, cited in Prashantham, 2008:21-23), learning outcomes (Zahra et al 2000, cited in Prashantham, 2008:21-23) and improved financial performance (Lu & Beamish 2001, cited in Prashantham, 2008:21-23). The companies who decide to go abroad get access to new customers, raw materials and technologies (Singal & Jain, 2012). Based on these, there can be four main motives for internationalising. These are resource-seeking, market-seeking, efficiency-seeking and capability-seeking (Behrman, 1972, cited in Singal & Jain, 2012).

5.5.2 Running a business in a developing economy

There are several disincentives when running a business in a developing economy. For example, there can be institutional barriers, inefficient markets and poor regulatory mechanisms (Khanna & Palepu, 1999:126, cited in Prashantham, 2008:56). This highly affects negatively the ease of doing business. For example, there is not enough information available when assessing potential partners or vendors and disputes are cumbersome to be solved due to poor legal systems (Khanna et al.

2010). There are often restrictions by the governments that limit the free flow of capital and goods across the borders (Singal & Jain, 2012). In addition, complex bureaucracy (Naidu et al 1997, cited in Prashantham, 2008:56) and unstable exchange rates are a significant issue (Young 2001, cited in Prashantham, 2008:56). This results in high transaction costs and lead times (Khanna et al. 2010). Companies from emerging markets have to deal with an additional risk called "the liability of origin" (Ramachandran & Pant, 2010, cited in Sanfilippo, 2015), which can influence the performance of their international investment based on the issues related to their country of origin and not the ones related to the country of destination. If such issues are not addressed, it can result in diminished confidence among market participants and in the worst-case scenario break down the market (Khanna & Palepu, 2010). As can be seen, these inefficiencies often bring frustration and additional costs to the market participants. But in certain situations, business opportunities can emerge from these inefficiencies by filling the gaps that the current institutions have (Khanna & Palepu 2010).

It has been discovered that international companies from emerging markets tend to go against the traditional internationalisation theories such as the Uppsala model and are willing to internationalise even though they do not have experience or prior knowledge about the new markets (Sanfilippo, 2015). Thus, they are willing to invest abroad already at an early stage of their operations, even if they are lacking ownership advantages or managerial capacities (Sanfilippo, 2015). Companies from emerging markets do not wait until they are big to become global, but rather become big thanks to internationalising (Singal & Jain, 2012). Such phenomenon is not only country-specific but can also be true for certain industries. Studies of companies' internationalization in technology and knowledge-intensive sectors also contradicted the Uppsala model according to which companies tend to internationalise incrementally starting from markets with smallest phsychic distance (Andersen 1993, cited in Prashantham, 2008:21-23).

The OLI theory is based on large successful Anglo-American enterprises with abundance of resources and capabilities for international expansion. Such advantages are not present for companies from emerging markets. Thus, such companies must rather rely on exploiting their strategic and organisational innovations and put emphasis on networks (Singal & Jain, 2012). Firms from emerging economies follow the model of "Capability-then-Size" (Singal & Jain, 2012), which states that in order to grow big in size and assets, it is important to first develop dominative capabilities.

5.5.3 Internationalisation of smaller firms

Nowadays, being an international company does not mean being a big company. All businesses, including the small ones, are not bounded to domestic markets. Even the small players with limited resources can become international players (Prashantham, 2008:3-4). This was also seen under the *born global* theory. A company is classified 'small' when the staff headcount is below 50, turnover and balance sheet total below 10M EUR. Companies with under 10 employees are considered 'micro' companies (European Commission, 2003). SMEs can become global by identifying their distinct competencies and by remaining focused (Singal & Jain, 2010, cited in Singal & Jain, 2012). Knowledge is a vital resource for small companies willing to internationalise (Renko et al 2008, cited in Prashantham, 2008:4-5).

There are several factors that influence the internationalisation of small firms, especially those that are knowledge-intensive (Fontes and Coombs, 1995, 1997, cited in Prashantham, 2008:17-19). First is the size of the company and availability of resources. Second, the level of knowledge intensity – the higher the intensity, the higher is the probability to start as a born global enterprise. Third, the environment where the company has been established – those established in developing economies often find it harder to internationalise, especially without good connections. And last factor is the entrepreneur itself. Their personality, skills and experience all play a role.

In general, new companies struggle to get access to resources and networks. They have often low credibility and potential viability. It is difficult to overcome entry barriers, build strong relations with customers and suppliers. All this makes internationalisation more difficult (Zahra, 2005:23, cited in Prashantham, 2008:8). Having good networks is highly dependent on the founder. Some have networks, some do not. And even if they do have networks, they are mostly domestic (Prashantham, 2008:9-11). In India or any other developing market, newly founded companies have even greater challenges to overcome and importance of networks is even greater.

The internet offers firms an information-intensive environment, which enhances the spread and pace of internationalisation (Prashantham, 2008:28). More specifically, the internet helps to facilitate internationalisation for companies from developing economies (Prashantham, 2008:106). To benefit from that, the policy-makers should create an environment that allows knowledge-intensive companies to use internet in their favour and encourage the exports of digital products. The developing economies, however, often lack in this field. They find it challenging to keep their legislations up to date with the developments in the modern world (Prashantham, 2008:46-47). Furthermore, the improvements in transport and infrastructure have made internationalisation easier (Singal & Jain, 2012).

The path of internationalisation is different for service firms when compared to manufacturing companies. This is because the decision-making processes are different in nature, there are many different types of services and there is additional complexity in the interaction of environmental and service-specific variables (Carneiro et al 2008, cited in Singal & Jain, 2012). This has also been acknowledged by Johanson and Vahlne (1977, cited in Singal & Jain, 2012) who have said that the theoretical approaches of internationalising are different for service companies and are context-dependent. Both the firm-specific and location factors affect the internationalisation of service firms (Javalgi et al 2003, cited in Singal & Jain, 2012).

5.5.4 Choice of destination

There are several factors affecting the location choice when internationalising. Companies from developing economies go to developed economies if they want to access new technologies and markets. If the goal is labour-seeking, the companies aim towards other developing economies (Kedia et al 2012, Makino et al 2002, cited in Crescenzi et al 2015). If emerging market firms are uncertain in choosing a location, they prefer to go to countries that already have a presence of companies from their country or industry (Belderbos et al 2011, cited in Crescenzi et al 2015). This is due to the fact that companies from developing economies tend to have little foreign investment experience and that way it is possible to benefit from agglomeration and previous experiences (Ramamurti & Singh, 2009, cited in Crescenzi et al 2015). When investing into the European Union, emerging market companies tend to prefer wealthier EU countries, and are not concerned about having a concentrated market when pursuing a market-seeking strategy (Crescenzi et al 2015). Although companies active in high-technology or service sectors find it important for the destination country to be technologically-advanced, the emerging market companies do not focus on the socio-economic factors (such as education or employment levels) that underly the country's innovation levels (Crescenzi et al 2015). Existing connections in foreign markets are also an important factor that affects the location choice (Kovacs, 2014).

6. Analysis

6.1 Business environments – Estonia vs India

To get an overview of the business environment in India and Estonia, data from the World Bank's Ease of Doing Business Score and Economic Freedom Score complemented with other sources will be used.

6.1.1 Estonia

Estonia is a young democracy, re-gaining its independence in 1991 after being part of Soviet Union for 40 years (Heritage, 2019b). Since 2004, Estonia is a member of the European Union, which gives the country an access to the European Single Market. The same year, Estonia joined NATO, and since 2010 is a member of the OECD (Heritage, 2019b). In 2011, Estonia adopted euro as their currency, being the first former Soviet country to do so. Estonia's economy is reliant on electronics and telecommunications sectors (Heritage, 2019b). Estonia is classified as a high-income country with 18 190 USD GNI per capita. The population of Estonia is just above 1.3 million (World Bank, 2019a). Total GDP of Estonia is around 26B EUR after a growth of 3.9% in 2018. The GDP growth rate has been above 3% for the past three years (Statistikaamet, 2019b).

In 2019, Estonia was ranked 16th based on the Doing Business score with 80.50. The score is above the OECD average of 77.8 and is comparable to their neighbouring countries Finland and Latvia (World Bank 2019c). Estonia ranks 15th on the ease of starting a business. The limited liability form of an enterprise is noted by letters OÜ (osaühing). The paid-in minimum capital requirement is 2500 EUR which stands for 14,6% of income per capita. The procedure of starting a business in Estonia takes 3 days (World Bank, 2019c) and costs 190 EUR in registration fees (E-Residency, 2019g), which is 1,1% of Estonia's income per capita. Overall, Estonia scores better in terms of starting a business than the OECD average (World Bank, 2019c).

It is not necessary to pay the minimum required capital right away and can be deferred up to 10 years until when the company has generated enough profits to cover the required amount. Thus, the capital must be paid out only before the company wants to start paying out dividends (Rang, 2018). Since January 2019, it is possible to use any EU-bank or alternative financial service providers to pay in the minimum required share capital (E-Residency, 2018). The most time-consuming procedure in the World Bank's review was registering for the VAT. However, it is not necessary to register for VAT unless the taxable revenue of the company per calendar year exceeds 40 000 EUR (World Bank, 2019c). Without that procedure, the company registration would take 1 day. Interestingly, Estonia holds a world record for the fastest online company registration. In 2009, the whole registration process (from starting the application until the company appears in the official registry) of a private limited company Hankeabi OÜ took only 18 minutes and 3 seconds. The record is registered in the Universal Record Database (Neudorf, 2009). Based on the author's personal experience, the application procedure was completed in around an hour and the company appeared in the registry the following working day.

