International New Ventures` Internationalisation Strategies: A Configuration Approach

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Abstract

International new ventures (INVs) and born globals, companies that internationalise from inception, have existed for centuries, but they gained popularity only about 20 years ago. Since then the international entrepreneurship field has been well developed from the entrepreneurship and international marketing perspectives, but the strategic management perspective still lacks attention. Our work develops a framework for the INV internationalisation strategy formulation using existent international entrepreneurship and international business models. We conduct a phenomenological study employing a qualitative multiple case study research method. We sample 12 INVs from the Baltic States to test the framework and identify 4 viable INV internationalisation strategy configurations. Then we detect a link between business models, which we proxy by universal internationalisation goals, and INVs` internationalisation strategy configurations. The INVs that employ simpler business models and internationalise only to increase sales choose limited geographical scope and easier to implement strategy configurations, namely export start-ups and geographically focused start-ups. More complex business models that require internationalisation to survive impose more demanding global strategies – multinational traders or global start-ups. The framework employs a configuration approach, but is prescriptive in nature and is practically applicable in the INV`s strategy formulation process to help founders develop and formalise cohesive viable international strategies.

Keywords: international new ventures, born globals, born global firms, internationalisation strategy framework, strategy configuration, international strategy, international entrepreneurship.

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Table of Contents

Abbreviations

FDI – foreign direct investment

IE – international entrepreneurship

INV – international new venture

MNE – multinational enterprise

R&D – research and development

SME – small and medium-sized enterprise

1 Introduction

The born global phenomenon is an artifact of the new global marketplace.
Cavusgil and Knight (2009)

International New Ventures (INVs) – organisations that internationalise from inception – have existed for centuries, e.g. East India Company. However, as a strategy they started to emerge only in 1980`s, when the new low cost communication and commuting technologies empowered global companies (Porter, 1990). Since 1985 scholars have been increasingly interested in the phenomenon and published several illustrative case studies (Cavusgil & Knight, 2009).

During the 1990`s we witnessed further homogenisation of the markets, more integrated financial markets, policy moves towards more open economies, human capital becoming more mobile, etc., which all facilitates internationalisation (Oviatt & McDougall, 1994; Cavusgil & Knight, 2009). Therefore, employing the INV strategy became popular in the developed economies, and a solid theory building and developing body in international entrepreneurship (IE) research followed (Rialp-Criado et al., 2005).

During last decade IE research focused on empirical testing of the 1990`s theories, a significant share of works used quantitative approach (Cavusgil & Knight, 2009).
The early research focused mainly on the entrepreneurship perspective and traits of the founders of INVs. Then the marketing perspective became dominant in the research. The strategic management perspective is still not developed enough. Some scholars pointed out that correct strategy formulation is very important for INVs (Cavusgil & Knight, 2009), but the field lacks any prescriptive theory. Our paper intends to reduce this gap.

First we develop a theoretical framework to see which strategic internationalisation decisions INVs` founders are supposed to make based on the IE and international business theories. The framework helps us to cluster INVs according to the theoretical configurations constructed using the existing models. These include major strategic internationalisation decisions which depend on the venture characteristics. Because theory in this part is already developed, we take a deductive approach to form clusters.

We are specifically interested in how the business model an INV chooses determines its strategic internationalisation decisions. We employ an abductive approach and do explanatory multiple case study research to answer our research question: *How does a* *business model determine the INV internationalisation strategy configuration?* We conduct in-depth interviews with the founders or strategic managers of the representative ventures in clusters to get to know their reasoning behind the decisions. Then we bring our findings back to the theoretical framework to identify links between business models and INV strategy configurations.

Our research stands in between theory testing and building. Although we develop a theoretical framework for formulating the INV internationalisation strategy, it is only a merger of existent models in the IE and international business theory. We analyse whether this fusion of theory is supported by real life examples from the Baltic States. We did not find any characteristics that distinguished Baltic INVs from the rest of the world, so our findings should be applicable on a broader scope, too.

The contribution of our paper is in providing the first internationalisation strategy formulation framework for INVs. The prescriptive strategy school has many opponents, and some scholars argued against business planning (Bird, 1992; Carter et al., 1996; Allinson et al., 2000). Recent research provides evidence in favour of it (Delmar & Shane, 2003; Kraus et al., 2008), and IE scholars started to develop tools and guidelines for INV strategy formulation (Cavusgil & Knight, 2009). We believe our framework is of value in the IE field from the strategic management perspective and has practical managerial implications.

The rest of the paper is organised as follows. First, we review the most influential findings in IE research. Second, we use existing IE and international business theory to develop the INV strategic internationalisation decisions framework. Third, we describe our methodology and discuss its delimitations. Fourth, we provide our empirical findings. Finally, we construct the INV internationalisation strategy configurations and discuss their practical implications.

2 Literature Overview

2.1 Early Research

In the early INV research McDougall (1989) defined a new research field – international entrepreneurship (IE), which is “the development of international new ventures or start-ups that, from their inception, engage in international business, thus viewing their operating domain as international from the initial stages of the firm`s operation”. She argued that the strategies and industry structure profiles of INVs differ considerably from those of domestic new ventures. New research and theories were needed to explain the phenomenon, which eventually evolved into IE – the discipline bringing 2 distinct fields together: international business, focusing on large MNEs, and entrepreneurship, focusing on the creation of start-ups (McDougall & Oviatt, 2000; Cavusgil & Knight, 2009).

Since then active research followed trying to explain the phenomenon. McKinsey & Co. (1993) introduced the term *born globals*, which was defined as “firms that view the world as their marketplace from the outset and see the domestic market as a support for their international business”. Their exploratory research on Australian wine producers triggered similar illustrative and exploratory research in other developed countries in various industries.

Oviatt and McDougall (1994) published the first influential theory building study which provided the common grounds for further systematic research. They argued again that the international business theories that focus on large MNEs cannot be applied to INVs. They connected the traditional MNE concepts of internationalisation and geographic advantage with entrepreneurship research on alternative governance structures and some strategic management models. Besides first coherent theory on INVs, they introduced the first INV typology and the first universal INV definition: “**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**”. Although the operationalized definition of a born global firm by McKinsey & Co. (1993) was inconsistent with an INV by Oviatt and McDougall (1994), eventually the term *born global* was adopted by many scholars as a synonym of INV (Rialp-Criado et al., 2005; Cavusgil & Knight, 2009).

The typology by Oviatt and McDougall (1994) became the first model for differentiating among INVs, but has not attracted much attention in IE research. Most research in the 1990`s still considered all INVs as homogenous. Moreover, various other definitions were introduced: some included additional delimitations on the industry and size

(Knight & Cavusgil, 1996) and allowed for different internationalisation lags, e.g. 2 or 5 years after inception (McKinsey & Co., 1993). This makes theory generalisation very hard, because conclusions drawn largely depend on the definition.

2.2 Research Body

Last decade two important literature reviews were made, pooling together the whole IE research body: one by Rialp-Criado et al. in 2005 and the other by Cavusgil and Knight in 2009. They showed that most research so far focused on entrepreneurship and international marketing perspectives, while the strategic management of INVs attracted little attention.