From the World Bank data appears that a medium-sized company should make eight tax payments a year and spend 50 hours per year on tax matters. Both are below the OECD average and the latter is near the world's best performance of Singapore (49 hours). The total tax and contribution rate were found higher than the average of OECD economies – 48,7% of profits, which is to an extent due to high social contribution taxes (World Bank, 2019c). The corporate tax is 20%, which applies only when the profits are paid out of the company (PwC, 2019a; Heritage, 2019b). So, as long as all the profits are re-invested, there will not be any necessity to pay corporate tax. The reason for tax matters to be less time-consuming compared to other countries is largely thanks to Estonia's online tax declaration system (E-Residency, 2019f)

Based on the 2019 Index of Economic Freedom, Estonia's economy is classified as 'mostly free' and ranks 15th with 76,6 points overall. In Europe, Estonia places 7th and scores above the average regional ratings (Heritage, 2019b). Characteristic to 'free' and 'mostly-free' economies are significantly higher income levels compared to other economies, visible long-term economic growth, longer life expectancies and stronger democracies (Heritage, 2019a). Since 1995, Estonia has improved their economic freedom index score by 11.4 points (Heritage, 2019b). In the recent years, there has been a slight decrease in the economic freedom score. This is due to negative events related to financial freedom, which took a hit due to a high-scale money-laundering scandal involving the Estonian branch of Danske Bank (CNBC, 2018), and more recently also Swedbank which has strong presence in Estonia (Reuters, 2019). These incidents have also brought a decline in the confidence of the banking sector (Heritage, 2019b).

The rule of law is well present in Estonia. The contracts are recognized, secure and enforced. Commercial codes are consistently applied, and the judiciary is independent from the politics. Dealing with misconducts and corruption is effective and the public institutions are transparent (Heritage, 2019b). The government spending has been 40.4% of GDP with budget deficits of 0.1% over the past three years. The public debt in Estonia is 8.8% of GDP, which is the lowest in the European Union (Eurostat, 2018). Exports and imports together constitute 151,6% of the total GDP. The trade barriers implemented by Estonia are aligned with the EU requirements and are mainly of non-tariff nature – technical requirements, quotas etc. The average tariff rate is 2% and Estonia is open towards foreign investments (Heritage, 2019b).

6.1.2 India

India is the largest democracy in the world with a population of over 1.3 billion. Their GNI per capita of 1 820 USD makes India a lower middle-income country (World Bank, 2019d). Being such a big country, India operates based on the "union model of federalism", where individual states are given autonomy to a certain extent, while government tries to harmonise those policies present in different states. That autonomy of states has been decreasing continuously during the years. With recent introduction of GST (Goods and Services Tax) and nation-wide development agendas rather than state-specific ones, the country is moving towards a more centralised economy with a single and uniform market (Singh, 2018).

India improved their position in the World Bank's doing business rating by 30 places in 2018 and made it to the 100th position (MarketLine, 2018). After improving their rank by another 23 places, India is now positioned 77th among the 190 economies (World Bank, 2019d). The score is 67.23 which is well above the average of South Asian region (56.71) but remains below China's score (73.64) (World Bank, 2019d). The scores for starting a business are between 80-82 which place India on the 137th place overall. It takes 10 different procedures and 16-17 days to register a business, while the cost of establishing a business is 12,2-16,8% of income per capita or up to 170 EUR (World Bank, 2019d). This is more time consuming and more expensive than in the South Asian region on average and significantly above the levels of OECD economies. On the positive side, there is no minimum paid-in capital requirement in India. Many of the processes can be completed online, but some things such as visiting notary or getting a company stamp require physical presence (World Bank, 2019d). There is a turnaround threshold of 4 000 000 INR (49 647 EUR) for physical goods under which businesses do not have to register for GST. For those providing services, the threshold is 2 000 000 INR (24 823 EUR). However, there are some states where the threshold is just 1 000 000 INR (12 412 EUR) (Wadia, 2019).

India ranks 121st on the ease of tax matters. It is evident that a medium-sized company has to make 11-13 tax payment a year and spend 273,5-277,5 hours yearly on tax matters. The most time is spent on dealing with GST-matters – 164,5 hours out of the total 277,5 hours. The number of payments is lower than in other South Asian economies, while the number of hours is comparable with other countries in the region. The total tax and contribution rate in % of profits is 52,2% (World Bank, 2019d), while the corporate tax is 32,4% (Heritage, 2019c). Most of the 13 different taxes can be paid online (World Bank, 2019d).

India is classified as a 'mostly-unfree' economy by The Heritage Foundation (2019c) and ranks 129th among the 186 economies observed. Their score of 55.2 places them below the world and regional averages. Since 1995, India has been able to improve their economic freedom score by 10.1 points. The current prime minister Modi who is in power since 2014 has promised elaborate economic reforms, while the results so far have been modest. The prime minister is trying among other things to focus on India's foreign policy to balance the growing importance of China in the region. The economy of India is very diverse, where traditional sectors such as agriculture exist together with modern sectors like information technology. India is moving towards an open-market economy, but several old-fashioned policies are still in place. Biggest concerns for India are their fiscal health and financial freedom, which produced the lowest scores of all the parameters (Heritage, 2019c).

Some issues regarding the rule of law are present in India. Judiciary is independent, but the institutions face issues with understaffing and lack of technological solutions. Corruption is a serious issue that hinders the growth possibilities and ineffective anticorruption system does not help solving it (Heritage, 2019c). Regulatory environment sets high burdens and discourages entrepreneurship, which could otherwise boost the growth in private sector. There is high presence of public companies in many sectors. Informal sector is still an important source of employment, while the labour regulations are evolving (Heritage, 2019c). The government spending has amounted to 27.5% of GDP over the past three years and budget deficits have been around 6.9% over the same period. Public debt of India constitutes to 70.2% of GDP (Heritage, 2019c). Exports and imports combined constitute to 40.6% of GDP. The average tariff rate is 6.3%. In 2018, India had 369 different non-tariff measures in place. Foreign investments are screened and there are ownership restrictions in several sectors. However, the restrictions have lately been reduced in some sectors (Heritage, 2019c).

6.1.3 Startup India initiative

In early 2016, the government came out with an action plan to encourage the growth of start-ups – Startup India. The vision is to transform India into a country of job creators rather than job seekers (Startup India, 2019). The plan's goal is to reduce the regulatory burden on start-ups, which would allow them to focus more on their business and decrease costs related to regulatory issues. To maximize the realisation of potential of start-ups and entrepreneurs, Startup India Hub should facilitate financing and development by helping to get in touch with venture capitalists, banks, incubators, universities and provide mentorship during the process. There are also state-owned funds allocated for start-up financing. Furthermore, full-lifecycle support will be provided in matters like financing, feasibility testing, business development etc. To incentivise investments into start-ups, capital gains are exempt of taxes. Furthermore, the profits are exempt of income tax for the first three years if no dividends are distributed (Startup India, 2016).

Several conditions of being eligible for the programme must be fulfilled. The company must be registered within the last seven years and the yearly turnover must be below 3 million euros (25 crore INR). The start-up must be working with innovation and provide products or services driven by technology or intellectual property. The products or services must have an innovative element and must create value for the customers or users (Startup India, 2016; 2018; 2019b). A certification must be awarde by an Inter-Ministerial Board for the enterprises willing to be part of the initiative (Startup India, 2016) and another certificate must be granted to use the tax benefits (Startup India, 2018).

According to the programme, this initiative has catalysed the start-up culture of India (Startup India, 2019a). By the end of February 2019, over 16 000 companies have been recognized as start-ups, 182 start-ups have received funding support. As of November 2018, only 91 start-ups had been approved to avail the tax benefits of the programme (Startup India, 2018). Due to strict conditions to comply with all the rules to get funding through the programme or avail any other benefits, it has been almost impossible for new start-ups to benefit from this initiative (Pal et al. 2017). Although the program aimed to help bring VC investments into start-ups, the investment amount from domestic VC firms actually halved in 2016 compared to the previous year (Mampatta, 2016, cited in Pal et al. 2017) due to new conditions that needed to be fulfilled when investing.

6.2 India as an international player

6.2.1 Historical developments

India used to be a fairly closed economy with strict restrictive macroeconomic, trade and industrial policies which highly limited imports and FDI activities. This made local producers focus on the domestic market. During the 1990s, India started to grow more rapidly, and liberal open-policy measures were adopted, which have made cross-border trade and investments a reality (Pradhan, 2017; Chaudry et al. 2018). The reforms included abolition of import licensing system, loosening and removal of non-tariff barriers, reductions in tariff rates etc (Chaudry et al. 2018). This has challenged Indian firms to become more competitive and expand abroad to continue growing. Thanks to these liberal policies, foreign markets are attractive and accessible for Indian firms (Pradhan, 2017; Chaudry et al. 2018).

Total exports of goods and services in 2017 were 489,4B USD (World Bank, 2019e) of which 185,3B USD were service exports (World Bank, 2019f). 42,4% of service exports were services related to information and communication technology. This is a significant proportion and is one of the highest in the world, only behind Israel (44,9%), Ireland (43,7%) and Kuwait (43,3%) based on 2017 statistics (World Bank, 2019g). The growth in export numbers has been significant. The total exports have doubled between 2007 and 2017 and grown over ten times since 1997 USD (World Bank, 2019e). European Union is the largest trading partner for India with 13,1% of the total trade. This places EU ahead of China (11,4%) and USA (9,5%) (European Commission, 2018). EU and India have had good trade relationships recently. The trade has grown rapidly in both directions and a strategic partnership was formed in 2014 to negotiate a free trade agreement with reduced tariffs etc. It is believed that this agreement can significantly help Indian companies to expand across Europe (Milelli, 2016:157).

6.2.2 Restrictive policies

There are certain sectors where Indian residents are not allowed to invest in abroad. For example, it is prohibited to invest into businesses dealing with selling or buying real estate. Investments into foreign banks must be approved by the Reserve Bank of India (Chawla, 2018; Chaudry et al. 2018). If no exceptions are present, there is no prior approval needed from the Reserve Bank of India for foreign investments.