Rialp-Criado et al. (2005) made the first attempt to systemise all the research that followed the McKinsey & Co. (1993) introduction of the term born global. They summarised 27 most influential papers on INVs till 2002, and identified several main study topics: differences between traditional MNEs and INVs, drivers for early internationalisation and INVs` success factors. For the first time in IE research they provided a comprehensive list of INVs` success factors from the whole research body:

> *(i) a managerial global vision from inception; (ii) high degree of previous international experience on behalf of managers; (iii) management commitment; (iv) strong use of personal and business networks; (v) market knowledge and market commitment; (vi) unique intangible assets based on knowledge management; (vii) high value creation through product differentiation, leading-edge technology products, technological innovativeness, and quality leadership; (viii) a niche-focused, proactive international strategy in geographically spread lead markets around the world from the very beginning, (ix) narrowly-defined customer groups with strong customer orientation and close customer relationships; and (x) flexibility to adapt to rapidly changing external conditions and circumstances.*

According to Rialp-Criado et al. (2005), IE is based on 3 established fields: (i) entrepreneurship, (ii) international marketing and business and (iii) strategic management. They cite most studies to be focused on the marketing perspective: more than 1/3 of their analysed papers were published in the marketing journals. Little attention was paid at that stage to the strategic management of INVs.

Cavusgil and Knight (2009) published the first comprehensive scientific book about born globals. They identified 7 stages of IE research: (i) born globals as a phenomenon, (ii) early internationalisation, (iii) general characteristics of the firms, (iv) the role of information and communication technologies, (v) strategy, (vi) phenomenon explanation via the resource based view and capabilities view, and (vii) phenomenon explanation via the network view. Our graphical illustration (Figure 1) shows the sequence of research topics, their basic content links and the extent of the research body.

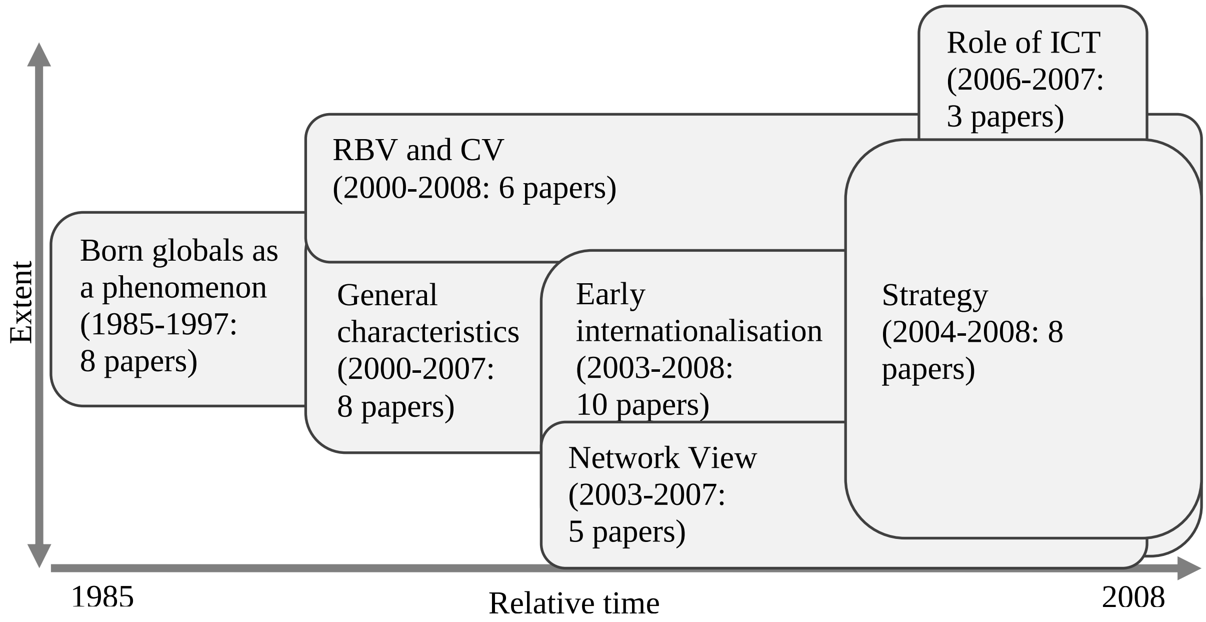

Figure 1. Research cluster classification according to Cavusgil and Knight (2009), modified by us with additional interrelatedness and content links.

The early research developed the field of IE. Scholars were interested in the general characteristics of companies and their founders. Later, by employing resource based view, capabilities view and networks view they identified the success factors of INVs. Marketing and international business based research identified the main drivers for such early internationalisation. The strategic management component gained attention only recently (Figure 1). 4 out of 8 strategy articles identified by Cavusgil and Knight (2009) were published in marketing journals, and only 1 in a management journal, so the actual attention to the strategic management issues might have been even lower.

2.3 Strategic Management Perspective

Despite the lack of any theory on the INV strategy, scholars have been emphasising the importance of the strategic decisions of INVs. Knight and Cavusgil (2005) stated that INVs need to define their strategic orientation very well, and suggested focus or differentiation as a marketing strategy. Mudambi and Zahra (2007) argued that INVs must choose “appropriate” strategies and entry modes very carefully before entering the market and effectively use the intangible resources they can access. According to OECD (1997), larger SMEs consider strategic planning critical in their success, and this is particularly true for INVs, which need complex intercultural management.

Formalised strategic planning outcome at SMEs usually gets the form of a business plan. The business plan concept is heavily criticised for its never fulfilling plans (Bird, 1992; Allinson et al., 2000) and the amount of time it takes away from management (Carter et al., 1996). However, Sahlman (1997) argued that not the concept, but its application is often wrong: entrepreneurs overload it with forecasts that never actualise, while the real value is in the strategy part. Kraus et al. (2008) in his quantitative research found that most entrepreneurial SMEs had a deliberate strategy albeit not necessarily put on paper. This indicates that most entrepreneurs think about strategic issues and they need tools. Moreover, although only a small part of the ventures had formalised strategy as a business plan, it increased their performance and lowered the failure propensity (Kraus et al., 2008). And more important especially for INVs, business planning accelerates product development and venture organising activities (Delmar & Shane, 2003)

Anyway, a large part of the entrepreneurs are not given the choice whether to do business planning for improving operations: they are required to have a business plan by capital providers. Cavusgil and Knight (2009) in the end of their book provided an outline for an INV business plan, so IE scholars still perceive it as the most important business strategy formalisation instrument.

Their outline once more emphasised the importance of strategic decisions and focused on prescriptive strategy formulation before starting any operations. It was a great step forward in practical application of the IE theory, but it only raised questions for management without suggesting any helpful tools to answer them. Managers were told and realised that strategic decisions are very important for INVs` success, but the main advice they got so far was “to do all strategic decisions in the right way”.

To sum up, so far the IE field is well developed from the entrepreneurship and marketing perspectives: we already know why some new ventures decide to be born globals, we know differences between successful and failing INVs, and we understand the importance of strategic decisions. However, there is very little guidance for founders how to formulate and implement a cohesive business strategy after the decision to start a born global firm is made. There is a clear mismatch in the literature between the realised importance of strategic decisions for the success of INVs, and the lack of any widely accepted theory in this field.