It is difficult for Indian companies to open a foreign bank account and many have opened foreign subsidiaries just for the sake of being able to open a foreign account (Chawla, 2018). If an overseas branch opens a foreign bank account, the Indian entity must not transfer more than 15% of the average annual turnover during the past two years or more than 25% of company’s net worth to cover the initial expenses of the branch, and not more than 10% of turnover during the last financial year to cover recurring operation costs. Funds to buy assets and equipment are not included in these amounts. The branch must be active and conducting normal business activities (Chawla, 2018). Such rule has caused inconveniences for many e-commerce companies dealing with foreign customers and wishing to collect payments in a foreign country without opening a representative in that country (Chawla, 2018). An approval for having a foreign bank account might be granted for exporters receiving deferred payments. Moreover, a foreign bank account can be maintained for making OFDIs in a particular country. However, such account can solely be used for the purpose of making an investment (Chawla, 2018).

6.2.3 Internationalisation of Indian firms

In India, international entrepreneurship can be hampered by macroeconomic disadvantages or a hostile environment. However, the software industry of India has managed to be successful despite that. These companies can be successful thanks to entrepreneurial efforts and favourable policy measures (Prashantham, 2008:51). This is surprising, as the Indian culture with its caste system has not encouraged Indians to become entrepreneurially-minded (Dana 2000, cited in Prashantham, 2008:56). Previously, achieving success often meant obtaining licenses, lobbying and establishing political connections or bribing but things have improved significantly (Prashantham, 2008:57). Such a transformation has been supported by the increased quality in human resources, especially in the ICT (information and communication technology) areas thanks to widely-available technical education (Prashantham, 2008:58-59), and by the improvements in the ICT infrastructure and technological developments. Although the workers are skilled, and technology is comparable to developed countries, Indian labour costs are still low, which has given Indian firms a competitive advantage (Pradhan, 2017; Singal & Jain, 2012). The wages however are rising, and the competitive advantage is shrinking (Prashantham, 2008:58-59). Rising wages is one of the reasons why there are reshoring trends present in Europe, which means that instead of offshoring business activities to India, more and more European companies choose to find suppliers from European countries. This is important due to quicker replenishment, better quality control, proximity to customers, quicker development, brand image etc. This is truer in the manufacturing industry but could also apply for the services one, which in India's case could be software development (Singh, 2016:58).

More and more of Indian companies are becoming truly global and do not only focus their investments on a particular region or country but have presence in all parts of the world. For many, the global markets are becoming more important than the domestic markets (Pradhan & Aggarwal, 2011, cited in Pradhan, 2017). According to Singal & Jain (2012), Indian companies have not followed the Uppsala model when internationalising and have entered markets with high psychic distance. More recent trends of overseas investment destinations (OID) have been inclined towards countries providing higher tax benefits rather than resources. Such destinations include the Netherlands, Singapore and Mauritius (IBEF, 2019). All these countries have favourable and strong trade policies with India, but also low tax rates and access to international financial markets. Nearly 70% of Indian OFDI go to offshore locations (Roy & Narayanan, 2016), which makes it difficult to keep track of all the investments and where the funds eventually end up.

Indian investments into Europe have seen the highest growth among the developed economies and account for the highest share. The importance of UK as an OFDI destination has fallen significantly and the Netherlands recently accounted for 54% of OFDI flows to Europe (Pradhan, 2017; Chaudry et al. 2018). In addition to the Netherlands and the United Kingdom, favourite OFDI destinations in Europe for Indian companies have been Germany and Belgium (European Commission, 2018). ICT is by far the main sector of Indian investment in Europe, followed by pharmaceuticals and equipment (Milelli, 2016:164).

The main motivation for Indian OFDI has been market-seeking, while acccessing raw materials or new technologies has not played an importance (Nunnenkamp et al. 2012; Rasiah et al. 2010; Pradhan, 2008 and UNCTAD, 2004, cited in Pradhan 2017). More specifically for greenfield investments, the two main motives have been accessing to markets and skilled professional availability (Milelli, 2016:159-160). Market-seeking has been the main motive for companies in the whole Asian region (Rasiah et al. 2010). Thus, host countries with no natural resources or superior technology can still attract investments from India. Indian companies tend to invest more into markets with high existing presence of Indians and it is more difficult for host countries without such presence to attract investments (Nunnenkamp et al. 2012). Indian companies are mainly targeting customers in English-speaking markets (Sahoo et al. 2017). In the service sector, many of the services can be provided remotely and do not require physical presence in foreign countries. However, companies are establishing their local presence to provide more effective, secure (increased trust) and better after-sales support (Pradhan, 2017).

Increased levels of OFDI in India have improved access to technology, markets, resources and knowledge. It has also helped for the companies to improve their brand value and be closer to their customers (Roy & Narayanan, 2016). Furthermore, the product and service quality of Indian companies has improved as they have had to compete with foreign players (Sahoo et al. 2017).

6.3 Creating and EU-company

Although e-residency brings along many benefits for those participating in the program, it is not the only way to enter the EU market. It is possible for non-resident individuals to establish a business in other EU countries or Estonia without having an e-residency card. For that matter, a closer look was taken at the processes and requirements when establishing a business in EU countries. As no aggregate database containing the company establishment processes for non-residents was found, the countries had to be looked at separately. Due to time constraints, five countries were selected. First, the Netherlands, which has lately been the favourite OFDI destination in EU for Indian companies. The United Kingdom, which has for a long time been the number one destination for Indian OFDI. Denmark, which is ranked 1st in the Ease of Doing Business rankings in Europe and last, Ireland, which ranks 1st in terms of starting a business in Europe. Finally, Estonia itself, to see whether the general process is any different for non-residents without an e-residency card.

First, the EU (2018) encourages all the member states to fulfil some targets in relation to starting new companies. The process should take less than three working days, cost less than 100 EUR, the registration should be able to be completed online and through a single administrative body. However, these are just recommendations and the real requirements are different in each country. In addition, these recommendations are meant to apply for EU-citizens trying to establish a company in any of the member states and not for non-resident founders.

6.3.1 Estonia

In Estonia, there are not many additional restrictions when opening a business as a non-resident without an e-residency card. Only a visit to the notary is mandatory. This can either be done in person or by using the power of attorney. This means that there are a number of documents that have to be notarized and legalised, before establishing the company through a service provider (Incorporate, undated). Still, not having an e-residency can make the communication with authorities and signing documents more difficult at later stages of running a company, and therefore local representatives must be used for these activities.

6.3.2 The Netherlands

Establishing a private limited company in the Netherlands as an Indian resident requires a residence permit which must be granted by the Dutch Immigration Authorities (GotN, 2019a). The shareholders of the limited company can both be individuals or legal entities. It is necessary to have a local address. There is no minimum capital requirement when establishing a Dutch private limited company (BV) and the share capital can be denominated in any accepted currency. The company must have a place of management in the Netherlands (INCO, 2018a). The registration form for registering a business can be filled online (GotN, 2019a) and the registration costs 50

EUR (Legalee, 2019). A visit to the notary is needed, either in person or via power of attorney. The World Bank (2019i) estimates the associated notary costs to around 1750 EUR, which can still vary between different notaries.

6.3.3 Ireland

For those coming from non-EEA countries, there are two ways to start a business in Ireland. Immigrant Investor programme – either a minimum of 1 M EUR investment of personal funds into a business headquartered in Ireland or into a fund investing in Irish businesses (DoJE, 2019). Start-up Entrepreneur Programme – an innovative idea and at least 75 000 EUR of funding is needed. Other conditions are the capability of creating at least 10 jobs in Ireland and being able to realise 1 mio EUR in sales within three to four years. It must also be led by an experienced management, headquartered and controlled in Ireland and be less than five years old (Citizens Information, 2019).

If a non-resident founder does not have such funds available, one needs to apply for a bond that insures the company for 25 000 EUR against some regulatory breaches for two years. The bond service can be applied through a service provider and will cost around 2 000 EUR (Accountant Online, 2019). There is a need for both a registered address and a business address, where the company is actually trading from. There needs to be a company secretary that is well-aware of Irish law. These conditions can be fulfilled using different service providers (Accountant Online, 2019). The company can be registered online and costs around 70 EUR. There is no minimum capital requirement (World Bank, 2019j).

6.3.4 Denmark

Normally, the founders should first get a NemID card, which works as an online identification tool. But as this is available only for Danish residents, all non-residents must establish a company through a lawyer to bypass this requirement (Invest in Denmark, 2017; TransferWise, 2017a). The other processes include depositing the required capital at a bank – at least 25% of the required capital must be paid in immediately. Private Limited Liability company in Denmark (ApS) requires 50 000 DKK (6700 EUR) as minimum share capital (World Bank, 2019k). Registering a company costs 670 DKK (around 90 EUR) (World Bank, 2019k). The company can entirely be formed online within few hours without having to be present physically (Copenhagen Capacity, undated). None of the shareholders need to be a resident of Denmark (TransferWise, 2017a).

6.3.5 United Kingdom

For non-EU residents, to be able to establish a business in the UK, a visa is needed. There are three types of visas for those willing to make business in the UK. Entrepreneur visa for those wanting to set up a business in the UK and have at least 50 000 GBP of investment funds available. The application costs 1 021 GBP (1 192 EUR) plus healthcare surcharges and other fees (GOV.UK, undated a). Graduate entrepreneur visa for those with a credible business idea that is endorsed by an UK higher education institute or the Department of International Trade. The application costs 363 GBP (424 EUR) (GOV.UK, undated b). Investment visa for those with at least 2 000 000 GBP (2.3 M EUR) in investment funds. The application costs 1 623 GBP (1 895 EUR) (GOV.UK, undated c). There is no minimum paid-in capital requirement when establishing an UK Private Limited Company (Ltd). The registration procedure can be completed online and costs 12 GBP (14 EUR). If the application is done on paper, the cost is 40 GBP (47 EUR) (World Bank, 2019l). The company must be registered for corporate tax within three months after registration (TransferWise, 2017b).