IE as a research field was established about 20 years ago. An INV is a company that sees the whole world as its market. The universal definition of an INV was developed and widely agreed upon. The entrepreneurship perspective dominated the early research, and then the marketing perspective attracted high interest. Strategic management was emphasised to be important for INVs, but little research has been done in this area. We aim at narrowing this gap and providing guidelines for the INV internationalisation strategy formulation.

3 Theoretical Framework

3.1 INV`s Internationalisation Strategy Decision-Making

According to our strict INV definition, we analyse the case when companies "seek to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries from inception", which implies that founders make the decision to internationalise before establishing the company. Our study analyses strategies of only new companies leaving born-again globals behind, which means that at the time of strategy formulation only a founding team and no operational organisation exist. It concerns only strategy formulation by the founding team with no organisation analysis.

Positioning and environmental strategy scholars argue that strategy must be aligned with the environmental factors which play the pivotal role in the initial new venture strategy formulation (Mintzberg, Ahlstrand, & Lampel, 2009). We take a purely rationalistic approach to strategic decision-making and assume the founding team chooses the most optimal combination of their capabilities and environment, which is reflected by the business model providing the highest fit.

Contrary to the decision-making models from the entrepreneurship perspective, we do not analyse the fit between the strategy chosen and the capabilities of founders. Also we do not analyse the effect the environment and industry have on strategy, leaving the international business models behind. In other words, we assume that founders have already formulated their business strategy optimally and come up with a business model. We analyse only the internationalisation strategy of a company and how it fits the chosen business model from the strategic management perspective.

Hamermesh et al. (2002) explained that every business model imposes critical success factors to achieve its profit goals. Acquisition of these factors or satisfaction of their conditions become business goals in themselves. From the practical point of view, in his best-seller for managers Collins (2001) stated that an economic engine imposes an economic denominator – the ratio to constantly increase or decrease to improve a company`s performance. In our terms it means that a business model sets a goal for a specific ratio. So there is a strong link between business models and business goals from both standpoints: how scholars see it and how managers bring the concepts to real companies.

As summarised by Hamermesh et al. (2002), a business model includes a certain number of variables with certain options that change as the monetisation technologies evolve. But according to Ball et al. (2001), fundamental business goals an enterprise may have are universal and only the way they are achieved changes over time. Although new innovative business models are arising as time goes and no finite set of them can be time sustained, they impose only different combinations of goals, but cannot raise new unprecedented goals. So combinations of a finite set of goals properly proxy any existent and future business models in our study, which makes the framework more universal. Also, management literature focuses more on the concept of goals rather than a business model, so using goals as a direct input makes the framework easier to apply in the real life situations.

We take a purely rationalistic approach and assume that management has assessed the environment and company`s capabilities, and has come up with a business model providing them with the highest fit. We analyse how to formulate a viable internationalisation strategy for this chosen business model. Business models are changing over time, so to make our model more universal we proxy them with the business goals a company is trying to achieve by internationalisation.

3.2 Internationalisation Goals

We identify which internationalisation goals an INV may have from the IE perspective and triangulate them with the strategic management theory. Cavusgil and Knight (2009) summarised the 2 decades of research and identified the main widely accepted reasons why ventures internationalise (in random order):

> *(G1) gain economies of scale in production and marketing, (G2) earn higher profits from lucrative foreign markets, (G3) seek growth via market diversification, (G4) obtain new product ideas from foreign settings, (G5) amortize the costs of product development and marketing across many markets, (G6) better serve existing customers who have located abroad, and (G7) confront competitors more effectively in competitors` home markets.*

First 4 reasons may be assigned to the basic enterprise value creation methods as defined by Ball et al. (2001). They concluded that every strategic decision by management should be made to achieve the main goal of an enterprise – increasing a company`s value for its shareholders. The value may be increased in 2 ways: either increasing the profitability ratio (reducing costs or raising prices) or increasing sales (entering new markets or selling more in existing markets). We apply their theory to INVs and see that these theoretically deduced goals coincide with the ones empirically identified in IE research. We construct the list of goals to (i) increase profitability and (ii) increase sales on an analytical base by Ball et al. (2001) to make them mutually exclusive and collectively exhaustive. We operationalize empirically deduced goals by Cavusgil and Knight (2009) to make them mutually exclusive as well.

3.2.1 Increase Profitability

(G1) Reduce costs - ***gain economies of scale in production and marketing*****.** Cavusgil and Knight (2009) identified the scale economies and learning effects as the main cost reduction methods. Isolated from other goals it implies that sales in foreign markets even at zero margin increase the scale of operations, which may decrease the total costs per item, thus increasing the profitability at home market.

Depending on the business model, cost reduction may work in other ways too. Economies of location (moving specific operations to the countries where they are performed at lower costs) enable ventures to decrease the costs (e.g. coffee production in the equatorial region instead of Europe or the USA). Recent international business research also identified economies of networks and transfer of the subsidiary skills that lower costs by acquiring knowledge not available in the domestic setting (Ball et al., 2001).

(G2) Raise prices - ***earn higher profits from lucrative foreign markets*****.** Previous research identified entering higher spending regions as a way to increase profitability, i.e. selling the same total output in more lucrative environments. Economically it has the same effect as leveraging the host country economies of location, but in this case the home country advantage is leveraged. Therefore, to preserve exclusivity among goals, leveraging the low cost aspect of raising prices is assigned to the previous goal of (G1) reducing costs.

Acquired new knowledge in subsidiaries may play the main role in raising prices isolated from other goals, i.e. raising domestic prices while keeping output the same and neglecting profit from foreign operations. Instead of reducing the costs the transferred subsidiary skills and superior location advantages may be used to increase the quality and prices.

3.2.2 Increase Sales

(G3) Enter new markets – ***seek growth via market diversification*****.** Entering new markets for the total output increase of the same production is the most common goal of most international business ventures.

(G4) Sell more in existing markets - ***obtain new product ideas from foreign settings*****.** Successful achievement of increased profitability goals may become an accelerator for domestic sales growth because of either improved product quality or decreased prices. Although a venture may not have a primary goal of increasing profitability, i.e. it wants to keep its margin constant, achieving it is a prerequisite for (G4) selling more in existing markets – either production efficiency or output quality must be improved to allow an increase in its margin, which can be traded off for an increase in the quantity demanded domestically.

3.2.3 Survive

We bring the Ball et al. (2001) model one step back and look at a more fundamental goal: an enterprise must first survive to create value. As argued by several scholars, internationalisation may be a critical prerequisite for some business models, so the INVs that choose them internationalise early to survive (Cavusgil & Knight, 2009). However, there is no universal collectively exhaustive list of the goals that a company may have to survive. Therefore, we take 3 remaining INVs` goals by Cavusgil and Knight (2009) and operationalise them using different theories. The list is mutually exclusive, but it may be not collectively exhaustive. Therefore, we refer to all these goals to survive as *survival goals* on an aggregate level later in this paper.

(G5) Recover costs – ***amortize the costs of product development and marketing across many markets*****.** Cavusgil and Knight (2009) summarised that INVs usually choose differentiation and focus strategy and often operate in very small niche markets, while offering superior product quality based on more advanced technologies. Often the home niche market is too small to recover R&D costs, and INVs must enter similar niche markets abroad to allocate large fixed costs among several markets and make the business model feasible.

(G6) Establish a sufficient client base – ***better serve existing customers who have located abroad*****.** According to Cavusgil and Knight (2009), to get large MNEs as clients worldwide operations are a prerequisite in some industries. Based on the idea that "elephants do it with elephants", large MNEs tend to choose other MNEs as their strategic suppliers, e.g. such companies as IBM emphasise worldwide operations to get global clients that need integrated information and communication technology solutions in all their subsidiaries worldwide (IBM, 2008). INVs that provide sophisticated services to large MNEs may be forced to start their operations globally, because their clients consider it to be one of the critical requirements when choosing the provider.

In some industries the network feedback effect is the determinant for successful operations, but it was not captured by Cavusgil and Knight (2009). It is similar with respect to the unified technology requirement, but in this case it connects or integrates separate clients rather than the subsidiaries of one client. The most prevelant example is the communications industry, where the service value for customers directly depends on how many other customers use it. The most famous Baltic INV that built its success on positive network feedback is Skype (Munk, 2006).

(G7) Prevail over rivals – ***confront competitors more effectively in competitors` home markets*****.** As INVs operate in small niche markets with high focus, often they have none or very few strong direct competitors. In such cases some features of monopolistic or oligopolistic market behaviour appear. Ball et al. (2001) identified large MNEs engaging in Knickerbocker`s multipoint competition, when MNEs enter foreign markets with no short term financial reasoning but only to prevent their competitors from growing there. Some industries have enough space only for 1 or 2 players and not being #1 is unviable in the long run. In this case INVs may also pursue pre-emptive or multipoint competition strategies to limit the potential of existing competitors or prevent their emergence.

We discussed 7 fundamental goals a company may try to achieve by internationalisation. We added the survival aspect to the universal model by Ball et al. (2001) and matched it with the empirical INV internationalisation goals summarized by Cavusgil and Knight (2009) (Figure 2). Deriving a universal set of INVs` internationalisation goals from 2 separate fields of theory and empirical research provides us with triangulation and increases its validity.

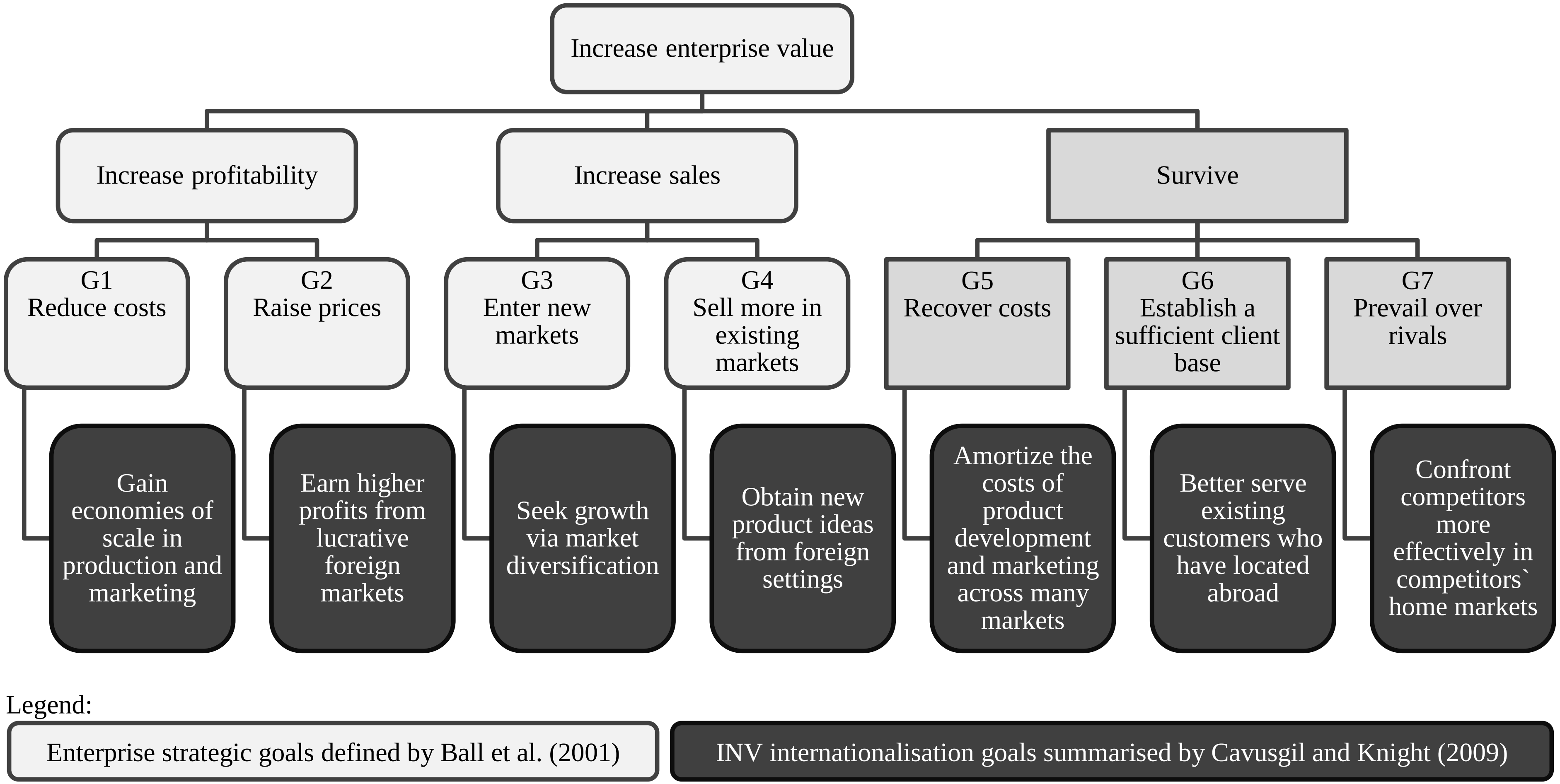

Figure 2. Enterprise strategic goals defined by Ball et al. (2001) augmented with the survival goals by us and matched with the INV internationalisation goals summarised by Cavusgil and Knight (2009).

3.3 International Strategy Decisions

The opinions of scholars regarding the INV strategic management collide. While in the early days McDougall (1989) stated that the strategies of INVs are considerably distinct and need new theories, recently Luostarinen and Gabrielsson (2006) argued that traditional internetional business models largely hold for INVs. Fan and Phan (2007) added that born globals are not a different form of companies. They considered INVs to be simple international business ventures, but with different internationalisation timing, so they should fit the international business theory.

Previous international business and IE research highlights three most important decisions that companies face. They need to choose (i) geographical scope of their markets (INV Type by Oviatt and McDougall [1994]), (ii) strategy for their international operations (Operations Internationalisation Strategy by Ball et al. [2001]) and (iii) the mode to enter their foreign markets (Entry Mode by Ball et al. [2001]). Behind each of these decisions there is a particular model derived empirically or theoretically. Although there may exist a few more important internationalisation strategy decisions, our literature review identified these 3 as the most influential for the total international strategy and most common among all INVs. Our fieldwork also did not reveal any other common strategic decisions that all INVs faced.