Based on these countries, establishing an EU company can be complicated and costly for Indian resident founders mainly due to minimum investment or share capital requirements. However, in several of the countries, special programmes are present for start-ups, which might ease the process. Still, certain requirements must be fulfilled to benefit from these programmes. When looking for the data presented in this section, it was often difficult to find complete information from one government-operated source. Thus, the e-residency option does seem to provide an easier, more transparent and more cost-efficient solution when creating an EU company.

6.4 The interviews

The specific overview of the data collection process including the sample selection principles and the names of all sample companies can be found in the methodology chapter (Chapter 4).

6.4.1 Backgrounds of the sample companies

The sample companies run by the interviewed Indian founders are active in different industries such as consultancy and advisory services, technology, trading, software development, electronics, advertising and marketing. Due to e-residency being a fairly new phenomenon, all the Estonian companies are also quite new. The oldest Estonian company was established in October 2014 and the youngest in January 2019. Most of the interviewees have engineering background and have international experience prior to establishing their current ventures. For example, some founders have obtained their university degrees in Europe, one has lived in Switzerland, two founders have spent time working in Singapore and one founder has done voluntary work in Europe. There are several founders who have through their previous work been tightly connected with foreign markets in the United States and elsewhere.

To assess the size of the companies, information about the number of employees was asked. Although one could argue that the company size can better be assessed using financial indicators like revenues, this information can be considered sensitive for some and founders are always not willing to give an honest overview. The size of the companies varies from being a company with only one employee (the founder himself) to a company with up to 35 employees. Several companies use external contractors instead of full-time employees. Overall, all the companies can be classified as small or micro companies based on the number of employees.

In addition to having an entity in Estonia, most of the businesses have an entity in India. Only the founder of Virnobilis OÜ has just an Estonian company. Due to the nature of the e-residency programme, it is not possible to establish companies with a juridical entity as the owner. Thus, the Estonian and Indian companies are kept as separate companies juridically even though they are part of the same business. However, Velmenni OÜ has organized their company structure in a way that the Estonian company is the parent company, while the Indian company is its daughter company.

Some of the sample firms have presence elsewhere in the world in addition to Estonia and India. For example, Coremantra OÜ has an entity and Gars Infotech OÜ a small sales office in the US. As all the companies are international, most of them have clients from countries abroad or have tight connection with foreign markets in some other way. For example, Indoeuropean Consultancy

OÜ has mainly clients from India, but offers consultancy services related to the European market. Most of the companies had international business activities already before establishing the Estonian company. Although all the Estonian entities are established recently, the ages of the businesses vary. For the previously mentioned Virnobilis OÜ, establishment of the Estonian entity marks the beginning of his business overall. One company established their Indian and Estonian entities virtually the same time, four businesses have been established within the past three years. The remaining companies have been active for a longer time since 2009-2012 in one form or another.

A question about companies' competitive advantages revealed that most of the founders find their knowledge, track record, technology, manufacturing methods or experience be their competitive advantage. However, few founders consider their Estonian entity and the benefits coming from that as their competitive advantage, whether it is access to financial service providers or access to a different set of customers or partners. The case companies also tend to have very different objectives in relation to their futures. Some have set modest plans to grow steadily by gradually expanding their scope and reach, some have higher goals to become worldwide players and one company even expects to become a Fortune 1000 company in 10 years' time. Others have not set any clear objectives and run the company more as a lifestyle-business.

6.4.2 Indian business environment

The interviewees revealed both positive and negative aspects running a company as an Indian founder. Almost all the interviewees had positive things to say about the current government in relation to the business environment. There are clear improvements happening and the environment has become more friendly towards being an entrepreneur. The difference between the past and the current situation was explained by the founder of Virnobilis OÜ:

"It is only the last 3-4 years that India has picked up a startup culture and entrepreneurship. India is primarily a working-class culture. Everybody wants to find a stable job and income and settle down. Nobody wants to take the risk. Now it's changing."

More specifically, several changes and reforms have been made. There have been simplifications of the tax system together with introducing the GST (equivalent to the VAT in Europe) and the entrepreneurs have to spend less time on administrative work. The latter is largely thanks to the fact that increasingly more things can be done online. For a digital advertising agency Coremantra OÜ, already everything business-related can be done online:

"In the recent, I would say two years, for example, even my Indian company now is 100% digital. 100% digital, 100% can be remotely managed."

The entrepreneurs find several positive aspects about being part of the Indian business environment. The big size of the domestic market creates opportunities with high potential and makes it easier to do business. At the same time, the competition on the Indian market is high which forces companies constantly to improve their competitiveness. Also, mentioned by a trading firm Infozeal OÜ, India is a rich country and has much to offer to the world, especially in terms of raw materials. Furthermore, it was pointed out by many that there is an abundance of talent at a low cost. This is the reason why, for example Velmenni OÜ, has kept their R&D team in India as such access to cheap talent makes their operations more cost-effective compared to Europe and the US. The founder of Tactitone OÜ mentioned that having great talent at great price gives him the possibility to experiment at a lower risk as the cost of experimenting is very small.

In addition, in certain areas, Indians are automatically considered to be smart. This can be true, for instance, in the field of technology. Thanks to this and the growing potential of India in general, people are showing a growing interest in Indian businesses. This has resulted in higher investments into Indian companies by mainly Chinese and US investors as noticed by Coremantra OÜ. In addition, several founders mentioned that an advantage of Indian companies is the knowledge of English all across India, which reduces language barriers when expanding abroad. Furthermore, thanks to their high population, Indians can be found anywhere in the world. These fellow nationals abroad can be taken advantage of for networking purposes and to facilitate the internationalisation process.

The interviewees pointed out some differences between the Estonian and Indian business environment, which can in a way can be positive for companies. For example, the working culture. The founder of Velmenni OÜ finds Indian workers to be very competitive and as there is no such emphasis on work-life balance as in Europe, the employees in India are willing to do more extra work. This was confirmed by the founder of Tactitone OÜ who has experienced that Indians are willing to put in more than 8 hours a work a day. In addition, it was pointed out that in the majority of Indian companies, the workweek consists of six days instead of five like in Europe. This makes it possible for Indian companies to get done extra work when compared to European companies, not taking into account the differences in productivity levels.

As mentioned earlier in the report, India offers a Startup India programme for local innovative start-ups. One sample firm, Velmenni OÜ, has been able to benefit from that programme with their Indian company. They were able to qualify for the programme thanks to having a highly innovative research-based company with a unique idea. They now receive the tax benefits from the Indian government and can operate tax-free for three years after getting classified as a start-up. They are also eligible for government grants and have to file less compliances when compared to other Indian companies. It was also mentioned by the founder of MS89 OÜ that it is possible to get support by the Indian government if the business model is good and for non-financial support there are some seminars to help companies knowledge-wise.

Although things have improved and are still improving, the business environment still has some major shortcomings, which can create struggles for the businesses. As mentioned earlier, the Indian business environment has become more pro-entrepreneurship, but the founder of Infozeal OÜ still sees the Indian culture to be not entrepreneur-friendly. Due to the strict traditions and caste system, it is difficult for an individual with the wish to become an entrepreneur to break out from the system. There is high amount of confidence and good connections needed to do that. This means that most business owners come from the more privileged layers of the society and from traditional business-families.

Even though systems have been simplified, administrative and compliance issues still seem to be a struggle for Indian companies. Most of the founders find bureaucracy level high and administrative and document-work to be very time-consuming. Also, although many things have moved online and processes have been simplified, it is still not possible for the entrepreneurs to complete this work themselves. For administrative and compliance work, third-party service providers must be used. When interacting with the authorities, many founders find their responsiveness and service quality to be poor. As many of the founders established their Indian companies years back, their experience of starting a business might have been worse back then than the situation is now. The experience of establishing Velmenni OÜ's Indian entity back in 2012:

"At that point of time it was very complicated. Initially, we thought maybe we could do it by ourselves, me and my co-founder, but then finally we had to hire an expert to open the company. [..] So now things have changed, everything is online now, setting up a company is a few days process. But at the time I started the company it took me almost two months to set up the company."

The founder of Mentaverde Technologies OÜ also found it difficult to establish the company by himself in 2017-2018 financial year:

"It is just difficult to navigate in the whole thing by yourself, so you have to take help from professionals."

For him, the process took two to three weeks, which is higher than the time of *'few days'* indicated by the previous founder. Still, even though the process now takes less time than before and is less complicated, all founders still find it difficult compared to the Estonian process. For example, Forbix OÜ have found that the several government organisations involved in the establishment process often lack coordination among themselves. This problem was elaborated by the founder of Infozeal OÜ who noted that there is no single window of operations when dealing with the authorities which means that it is necessary to deal with different departments separately.

Tax levels are considered high by some, but fair by others. The tax system itself is considered too complicated by most despite the fact that most of the tax filing can now be done online. Velmenni OÜ said that they need to file taxes three times a month and provide the tax authorities with information of what they have bought and what they have invoiced themselves. Doing proper accounting is therefore complicated and external experts are necessary to be used. The founder of Forbix OÜ finds that the tax system should be much easier:

"There are still many challenges we face regarding the taxation, tax filing, the amount of tax we pay, the return procedure and so on. [...] Being a business owner, you should concentrate more on the business that you are doing rather than doing anything else. It eats some part of our brain [capacity] to be within the norms."

Even though the tax system can be complicated, and third parties must be used to file the taxes, it is not too big of a problem for everyone. For example, Coremantra OÜ does not find it to be a big restriction for cost reasons:

"If I had to hire an Estonian accountant, I would spend far more money. The process there is easier. In India, the process might not be easy, but getting a person to do it is easy. Not very expensive."

Despite the developments, the founder of Virnobilis OÜ finds India to be lagged behind technologically. This and other issues made Velmenni OÜ struggle in their early days, which occasionally brought thoughts of shutting down the business. They found it difficult to find customers for their highly-innovative core technology products in India as Indians in general are not early adopters of new technologies.