Each of these theories prescribes a particular choice that managers should make given the goals they have. All three choices combined emerge into what we call a configuration, a company`s model based on the choices made in three strategic decisions it faced. Some of the decisions are harder to implement, require higher commitment and more competent management, and reduce flexibility. Some are on the contrary, easier to implement, but do not allow achieving the same level of benefits. Theory suggests that in every INV strategy decision founders should limit the risks and resource commitment to gain flexibility (Williamson, 1985), this is also reflected in the list of INVs` success factors (Rialp-Criado et al., 2005). However, if a company has enough competence and is ready to take higher risk, it might go as far as it can to achieve higher benefits.

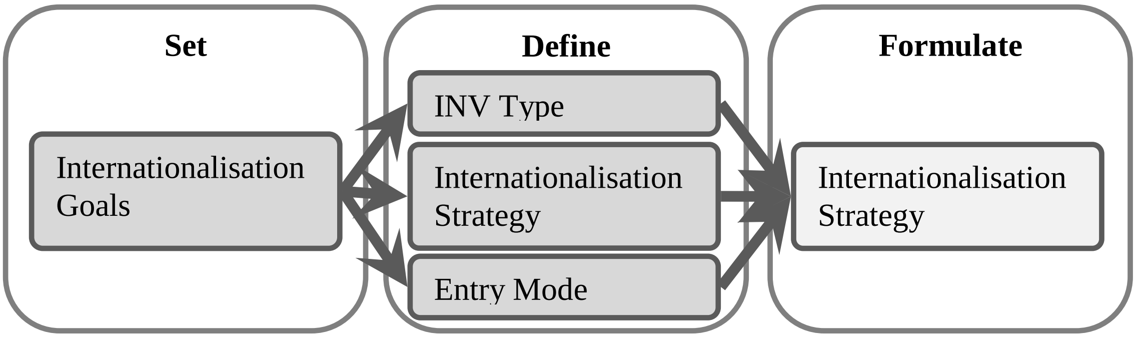

Figure 3. The basic framework links. Created by the authors.

3.3.1 INV Type

Oviatt and McDougall (1994) introduced the first tool for the classification of INVs by identifying 4 types on 2 dimensions: the number of countries involved in the company`s operations and the number of value chain activities coordinated across countries (Figure 4). The lowest scope INV is an *export/import start-up*, which coordinates very few value chain activities (usually only logistics and sales) and operates in few countries. When the number of countries involved stays the same but more value chain activities are internationalised, an INV is a *geographically focused start-up*. In the opposite case, when the number of countries involved increases, but no new value chain activities are internationalised, an INV is considered a *multinational trader*. When an INV has a large number of both, the countries involved and the value chain activities internationalised, it is a *global start-up*.

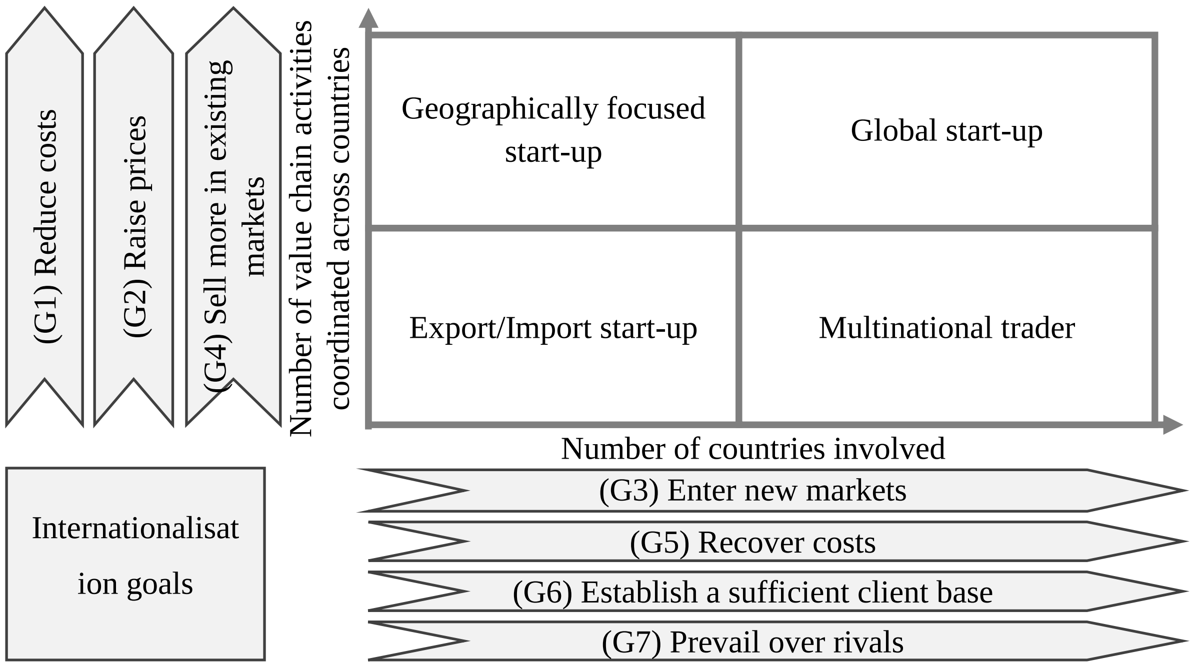

Figure 4. INV types by Oviatt and McDougall (1994), augmented with INV internationalisation goals.

The simplest INVs are export/import start-ups. Depending on the internationalisation goals, an INV may also start as a multinational trader or geographically focused start-up. Eventually, both types converge into a global start-up. Although entering as a higher scope INV from the beginning is possible, being a global start-up from the inception is hard to implement successfully: large resource commitments are needed and most strategic decisions must be made correct before the start of operations. This requires high investment, a highly skilled founding team, global networks, the knowledge of culture, etc. – the features not all INVs have at the start (Cavusgil & Knight, 2009).

The goals to (G1) reduce costs, (G2) raise prices and (G4) sell more in existing markets suggest internationalising more value chain activities to improve efficiency and effectiveness of operations by economies of location (transferring the activity where it can be done more efficiently), while the number of countries involved is limited. This implies choosing the geographically focused start-up path from the start.

The goals to (G3) enter new markets, (G5) recover costs, (G6) establish a sufficient client base and (G7) prevail over rivals require entering as many markets as possible and do not emphasise value chain activities internationalisation other than in distribution processes. An INV should employ a pre-emptive international marketing strategy to establish its presence with the aim to increase total sales, while profitability is not of the highest importance in the short run. This suggests becoming a multinational trader from the inception, because it emphasises the number of markets entered.

If an INV has distinct goals in different directions, their successful achievement becomes possible only when starting as a global start-up. As discussed earlier, the strategy is much more demanding with respect to resources and the founding team skills. Choosing the global start-up path when lacking any of the success characteristics summarised by Rialp-Criado et al. (2005) (see *Research Body*, page 9) may lead to the fatal failure of the INV.

Doole and Lowe (2008) identified that SMEs tend to choose which international markets to enter based on their capabilities and networks rather than the market characteristics, which means that usually international business ventures limit the number of countries involved and value chain activities internationalised based on their previous experience to feel comfortable and not take the risks they cannot manage. Cavusgil and Knight (2009) and Servais and Rasmussen (2000) found statistically significant effects in the EU international ventures choosing other EU countries rather than the rest of the world.

We expect the INVs that prioritise goals to (G1) reduce costs, (G2) raise prices and (G4) sell more in existing markets to internationalise their value chain activities more extensively, thus being a geographically focused start-up. The INVs that focus on (G3) entering new markets, (G5) recovering costs, (G6) establishing a sufficient client base and (G7) prevailing over rivals are expected to enter more markets, while not internationalising value chain activities extensively, thus being a multinational trader. If a firm has the goals leading in conflicting directions, it has to become a global start-up, which requires higher management skills and more resources.

3.3.2 Operations Internationalisation Strategy

Ball et al. (2001) summarised 4 operations internationalisation strategies for international business ventures (Figure 5). They describe whether a company is tailoring its production to every market to gain the appreciation for the solutions specific to a local environment and whether it performs standardised value chain activities internationally to leverage the economies of location. The choice of the strategy depends on how strong pressures a company faces for cost reduction and local responsiveness (a need to adapt the products to the local market). *International strategy* is typical for exporters who face low cost reduction and local customisation pressures. In such environment exporting domestic production is a viable strategy. When companies face local responsiveness pressures, decentralised subsidiaries are established to cater the host market needs, which is called *localisation strategy*. Neither of these strategies emphasises efficiency or cost reduction, so in the long run they are not feasible as more efficient competitors enter the market.

When the cost reduction pressure is high, but local responsiveness requirements are low, *global standardisation strategy* should be employed: the same standard production is made internationally to leverage the location economies and economies of scale, decrease the costs of transactions and support activities, etc. If both pressures are strong, only *transnational strategy* is viable. In this case all standardised activities are performed globally, but local customisation is applied on top. For example, R&D and production facilities are centralised worldwide, but product characteristics, bundling, branding and marketing are adapted to the local environment. Transnational strategy is the most difficult to adopt, but it is popular among global passanger vehicle producers, fast moving consumer goods marketers and other large MNEs who have enough resources for integration, coordination and performance control mechanisms and highly skilled management teams (Ball et al., 2001).

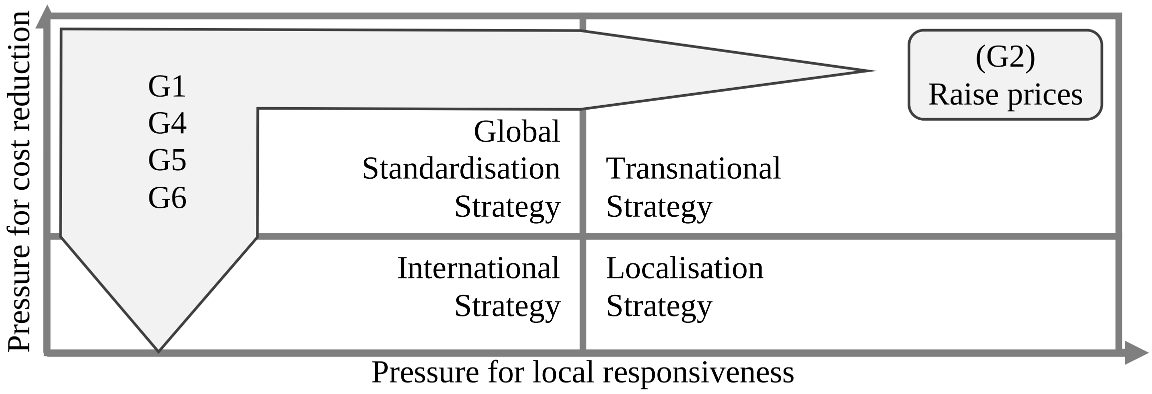

Figure 5. Operations internationalisation strategies summarised by Ball et al. (2001), augmented with INV internationalisation goals. Triangular areas depict partial goal achievement, rectangular areas depict maximum goal achievement.

No matter what the INV goals are, they are always achieved by employing transnational strategy. However, it is very costly and hard to implement. INVs with limited resources and time constraints may benefit from a simpler operations internationalisation strategy which still allows accomplishing their business model`s critical goals at lower costs.

When the main goal is to (G1) reduce costs, (G4) sell more in existing markets, (G5) recover costs, (G6) establish a sufficient client base or they all combined, the simplest international strategy can achieve them. It increases domestic production output, which decreases fixed costs per item, facilitates economies of scale and positive network feedback. Global standardisation strategy, which exploits economies of location, reduces the costs further. Transnational strategy is also possible for all these individual goals, but provides lower benefits with respect to cost reduction. Therefore, when there are no other considerations, international or global standardisation strategy should be most used for achieving these goals.

To (G2) raise prices in the domestic market, improved product quality is needed. It can be achieved through integrated global operations where unique subsidiary skills are transferred to other markets. This requires subsidiaries` involvement in unique operations to acquire such skills and knowledge, which in the model may be considered as local responsiveness activities. Only transnational strategy is capable of both: to integrate global operations and enable unique activities in the subsidiaries.

(G3) Entering new markets and (G7) prevailing over rivals requires only presence in the foreign market, so we do not use G3 and G7 for prescribing the operations internationalisation strategy – any of the 4 options may accomplish these goals. Links between the goals and operations internationalisation strategy are summarised in Figure 5.

A company can (G1) reduce costs, (G4) sell more in existing markets, (G5) recover costs, and (G6) establish a sufficient client base with the simplest international strategy, but global standardisation strategy provides higher cost reduction benefits and is more viable in the long run. If it wants to (G2) raise prices, it has to integrate its market-tailored operations globally, thus should choose transnational strategy. This strategy helps to achieve any goal, but is the hardest to implement. (G3) Entering new markets and (G7) prevailing over rivals can be achieved by any of the operations internationalisation strategy.

3.3.3 Entry Mode

The right decision how to enter a foreign market is crucial for the subsequent success of the company. International business literature identifies 2 groups of foreign market entry modes: non-FDI and FDI. Non-FDI entry requires very limited or no resource commitment abroad, which enables quick implementation, eliminates the risks associated with investment in real assets abroad (namely economic and political risks) and lowers operational risks by higher venture mobility (e.g. ability to shift the strategy at lower cost) (Ball et al., 2001). However, none of the non-FDI entry modes provides a venture with learning opportunities abroad and they all have only limited control mechanisms. Therefore, for tight performance control, learning about customers and competitors, and leveraging the local subsidiary skills worldwide an FDI entry mode is favoured (Ball et al., 2001; Cavusgil & Knight, 2009).

3 main non-FDI entry modes are (i) licensing, (ii) exporting and (iii) franchising. Licensing is the simplest and fastest entry mode when a venture only transfers the technology or know-how to another market with no actual operations. It does not establish a venture`s presence abroad, and does not involve the venture directly in a host country`s business. Therefore, the company has no control over production, marketing, sales, etc. and has limited if any influence over its earnings after the contract with defined royalty fees is signed up. It also creates the risk of losing the technological competitive advantage and being squeezed out of the market by local adopters who eventually may build better knowledge in the technology than its creator and come to the licensor`s home market (e.g. RCA Corporation lost the competition to its prior licensees Matsushita and Sony in its home US TV market) (Ball et al., 2001).

Exporting is the oldest, simplest to implement and most popular entry mode, dominating the early stage INV`s strategy (Cavusgil & Knight, 2009). It provides a venture with full control over its technology and production, but limits its influence over marketing and sales. To increase the control while still being out of the actual foreign operations franchising practice may be adopted. However, it requires a proven business model and strong brand – the features most INVs lack at the start when they are still suffering from the liabilities of newness and alienness (Burgel & Murray, 2000). Therefore, franchising is very unlikely in the early stage INVs under usual circumstances.