In terms of doing a cross-border business, most companies do not see any specific restrictions by the Indian authorities, but at least for some companies, there seems to be additional compliance work when running an international business. For example, Velmenni OÜ needs to provide information to the Reserve Bank of India about their foreign transactions:

"So with RBI we have to actually tell them about every transaction that we are doing, either an import or an export transaction."

Also, Forbix OÜ that produces electronic equipment finds it cumbersome to export their products, because custom clearance requests a lot of information: where the machine is going, what is it going to be used for, who will use it, why are they using it etc. All this takes a lot of clearance time at the customs and creates delays for the customers. Furthermore, in certain cases, special import and export licenses are needed to do cross-border business. Coremantra OÜ has also noticed some restrictions in relation to money flows - although money can come into India freely, it is not the some with the outflows of money. Additional information needs to be provided and the purpose must be explained. This again takes energy and time for businesses to deal with.

There are also currency-related issues that Indian companies must deal with when running an international business. As many financial service providers such as Transferwise or Payoneer do not provide services for Indian companies, dealing with international payments can be costly and complicated. This was explained by the founder of Tacticone OÜ who receives payments from customers in USD and needs to pay to the vendors also in USD:

"What happens is, when my client pays me, they pay in US dollar. By the time it gets to my bank, it gets converted into Indian rupees and when I pay it back to my vendors, I'll have to do the conversion again."

Also, travelling as an Indian has proven itself to be complicated and all the trips must be planned well in advance. Although it is not a problem that cannot be overcome, applying for visas and doing the planning is time-consuming and costly. Even worse, some have encountered situations when their visa applications have been declined even though all formalities have been completed properly.

Furthermore, as pointed out earlier, the perception of Indians can play in the favour of Indian businesses in certain areas. But there are also negative perceptions in place. Whenever doing business, there are certain stereotypes present, both good and bad. The founder of Mentaverde Technologies OÜ has not seen a negative effect personally but admits the presence of stereotypes:

"Whenever I'm talking to a client, there is a human sitting on the other side and he has some biases, he has some stereotypes."

Such stereotypes, no matter the country of origin, can make it difficult for companies to convince their customers or business partners in their legitimacy. The founder of consultancy firm MS89 OÜ has heard negative things about the reputation of Indians:

"I heard from some people that Indians' reputation was not good in business, because they are talking much and doing nothing."

The founder of Tacticone OÜ has also experienced a negative perception by foreign customers about Indian businesses:

"Someone coming from India and trying to interact with any of the foreign companies […] Things are a bit tricky because of the perception. There are many people who provide like super cheap services and the quality is not good. That does affect if you're a small business. […] It is kind of difficult for customers to understand that you can provide some value."

As explained further by the founder of GARS Infotech OÜ, this has created a situation where foreign customers think that Indians can do everything very cheap and expect to pay very little. People also tend to expect low quality products from Indian companies, which makes it difficult for Indian companies to break such perceptions and convince customers. Indoeuropean Consultancy OÜ has experienced that it is difficult to get in touch with European companies as they do not respond after seeing that they are an Indian company.

Another disadvantage when operating an Indian business can be India's political and macroeconomic instability together with corruption. Several founders mentioned that the business environment can be very "seasonal" based on who is currently at power. This was one of the reasons why the founder of Virnobilis OÜ decided to establish an Estonian company without starting a business in India beforehand:

"The political stability is something that everybody is concerned with, especially in financial markets, because every year when the financial budget comes out, they change the rules. So, you don't have the peace of mind to plan long-term."

This was explained further by the founder of Mentaverde Technologies OÜ in respect to the tax laws which keep changing almost every year:

"Another disadvantage with the Indian system is [that] they can apply a tax law on a retrospective basis. So, if they come out with a new law tomorrow, they can actually say this is a new law, but we will still apply to the past three years. That has happened in a few cases, so there is that uncertainty."

As it was written before, Velmenni OÜ has managed to use the Startup India initiative in their advantage. However, they admit that it is very difficult to get approved to be part of the programme unless you have a really innovative or unique approach, which they luckily did. There are several companies who were not interested in receiving any support for the government, but even if they did, they said that there would not be any suitable support mechanisms to help their type of businesses and the criteria that must be fulfilled are very specific.

6.4.3 Going international

The founder of Coremantra OÜ explained that India has over the years been doing international business with the United States mainly and have only recently started to explore other areas of the world. Virnobilis OÜ mentioned that people in India tend to think that setting up a company overseas is tricky and controversial. It was mentioned that in general it has been very difficult for Indians to open a company in Europe as it is very expensive due to minimum investment requirements by individual European countries.

In general, there are can be different motivations for Indian companies to start an international business. First, as mentioned earlier, Velmenni OÜ struggled to find customers for their high-technology products in India and therefore decided to access international markets to find customers. Market-seeking and finding customers has been the key motivation also for several others – especially to find customers who are able to pay more than the domestic Indian customers. For example, the founder of Tacticone OÜ mentioned:

"I was not getting paid enough to maintain the quality. […] I was doing this for about 6 months and then I said, OK, you probably need to go to America."

The founder of Mentaverde Technologies OÜ has had similar experience:

"As a general trend the clients in India, they do not really expect a very high-quality work and there are a lot of service providers in India who would do mediocre-quality work for very cheap. Whereas this is very different on the global front. If I have a client from the UK, he is paying me a higher amount for a better-quality work. […] There is actually an incentive for me to do better in my job."

Thus, going international gives Indian companies access to a different pool of customers, who help them to earn more and force them to develop their products or services further. This has been very important for Forbix OÜ that has thanks to foreign customers been able to develop new and better products:

"The more customers that we get from various fields, they come with their own set of requirements based on their environment. That gives us a good chance to understand the world much better and

how our systems can solve various different problems. […] Then we started making our products much more sophisticated."

Other reasons for going international based on the sample companies were to access funding, form partnerships, operate in a more stable environment, get access to financial service providers like Stripe and to increase their reputation. For those companies providing location independent services, the initial step of becoming international has not been a significant change as all their services can be provided over the Internet and that makes it irrelevant whether the customer is located in India or abroad.

6.4.4 Choosing e-residency for internationalisation

Taking into account the general motivations for internationalisation, all the companies had for one reason or another chosen to internationalise using the Estonian e-residency programme.

Many of the founders heard about e-residency by reading online forums, articles and other medium. There are some founders who heard about e-residency from friends, while some found out about e-residency when attending different events. For Velmenni OÜ, the journey to e-residency was different from others – as they struggled to find customers and funding in India, they started looking elsewhere and found an Estonian accelerator who provided them guidance and a seed capital of 20 000 EUR. During the three-month accelerator programme, they were introduced to the e-residency by the accelerator. That way they were able to maintain their European presence after the end of the accelerator programme.

None of the founders apart from just-mentioned Velmenni OÜ had any connections in Estonia before applying for e-residency and several had never even heard about Estonia before finding out about e-residency. Yet, they all decided to create a company in Estonia. But business is not always the main reason to apply for e-residency. For MS89 OÜ, it was rather the unique idea of a digital identity and the business side came later. For the owner of Coremantra OÜ, it was the combination of business and the broader vision of Estonia:

"I like the attitude, the mentality, the comfort with technology of Estonia, of the government of Estonia. The whole concept of the government being run on blockchain and having digital consulates in Luxembourg and data being backed up across the world. […] Even the law of nature,

for example, 50% of Estonia is forest and working along with forest. […] It was this great blend of technology and nature."

Many of the interviewees considered other countries before establishing an Estonian entity. The founders mentioned Czech Republic, Germany, Poland, the Netherlands, Finland, Belgium, USA, UK, Ireland and Latvia as other potential destinations. The founder of Coremantra OÜ explains that outside Europe, it is very easy for Indians to start a company in the USA. There are many Indians already there, the visa system works well and there are many opportunities on the US market.

Velmenni OÜ considered opening a company in Germany as some of their clients are from there but realised that it was not necessary to have another European entity at this stage as the customers were fine dealing with an Estonian company thanks to the single EU-market. The founder of Virnobilis OÜ looked into more exotic options before deciding to establish an Estonian company. He considered Mauritius, Seychelles, Gibraltar, Isle of Man and United States (Wisconsin). Although each of these locations provide their benefits which might be better than Estonia's, an agent is needed to set up a company in these locations and they cannot be trusted all the time. In Estonia, everything was possible to be done by himself and directly with the government – pay fees directly to the government, pick up the e-residency card from the embassy etc. This all made Estonia a much more legitimate choice:

"Setting up a company in Marshall Islands just takes a dollar. I would still pay 200-300 euros in Estonia, but then it's like, who would trust a company which is set up in Marshall Islands for one dollar? So, reputation is number one, how the world looks at the country and the businesses that are registered in that country."

The trustworthiness of the programme was also emphasized by the founder of GARS Infotech OÜ:

"Since it's coming from the government, it is coming from the nation from a country which is technologically very advanced, so why you not become a part of it. There is no reason to avoid it."

Many founders mentioned that running a business in Estonia seamed much easier and cheaper than in other countries. The founder of Infozeal OÜ mentioned that it is possible to start business in countries like Switzerland or Italy if you have money to invest, but for entrepreneurs like him, Estonia is much friendlier and easier. Based on his experience, he also finds the Estonian bureaucracy levels to be low, even compared to Germany. This was confirmed by the owner of Forbix OÜ who decided for Estonia because in his opinion everything was made very easy, there were clear instructions and information available, the process was systematic and organised. In other countries it was not possible to get such clear overview of the whole process and the opportunities.

6.4.5 The positives and negatives related to e-residency

For the founder of Coremantra OÜ, the experience has provided positive surprises from the very start when filing the e-residency application. The process took him around 10 minutes and soon provided him with the first interaction with Estonian authorities:

"The picture that my daughter took from my phone, I uploaded my picture and within 20 minutes somebody from the Estonian border guard emailed me back that I should not be smiling, can I please send another picture. […] I was pretty impressed, you know. Somebody actually saw that and promptly responded with courtesy, like a customer-service person sitting in a private company. […] And by just seeing that interaction, I was a fan of Estonia from then."