Global goods movements may be limited by export barriers, high taxes and logistics costs, which in both cases, exporting and franchising, may cause the loss of a competitive advantage. To cope with regulatory issues and acquire direct control over operations, a joint venture may be established. Although usually it is an FDI mode, in some circumstances one of the sides may contribute non-financially, e.g. IBM established a joint venture with the Lithuanian government and invested its share in the form of its proprietary technology (Lukaitytė, 2010). In comparison to a wholly owned subsidiary, it lowers an INV`s risks, is politically better accepted in more closed economies, and provides access to a partner`s knowledge (Ball et al., 2001). However, by establishing a wholly owned subsidiary these benefits are traded off for tighter control over the technology and performance and more freedom in strategic moves (Ball et al., 2001).

Although there are several other entry modes discussed in the literature (e.g. turnkey contracts, strategic alliances, etc.), their characteristics overlap with the ones already discussed and their implementation is too case-specific, so we do not use them in our prescriptive framework due to the lack of universality. Figure 6 summarises 5 entry modes with respect to the speed of expansion and control over international operations.

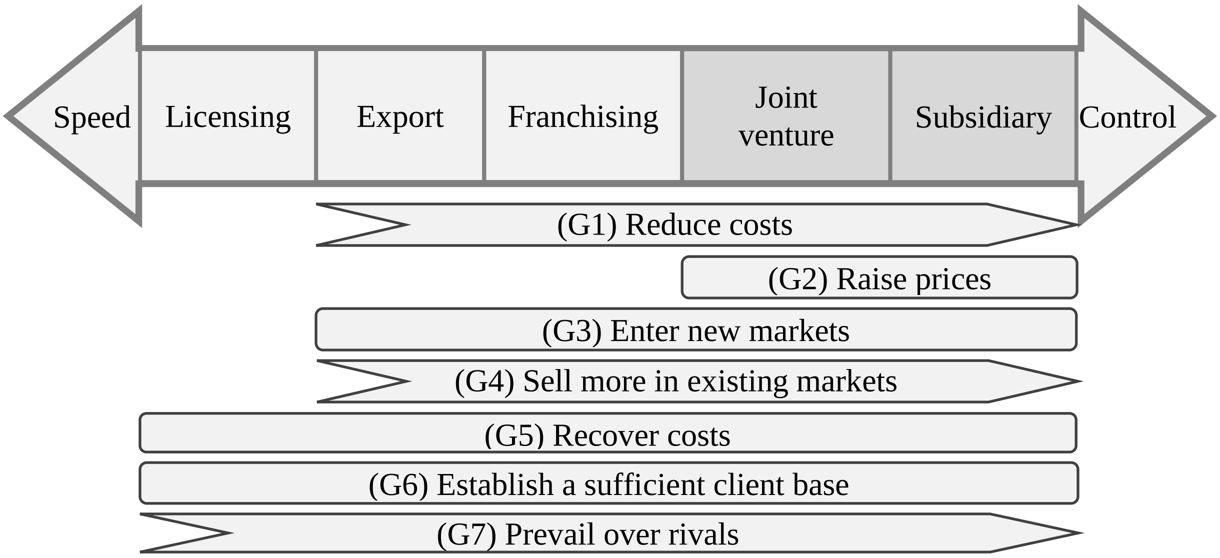

Figure 6. International market entry modes classified by the speed of expansion and control over foreign operations. The position of a goal box under an entry mode indicates binary goal achievement; a goal arrow indicates the increasing quality of the goal achievement when employing an entry mode with higher control over foreign operations.

To (G5) recover costs and (G6) establish a sufficient client base any international market entry mode is feasible. Establishing subsidiaries in all foreign markets provides local users with an access to the unified high-cost technology as licensing it to local adopters does. The difference is only in control over foreign operations and the type of income for the technology developer.

Although (G7) prevailing over rivals at some extent may be achieved with low commitment entry modes, higher commitment modes provide more control needed for the complete goal achievement. We propose that FDI modes provide higher benefits, but we cannot quantify the differences in benefits gained compared to lower commitment modes.

To (G3) enter new markets any entry mode except for licensing is viable: any of them establishes a venture`s presence in the market, but licensing establishes the presence of the technology only, neither the company itself nor its production. The same entry modes help to accomplish (G1) cost reduction and (G4) increasing sales in existing markets by increasing the scale of operations and lowering costs per item. To exploit the location and learning economies, direct involvement in foreign operations is required, so the goal achievement level increases with an increase in foreign resource commitment and entering new markets through FDI.

To (G2) raise prices an FDI entry mode is required for foreign subsidiaries to acquire new knowledge and leverage it globally. As discussed in previous strategic internationalisation decisions, this goal imposes the most demanding strategy. Williamson (1985) suggested that due to environmental uncertainty and volatility ventures should employ more flexible entry modes and share more risks with outsiders. Anderson and Gatignon (1986) added that the lack of the management team`s experience and knowledge of the specific markets also promotes low resource commitment entry modes to enable a venture to adapt to changing circumstances more efficiently. In line with such transactions cost economics view, by employing a networks view, Sharma and Blomstermo (2003) concluded that the foreign market entry mode decision is based on the knowledge of management and its networks, which favours more flexible modes in case of high uncertainty. Therefore, INVs should choose the lowest commitment entry mode which allows achieving their internationalisation goals.

On the other hand, Zahra et al. (2000) found strong positive relationship between high control entry modes and the technological learning breadth, depth and speed. Entering culturally diverse markets strengthens the effect further. This improves an INV`s performance, which suggests that high control entry modes are beneficial in general. But for the relationship to work, efficient knowledge integration mechanisms are needed, and formalisation increases the benefits. This prerequisite creates a burden for a large part of the entrepreneurial-spirit-driven INVs that may lack managerial skills. Also Zahra et al. (2000) findings may suffer from the survival bias which neglects the unsuccessful high control entries by INVs. In such case only successful high control entry mode implementation has a positive effect on an INV`s performance, while a positive effect of choosing high control entry modes on an INV`s survival cannot be proven, and, as suggested by the transactions cost economic view, should be negative. Finally Zahra et al. (2000) concluded that the FDI benefits on performance are long-term, while in the short run non-FDI entry modes provide INVs with quicker and higher benefits. Finally, based on the empirical research summary Rialp-Criado et al. (2005) concluded that flexibility is one of the INV success factors.

There are two main types of entry modes: non-FDI, which is faster, and FDI, which provides more control, but requires higher commitment and increases the risks. (G5) Recovering costs and (G6) establishing a sufficient client base can be achieved with any entry mode. (G7) Prevailing over rivals is better achieved with FDI entry modes, offering a higher degree of control, but could be achieved with a non-FDI entry mode too. (G2) Raising prices requires an FDI entry mode, so that foreign subsidiaries could develop unique expertise. To (G3) enter new markets, (G1) reduce costs and (G4) increase sales in existing markets any entry mode except for licensing is feasible.