The great responsiveness of Estonian authorities was also highlighted by the founder of Virnobilis OÜ:

"Every time I sent an email or requested information, they were quite responsive within 24 hours to let you know what the state is, what should I do, what should I not do. […] I sent an email 9pm India time, next day in the morning, I had the answer. So, that does not happen in other countries […] It takes time."

Another positive thing related to communication was highlighted by Coremantra OÜ that mentioned the presence of an official e-residency team (Startup Clubs) in Bangalore, India, where people in case of questions or need for assistance can turn to.

The founder of Infozeal OÜ felt respect when opening the company even though he did not come with huge amounts of money. When dealing with other countries, he felt that they were only after his money. Also, it was mentioned by one founder that Estonian authorities are much friendlier and helpful than their Indian counterparts – in India, when dealing with authorities, one is made to feel suspicious or guilty of something. The founders confirmed that the company can be created within 24 hours and that starting the company in Estonia is easy and cheap, not only compared to other European countries, but for some, also India.

Coremantra OÜ already had an entity in the US and decided to create an Estonian company as a part of their internationalisation strategy:

"When I discovered Estonia, it provided all the benefits of what the US company gave and far more, and with more, I would say, control, more transparency and more ease of management."

There are certain keywords mentioned by the founders over and over again. These are transparency and ease of running the business. Most find the system to be very transparent from the beginning. The Estonian laws are considered to be entrepreneur-friendly and easy to understand. In case of any misunderstandings, everything will be explained either by the service provider or by the authorities very well. The fact that everything can be managed online has made running a business easy and helps to save time. It is possible to sign documents remotely and digitally, while such agreements are accepted widely (at least in the European Union). The founder of Coremantra OÜ was overwhelmed about all this in the beginning:

"You insert the card and you could form the company and [do] every filing, everything was so easy. That was unparalleled I would say. I was pretty impressed."

For the founder of Tacticone OÜ it is important to be able to run business remotely and Estonia provides that. This combined with the ease of the whole process was the primary reason for creating the Estonian entity. The owner of Infozeal OÜ provided an example how he was able to file his own taxes in Estonia by just a few clicks.

In addition to the ease and transparency, there are other benefits for Indian entrepreneurs. The Estonian company gives access to financial service providers to manage international transactions and maintain multicurrency accounts, which reduces costs, paperwork and makes transactions seamless. This solves problems not only for Indians, but other companies from emerging economies with similar issues:

"Estonia is providing a global platform for developing countries like India, Bangladesh. […] For me to work in India and deal with foreign exchange currencies here is very difficult. An Indian national cannot hold foreign currency in a bank account unless he has a valid visa. […] Estonia providing a platform for few hundred euros to those companies is very welcome for companies from developing countries." (Virnobilis OÜ)

Another benefit by such access was explained by the owner of Mentaverde Technologies OÜ:

"If you have an Indian company, you cannot use Transferwise for business and that actually is a very big deal, because if I'm going to Australia, I would not have to introduce them to the Indian payment system. […] I can simply ask them to pay me into an Australian bank account. That in itself is a very big plus."

Moreover, being able to create a real bank account in a European bank, will further ease international transactions and positively contribute to another important element – trust. Many founders see that there is an effect of the Estonian company to the trust and image of their business. European customers tend to feel more comfortable dealing with companies that are European, and it helps to eliminate the negative perceptions about Indian companies:

"The one edge having registered this Estonian company versus the Indian company is a little more of trust. Because if you know something there is an EU business versus there is an Indian business. For the developed world, there is a little more trust to the EU business, because they know that you have to be compliant there then. It is very difficult to have running business and not be compliant." (Mentaverde Technologies OÜ)

Forbix OÜ finds their company to be perceived more mature and bigger after creating the Estonian entity. This will help to become more reliable and credible in the eyes of the customers, because a European country has allowed them to open a business there and open a bank account – thus, the company must be legitimate. However, he clarifies that being an European company is not enough on its own and the products have to be very good to prove themselves to bigger customers.

Infozeal OÜ has also found that clients recognize their company more after becoming an European business, not only in Europe but also in US and China:

“The Europeans see you not like from a third-world country when you are having a base in Europe, but they feel that we belong to Europe because we have a company there. […] They feel more safe.”

In general, the Estonian tax system and rates were not among the reasons for companies to expand to Estonia nor do all founders see the system as beneficial for them. It was mentioned that if the taxes were the main reason, they could go to Ireland, for example. Still, several founders mentioned that the Estonian system, especially the fact that no corporate tax has to be paid unless money is withdrawn from the company, to be a great bonus. Virnobilis OÜ explained that such system will help a starting business like his own to grow faster and it also helps that it is not necessary to pay in the minimum capital right away. This is also emphasised by Mentaverde Technologies OÜ:

“For a small company, [it] can mean a lot, because the tax rate in India is 30% of your profits. So, basically, what it means is that I get to reinvest 30% more with the Estonian company”.

It was also mentioned that a homogeneous tax system is found to be a positive thing. Furthermore, GARS Infotech OÜ pointed out that by being an Estonian company they can be part of the EU tax laws – for example, use reverse charge VAT on inside-EU transactions.

The overall business environment in Estonia is found to be more pro-entrepreneur and stable than the Indian one. This is supported by the good relations between Estonia and India, which do not create any restrictions for having an Estonian company. It was highlighted that all the information is available in English and almost everyone in Estonia speaks English, which makes it easy for foreign founders to manage the company. It was also mentioned that the way of doing business in Estonia is more appealing. For example, even though Velmenni OÜ has kept most of their team in India where talent is available at a low cost, they are managing the team in the European way – they have implemented a 5-day workweek and the working culture that they have experienced in Europe.

Many of the interviewees have noticed an increase in the performance of their overall business after creating the Estonian entity. This can be seen in the form of increased number of customers, new partnerships or financial performance. However, for those that have chosen e-residency just for the sake of convenience and not to access new markets, the company does not have clear performance improvements after creating the Estonian entity.

For MS89 OÜ, the e-residency has helped to form new partnerships in Europe, while for Velmenni OÜ, the Estonian company has had a more significant role. Expanding to Europe gave them a whole new direction and they finally got confirmation that what they are doing is useful and needed. It was first in Europe that they were able to generate their first revenues and gain traction:

"Estonia is very close to my heart, because our company actually started growing once we moved to Estonia. Before that, there was no traction, there was no growth in India."

Through the connections provided by their first customers, the company was able to raise additional funds from UK-based investors. After the traction in Europe, Velmenni OÜ has been able to find customers also in India who first were reluctant to use their technologies. Having the Estonian company also helped them to get their intellectual property protected in Europe, where the IP laws are strong. Thus, the e-residency has proven itself to be a way to find more customers and investors. Furthermore, it was mentioned that all the Estonian companies are eligible for EU grants, which can give an extra source of funding for the businesses.

The founder of GARS Infotech OÜ finds Estonian e-residency to give a possibility to leverage the European market for third-world countries in a trusted and easy way. The founder of Forbix OÜ believes that innovative technology companies can benefit the most from e-residency, it is not meant for companies like restaurants or retail stores. It was also mentioned that it is most suitable for freelancers and entrepreneurs that are moving a lot, so that they could manage their company remotely. The founder of Velmenni OÜ recommends the programme for newly established companies:

"E-residency is good for an early-stage company. Because if you are in an idea stage, you can actually set up a real company at almost no cost in Estonia. You can go there, explore different opportunities, and for at least this [our] business, you have investors in Estonia."

In addition to the positives, some shortcomings and uncertainties were pointed out in relation to e-residency and the Estonian system. There was one problem that was highlighted by many founders – opening a bank account. After the recent scandals in the banking industry, which were mentioned earlier in this report, the banks in Estonia and elsewhere in Europe have become very cautious and have increased the requirements for being eligible for a bank account. Some of the founders have directly been affected by this, while others had heard others facing issues with it. Infozeal OÜ has not been able to open a bank account in Estonia and feels that the attitude by private banks has been rude towards him. This has resulted in losing some business orders for his company as he has not been able to provide customers with a legitimate Estonian bank account. Another founder has experienced banks asking for higher fees if the company is run by a non-resident founder, which makes owning a real bank account unreasonably expensive.

Coremantra OÜ did not face any issues when opening a bank account but understands that it can be quite difficult for companies whose business models are not that clear. It can be a big problem for many businesses, but he also sees a positive side to it – perhaps not everyone deserves it if the requirements are not fulfilled. He also sees that the alternative financial service providers can fill the gap in the market and reminds that e-residency companies are not limited to Estonian banks – they are free to open accounts all across European Union.

Infozeal OÜ finds a real bank account to be essential as the accounts provided by alternative service providers are always not good enough. For example, he points out that it is necessary to have a real bank account to receive EU funding and grants. Mentaverde Technologies OÜ has struggled to pay in the minimum required capital without a real bank account, while the founder from Indoeuropean Consultancy OÜ confirmed that it is possible to pay in the minimum required capital by using financial service providers, in his case Holvi.

Although it was previously mentioned that all the information is available in English, one founder still found that some newsletters and information are only available in Estonian, which makes it difficult for him to be sure that he has understood all the necessary things. It has also been noticed that language can be a barrier not only in Estonia, but Europe in general – people do not always feel comfortable communicating in English.

As mentioned, Estonia's reputation is considered to be good, but some have experienced that Estonia is still a fairly unknown country. This is also true considering that several of the founders had never heard about Estonia before applying for e-residency. This means that before reaping the benefits of Estonia's reputation and EU membership, some explanation needs to be done:

"Estonian private limited companies end in OÜ and no one knows that. So, the first time they are like 'what is OÜ?' and then you say it is an Estonian company and then they are like 'where is Estonia?'. And then you tell them it is in Europe and then they are like – yeah, now we are sure, now we get it." (Mentaverde Technologies OÜ)

The small size of Estonian market is a disadvantage when trying to establish physical presence in Estonia. Companies do not find it realistic to find necessary talent in Estonia. This is one of the reasons why the e-residency is seen not to be suitable for big companies. Also, for bigger companies, the tax levels pay a higher role, which is why they would rather choose a country with lower tax rates.

For Forbix OÜ, establishing connections in Europe after the expansion has been complicated:

"The main trouble till date is not establishing a company, it has never been. Establishing a company is one of the easiest and simplest parts as the government has already baked the cake and given it for us. The toughest part starts now, which I am here [in Estonia] for now, to establish connections with customers, connections with partners here, who can run my business on my behalf or on the behalf of the company across Europe through Estonia."

He thinks that the Estonian government should provide more support after the company has been established:

"The government has really helped us in doing the initial process of company formation, that is good. But the next step to it is blank. [...] Government here should help in getting more business partners."

He suggests that a community should be created where e-residents and other businesses could meet and form partnerships. Otherwise, Estonia will receive many new company registrations, but the companies soon become dormant as they are not able to grow. Similarly, it was also indicated that e-residency should provide more case studies about companies who have benefitted from e-residency. That could help Estonia to bring in more businesses, but also to help potential e-residents to get ideas how to use their Estonian companies to the fullest.

With the increase of e-residents and new companies, some uncertainties arise. For example, the founder of Virnobilis OÜ expressed concern about whether the system is able to cope with a sudden and rapid increase in the number of e-residents. He sees that there can be a big inflow of Indian engineering students that want to become entrepreneurs and hopes that Estonia is prepared for that:

"They always want to go global because they have the technological knowledge to set up websites, become a Youtuber, become a freelancer etc. And the Estonian e-residency is the first choice, because it helps them open up global account like Payoneer."

In addition, few additional unanswered questions and concerns were raised by the founders. For example, what will happen to the company if the e-residency card expires or the company owner suddenly dies? Due to the nature of the e-residency, only the founder has access to all the government systems using their personal ID-card – if either of the events happen, there are concerns that all the operations and money gets locked and no one can access it. Also, more clarity is needed about the taxes when paying out dividends or salaries. It is difficult for company owners to decide whether it is more tax-efficient to pay founder-salaries or take dividends. For example, the founder of Mentaverde Technologies OÜ is currently paying high employee taxes as despite the double-taxation treaty he would need to pay taxes twice when paying out dividends – once in Estonia on company's name and then in India on his personal name.

Some companies have faced issues with their service providers. For example, the founder of Tacticone OÜ would like to get a more detailed overview of his accounts and transactions, but only basic accounting is provided by their service provider. He therefore needs to run a parallel system by himself to keep track of everything, which can become too much once the business volumes get bigger. Several founders hope that Estonia will make travelling easier for e-resident business owners that are contributing to the Estonian economy. Currently, all founders must go through the regular visa application process, which can be time-consuming and costly.

Many of the unanswered questions and issues are contributed to the fact that the programme is yet to mature and not all scenarios have become reality in these early stages. Despite the shortcomings, all the founders were satisfied with e-residency and the overall Estonian system. This was well illustrated by the founder of Infozeal OÜ:

"It's 100% successful and it has worked for most of the Indians. Whether there is bank account or not, you have entered Europe, that is the main thing. […] We are officially in the world now."

6.4.6 Physical expansion

Even though it is not always necessary to visit Estonia when establishing or operating an Estonian business - it is only required if one wants to open an official bank account instead of using an alternative financial service provider – many founders have still visited Estonia just out of curiosity or to create some connections.

At the moment, only Velmenni OÜ has a physical presence in Estonia with one employee and a desk in a co-working space. However, several of the other interviewed founders have plans to create physical presence in Estonia and many others find it plausible in the more distant future. For example, Indoeuropean Consultancy OÜ would like to open an office already in 2019, which would help them to broaden their scope of services. Further expansion in the near future is also expected by Velmenni OÜ:

"We are getting more clients in Europe. So, being in Estonia you can travel anywhere in Europe within three hours flight, so we are planning to extend [the physical presence] it this year. Maybe 4-5-member team, not too big."

Forbix OÜ believes that opening a warehouse in Estonia can result in cost-savings and reduced lead times. They see having a physical presence as an extra step to increase their reputation in the eyes of the customers.

6.4.7 Costs

All of the founders are using a service provider to maintain some parts of their Estonian company. These service providers give companies among other things a virtual address and office service, deal with bookkeeping and compliance. The founder of Coremantra OÜ said that their service provider takes care of everything, while he does not have to worry about anything and knows that he is on the right side of the law. For these services, there are recurring costs involved, usually either monthly or yearly. Additional costs can apply from banks and other instances. The founders perceive the costs of maintaining an Estonian business differently, but most agree that the costs are reasonable when compared with the potential benefits:

"The benefits we get out of it here is much more than the expenses." (Forbix OÜ)

Velmenni OÜ thinks that maintaining the Estonian business is very cost-efficient. In Estonia, their monthly fees (accounting, taxes, legal fees) are around 500 EUR. But in India, they pay double the amount for all the compliance and tax work every month. Still, around half of the founders thought the maintenance costs were rather expensive. This was mostly considered in comparison with India, where one would pay less for the same services.

7. Discussion

7.1 E-residency as a solution

Both the secondary and primary data confirm that India is falling behind in terms of the business environment quality when compared to Estonia and that Indian entrepreneurs and companies can face additional challenges. This finding does not come as a surprise, but it is significant to note that e-residency can be to a certain extent be a way to avoid these struggles. E-residency also seems to work for both service companies and for those dealing with physical products.

Several of the struggles described in the theory chapter related to emerging markets, but also the more India-specific struggles identified through secondary data were confirmed during the interviews. The low scores of Ease of Doing Business and Economic Freedom which were discussed earlier were also clearly reflected in the responses. The institutional barriers which result in complications in operating a business, currency-related issues and struggles emerging from the perceived image were all in accordance with the theories. Some challenges identified during the interviews were new, such as complications when travelling, and more in-depth knowledge became evident about other struggle-points. For example, it was possible to see based on the secondary data that the bureaucracy levels are high and processes time-consuming. The primary data helps to provide more detailed insight that high bureaucracy translates into a great deal of compliance work, absence of single window platform by the authorities and complex regulations and systems. From the empirical data became evident that having the possibility to establish an Estonian company through e-residency can mitigate or eliminate many of these struggles.

Despite the recent developments, India has to cover long distance to catch up with more developed countries E-residency is often used to fill these gaps emerging from the weak institutions in India – accessing payment services to alleviate currency risks, reduce the “liability of origin” or soften the burden of administrative work. Thanks to the EU-membership of Estonia, not only does e-residency help to solve the institutional issues, but it provides access to the most important trading partner of India – the European Union. Like for Indian OFDI overall, the main motivation for the sample companies is market-seeking. Therefore, it is mostly irrelevant for the companies that Estonia itself does not boast with abundance of natural resources or with big pool of labour. Also, the fact that Estonia is 1000 smaller than India in terms of population is not an issue. Those companies with market-seeking motives do not target Estonia as a single closed market but Europe or even the world as a whole. Having the Estonian company can level the playing field for Indian entrepreneurs as businesses as a European company is considered a more credible partner worldwide.

The e-residency programme gives access to a more stable and developed economy, while the entry barriers remain low. The company establishment costs in Estonia are almost the same as in India (170 EUR vs 190 EUR), whereas the process is less time consuming, more transparent and more convenient. The fact that there are no requirements for minimum investments and that the minimum share capital does not have to be paid in immediately makes e-residency especially suitable for small emerging market companies and entrepreneurs, who are often in an inferior position resource-wise. The opinions were split about the costs associated with the maintenance and operations of the Estonian entity, but do not seem to be unbearably high for emerging market entrepreneurs and firms, especially when compared to the gained benefits.

It must be noted that having an Estonian company does not necessarily give more benefits than having a company in any other EU country. However, the Estonian company provides roughly the same benefits plus the possibility to manage everything remotely, while being easily accessible for emerging market companies and entrepreneurs. Both the secondary data and interviews confirmed that establishing a company through e-residency is a more cost-effective and transparent process than in other countries they considered.

Despite the positives, e-residency programme is yet to mature and therefore is not yet ideal. The programme is unlikely to be suitable for everyone, and during the interviews it was mentioned that if they had more resources, different countries could have chosen for internationalising. Thus, the programme does not seem to provide sufficient benefits for mature and bigger organisations. Furthermore, the issues with opening bank accounts that rose after the money laundering scandals might deter potential entrepreneurs from applying for e-residency. Nonetheless, it is good to see that several of the shortcomings are already known to the e-residency team and solutions are on the way according to the E-Residency 2.0 white paper presented in Chapter 3. Plans to facilitate partnership creation, provide more materials in English and assist e-resident firms on tax matters are all potentially going to eliminate some of the shortcomings experienced by the interviewees. Still, e-residency does not solve the issues related to travelling for the emerging market entrepreneurs. In addition, even if some problems have been solved – like being able to pay in share capital using financial service providers and not only regular banks - the news do not reach e-residents. That is why the founder of Mentaverde Technologies OÜ found paying in the share capital as an issue although there already was a solution to his problem. Thus, there are improvements to be made to the communication side.

The argument that Indian companies have recently mostly been expanding for tax reasons does not seem to be true for e-residency companies. If tax reasons are really the primary reason for most Indian companies, then e-residency is not suitable for a big proportion of Indian firms. However, the Estonian tax system is found to be suitable for small companies with growth prospects without being a tax haven. The necessity of having a strong Indian community present in the internationalisation destination does not hold true for the sample of this study as Estonia does not have a big physical community of Indians present. However, the Indian community of e-residents is growing fast as seen from the statistics, and therefore more and more Indians can become comfortable joining the programme.

As was found out, there are not only negative aspects related to being a company or founder from India. Thanks to being able to run the Estonian company entirely remotely, the e-residency allows companies to combine the positives of both countries while eliminating negatives at the same time. As was mentioned, one of the negatives about Estonia is the small talent pool, while India can boast with abundance of workforce. Thus, in this scenario, Indian companies can take advantage of being a European company, while reaping the benefits of cheap Indian talent. Therefore, the e-residency provides several benefits while giving the companies a flexibility to operate as they wish.

It must be understood that e-residency will not eliminate all the problems related to the domestic conditions. If a business maintains both an Indian and Estonian entity, they will still have to deal with these struggles imposed to the Indian company. Though, by moving more and more activities and customers under the Estonian firm will mitigate these problems. All the problems cannot be eliminated even if an entrepreneur would establish an Estonian company without the Indian entity.

Even in this case, the company might have to pay some taxes in India or deal with the authorities in other ways.

7.2 Alignment with traditional internationalisation theories

Even though no statistical or mathematical frequencies were calculated, the case companies have till date not followed an entirely homogeneous pattern of internationalisation (apart from creating a company in Estonia). Still, one pattern seems to be more visible than others.

Especially for companies offering remote services, the internationalisation has followed a born global model as they have had international customers on board right from the inception. Most respondents saw the market not necessarily defined by physical country borders, but as a wider concept. The born global companies of the sample have emerged largely due to the domestic market, which does not have suitable target customers, but also thanks to the ease of doing international business with the help of the internet. The aspect that born global founders tend to have previous international experience also seems to hold true based on our sample. Although this model seems most applicable in the case, not everyone started with international activities right from the inception and these activities followed quickly after testing the domestic market.

Some sample companies have been active for up to ten years before making the move to create a foreign entity, while one company does not have an Indian company at all. Most of the companies were already active before the creation of the Estonian company, which can mean that to some extent the companies have followed a stage model: after creating initial traction in India, companies started exporting their services and products, which was then followed by establishing an entity in Estonia or elsewhere. However, based on the sample companies, if such stages were present at all, the companies moved very quickly between stages and international activities were taken despite their small sizes and weak domestic market positions. Furthermore, the companies did not in general start their internationalisation from neighbouring countries – they were not afraid to go to USA or Europe as the first step. As described in the theory chapter, such characteristics are often present when observing the internationalisation patterns of emerging market firms, which can make Uppsala model unsuitable in the context of small emerging market companies.

The importance of networks during internationalisation cannot be falsified, but existing networks and market knowledge do not seem to be a prerequisite when choosing Estonia as the internationalisation destination. It does not seem problematic to create an Estonian company even if the founder has not heard about Estonia before, and thus lacking any market or local knowledge. However, the importance of connections seems to come into play after the establishment of the company when actual business activities should commence. Although having a strong network is undoubtably helpful, the founders hope to create these connections with the help of the Estonian entity and e-residency. Thus, from the network model perspective, existing networks can influence the internationalisation process and choice of destination like was seen in the case of Velmenni OÜ, but it is not required to have such connections beforehand.

The OLI model seems to be valid to an extent based on the sample companies. Most of the companies believe to possess distinct advantages to compete on international markets. These activities are not only exploited on international markets, but also complemented by gaining new knowledge and partnerships. However, few interviewees hope to gain competitive advantage by establishing the Estonian company, whether by accessing certain services or partnerships. Thus, it is not necessary to possess any significant ownership advantages prior establishing the Estonian company and these advantages can then be developed afterwards. This is in accordance with the theories of emerging market firms' internationalisation, where companies are more willing to expand abroad even though no distinct competitive advantages are present.

The companies have not extended their business to Europe physically by hiring employees, renting a warehouse etc (with the exception of Velmenni OÜ). This is due to the higher labour costs and talent crunch in Estonia, which are in accordance with the "L" parameter of the OLI model. Thus, most value-adding activities are still kept in India where conditions are more preferable, and the Estonian entity is often seen as a transactional body.

Based on the current sample, it is possible to notice different patterns of internationalisation via the Estonian e-residency. However, the born global model seems to be most evident. As e-residency has been around for less than five years, it was not around during the inception of several sample companies. It can therefore be questioned whether all these companies had started their business by creating a company in India or rather start from Estonia like Virnobilis OÜ. As e-residency allows to bypass the necessity of creating a domestic entity and the popularity of e-residency is constantly increasing, it is fair to assume that the share of businesses that would start by creating an Estonian entity will increase in time. This will create a situation where more companies become international from inception not only by having international customers, but by having an international entity. Becoming international right from the beginning is a characteristic of born global companies, but after starting the business in Estonia, the companies can still follow a stage model or the network approach of internationalisation. Even when the company only has an Estonian entity, it does not restrict the companies from targeting the Indian market first. That way, one could classify the establishment of an Estonian company through e-residency as a "platform" for internationalisation, which acts as a pre-step to other internationalisation activities.

It must be emphasized that the discovered patterns are influenced by many factors such as the type of the company (product vs service), the objectives of the firm (lifestyle business vs Forbes 1000 company) and the availability of resources. Thus, the companies are not following an internationalisation because of e-residency but are rather choosing e-residency if it seems to fit their strategy. Many of the findings related to the internationalisation patterns are characteristic for emerging market economies in general, and therefore such patterns are not necessarily related to only e-resident companies.

8. Conclusion

First, the study aimed to identify the challenges that the Indian companies and entrepreneurs face when operating an international business. These identified struggle are related to the poorly developed business culture and unstable environment, high levels of bureaucracy and time-consuming processes, complexity and high amounts of compliance work, lack of coordination and service quality by the Indian authorities, technological lags in the society, restricted access to multicurrency accounts and to alternative financial service providers, complicated travelling, negative perceptions about Indian firms that can result in diminished reputation and opportunities.

Second, it was analysed whether the Estonian e-residency can provide a way for Indian companies and entrepreneurs to eliminate the identified challenges. It was confirmed that the Estonian e-residency indeed can help mitigate or solve several of the mentioned struggles. It gives Indian companies and entrepreneurs access to a digitally advanced and stable economy, low levels of bureaucracy and time-efficient processes, convenience and transparency, responsive and single window communications with the authorities, access to European banks and financial service providers, and contribute to a better image and trustworthiness. In addition, e-residency gives firms and entrepreneurs an access to the EU market with its new pool of customers and potential partners. More importantly, e-residency makes it possible to access such benefits easily and fairly cost-effectively when compared to other European countries and therefore makes it well suitable for companies and entrepreneurs from emerging markets. The flexibility of the system allows firms to combine benefits of the European and Indian business environments.

Still, e-residency is not always an ideal solution and might not fit everyone's needs. For the programme to become better, some shortcomings should be eliminated. For example, the e-residency team should enhance the cooperation with private banks to give e-resident companies better access to regular bank accounts, the communication in relation to certain topics should improve and unanswered questions should be clarified, more simplified visa processing for e-residents should be provided and additional guidance for companies related to business opportunities and partnerships be given.

Finally, the research analysed how the e-residency companies align with the traditional internationalisation theories and models. When comparing the internationalisation patterns of the sample companies with the traditional internationalisation models, the born global model seemed to fit best. Still, the e-residency does not restrict companies to follow different patterns of internationalisation and acts as an internationalisation platform which can precede further activities.

As the e-residency is still a new concept, it should offer researchers plenty of opportunities to conduct further studies on the topic. This research identified different struggles and ways how e-residency can solve them in a qualitative manner. In the future, a more quantitative approach could be taken to find out which of the struggles are the most severe ones and to what extent they can be solved using e-residency taking into account parameters like costs, time and convenience. Such a study would allow to make wider generalisations and create factual knowledge. In addition, a similar study could be conducted to see whether e-residency can offer any major benefits for companies and entrepreneurs from developed economies. Moreover, studies with a longer time horizon could be conducted to see longitudinal developments in the e-residency programme or in the performance of e-residency companies.

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Appendices

Appendix 1

1) Background of the company
   - Entrepreneur's background – Education? Business experience? Where do you reside?
   - Overview of the company
     - Industry?
     - Age?
     - Size
     - Location – presence in India or anywhere else? Where are your clients located? When did you start selling abroad/establish presence abroad?
     - What is your company's competitive advantage?
     - What are the goals of your company? Where do you see the company in 5-10 years' time?

2) Business environment in India
   a. How easy is to start a business in India? How was your experience like?
   b. How easy is it to run a business in India on daily basis?
   c. Did or do you get any support from the government? Financial support, government initiatives etc. Is access to funding widely available?
   d. How would you describe the tax system in India? Is the tax burden high? Complicated regulations?
   e. How do you interact with Indian authorities? Can it be done online? Is the bureaucracy level high?
   f. Are there strict restrictions by the government to run an international business or make international investments?
   g. How do you think being an entrepreneur from India affects your business opportunities and success? Positives and negatives.

3) Motivations for internationalisation in general
    a. Why did you decide to internationalise your business? (Market-seeking, efficiency-seeking, resource-seeking etc).
    b. What were the main struggles for you in the process of going international?

4) E-Residency:
    a. How did you hear about Estonian e-residency programme?
    b. Why did you decide to take part in it?
    c. Did you have any connections in Estonia beforehand or did you know anyone with an e-residency company? How did it affect your decision?
    d. Did you consider any other countries? If yes, why were they not suitable for you?
    e. What are the biggest differences between Estonian and Indian business environments?
    f. Do you have a physical presence in Estonia? Planning to establish?
    g. Is your company taxed in Estonia? Do you employ anyone in Estonia or plan to do so? Taken any dividends?
    h. Has the programme worked for you? How? Did your expectations meet the reality?
    i. Is the company performing better after the expansion?
       Number of customers, financial performance.
    j. Do customers find your company more trustworthy?
    k. What are the costs related to maintaining your Estonian business?
    l. What are the biggest shortcomings of the e-residency programme? What changes would you like to have implemented?
    m. What type of companies do you think can benefit the most of this programme? To who would you recommend it?