4 Methodology

4.1 Research Strategy

We employ a phenomenological research approach in our study. The aims of the study are to (i) develop the internationalisation strategy configurations of the Baltic INVs; and (ii) identify links between business models and configurations. This requires in-depth investigation of clusters for detecting viable configurations and causalities taking place in the process of internationalisation, which can be done best by using qualitative methods (Bogdan & Biklen, 1998).

To investigate the in-depth causalities at a company level, we employ the case study method for several reasons stemming from the definition of a case study according to Verschuren (2003). First, it is holistic in nature, which allows us to look at the object as a whole. The purpose of this study is extending the existent theory, which requires taking a step back and looking for new explanatory factors. Second, it is the best when only few strategic cases should be analysed. The small number of INVs in the Baltic States makes it impossible to do a credible quantitative study even using all of them as a sample. Third, it explicitly avoids the tunnel vision that prevents credible theory developing. Last, it aims at explaining the patterns and processes that are too complex for reductionist quantitative approach.

4.2 Definition

For our research we define an INV 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 definition was first brought by Oviatt and McDougall (1994) and currently is the most used in the field. However, we do not use the term *born global* as a synonym because it is misleadingly similar to the term *global start-up*, which is only 1 out of the 4 INV types we discuss.

A couple of components of the definition need further operationalization. First, the inception date of an organisation would imply its legal registration date. But the legal organisation establishment date does not necessarily define the venture development stage: while some ventures are started to be developed before the organisation establishment (e.g. "garage" ventures), others start R&D late after the company establishment and initial funding (e.g. pharmaceuticals companies). Oviatt and McDougall (1994) determined inception by "observable resource commitments". For the ventures that start in one R&D lab and have no other operations till the product introduction, they suggested global market focus as the determinant of commitment, i.e. the first day of sales is used to identify whether the venture is internationally oriented and qualifies as an INV.

Second, resources in multiple countries may be misinterpreted. Oviatt and McDougall (1994) argued that not the ownership of assets but the value added is important, so companies may not own but only employ those resources. However, for their model of sustainable INVs they employed a resource based view and Porter`s value chain, and stated that to be sustainable a venture must own some unique assets in at least one value chain activity. In our study we operationalize an INV`s resources as any resources that an INV has direct control over through ownership, lease, partnership or other arrangements.

4.3 Sampling

We sampled INVs from the Baltic States. In the first stage of research we made a pilot study to construct the clusters based on their INV internationalisation strategy configurations. We were interested in all INVs in the Baltic States that fit our INV definition. Unfortunately, there was no register of INVs in the Baltic States where we could get the information. First, we conducted research on the internet, looking at various companies` web sites and identifying INVs. Second, we included companies identified by previous IE research in the Baltics (Mets, 2009; Kaarna, 2010; Plavina, 2010). Third, we contacted people from the industry, scholars, entrepreneurs and organizations, and asked to suggest us the INVs they knew. For example, Seed Forum is aimed at connecting INVs with potential investors in all 3 Baltic States. We asked the organisers for a list of companies they could identify and included them too. Finally, we employed the snowball effect and asked managers we contacted to refer us to other INVs they knew, assuming that entrepreneurs know each other in their field to some extent.

We employed purposive sampling for the second stage of our analysis as the most appropriate sampling strategy for configuration theory building. An analysis of the characteristics of individual types in the population calls for in-depth study of the individuals that best represent these types (Gray et al., 2007).

Our initial sample included 37 companies that internationalised shortly after inception. However, we analysed only 12 of them in total. First, a large part of the initially sampled companies were omitted due to not qualifying as an INV according to our strict INV definition: although they started international activities shortly after inception, their founders admitted that it was by chance and they did not intend to internationalise when establishing the company, i.e. they did not “seek to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries from inception". Two most common cases were (i) being pulled into international markets by their locals or (ii) discovering an international opportunity only when the domestic operations have already started.

Second, a number of companies were not eligible for our analysis due to a too early business phase they were in. In our sample we included only the companies that were older than 2 years, but it turned out that some high technology companies that were established more than 5 years ago were still in the product R&D phase and had no other activities. So although they had international orientation, we could not perform our study on them because their business model was still under development.

Third, Eisenhardt (1989) suggested approximately 10 cases as optimal for theory building multiple case study research to have enough variation in the findings and have enough deep analysis. We analysed some companies omitted based on the secondary data and saw that they perfectly fitted one of the categories already derived using our sample. We omitted less responsive companies that had identical strategy configurations as those already analysed and limited our sample to 12 Baltic INVs (Appendix B). Increasing the number of companies with identical configurations would add little value to our research.

When put on 3 dimensions (geographical market dispersion, operations internationalisation strategy, and entry mode), our sample formed 4 clusters: (i) export start-up, (ii) geographically focused start-up, (iii) multinational trader and (iv) global start-up. Each cluster corresponded to 1 of 4 INV types as discussed by Oviatt and McDougall (1994) and had 2-5 cases that share the same international strategy configuration. We took 1-2 companies from each cluster for the second part of our research.

4.3.1 Delimitations

One of the possible delimitations of our research is that we sampled only Baltic INVs. Second and third world countries were not considered as a viable origin for INVs due to the lack of their integration in international markets and most research used samples from developed countries (USA, Australia, Denmark, Norway, Finland, etc.) (Cavusgil & Knight, 2009). Moreover, it was argued that entrepreneurship in transition economies might face significant challenges unusual for developed economies (Aidis, 2005). IE research is very limited in the region and there is only one research paper discussing internationalisation of Latvian INVs from the strategic management perspective: Plavina (2010) published her paper in the middle of our research.

The Baltic States` accession to the EU marked the end of the transition period and changed the market conditions, so an INV as a strategy became viable for the region ventures. The last decade was the period of Baltic INVs` emergence: starting the list from the hi-tech neuro-, nano-, bio-technology ventures that are hardly known in the local markets, ending with global leaders in their industries like Skype, Playtech and GetJar (Appendix B). Also the findings of Plavina (2010) show that Latvian INVs` strategies are aligned with the trends and theories from the first world, which confirms that the environment in the Baltic States transformed and became similar to the one in developed countries. This evidence supports the notion that our sample should represent the global population of INVs rather well.

4.4 Data Gathering

To get in touch with the companies first we sent out questionnaires to the companies` managers or founders. This was the quickest way to get the access to the right people, because due to their tight schedules we were not able to organise the meetings at first. Most of the questions were open-ended to avoid tunnel vision and biases and to start the dialogue. We asked them general information about their firms, about the goals they had for internationalisation, and the strategic decisions they made. The questionnaire is available in Appendix A. Then we compared it with the expectations of our theoretical framework to assess whether their strategies are in line with theory. To avoid misinterpretation or misunderstanding we kept the contacts of managers who answered the questions and asked for some clarifications when needed. Also we triangulated our findings with secondary sources of information such as company web sites, newspaper articles, etc. Some companies agreed to participate in the research only if they stay anonymous, so instead of their name we have to use a prefix Anonymous for naming such companies in this publication.

In the second stage of our research we employed qualitative interviewing triangulated with secondary data available. We employed this approach because according to Bryman and Bell (2003) it provides the following benefits. First, we were interested in the interviewee`s point of view, and what he considered to be important. We were interested in the actual motivation for making a particular strategy decision, which is known the best and could be reflected upon the best by a manager who was involved in the process of making it. Second, because our study is aimed at theory developing, we value the flexibility qualitative interviewing offers. We were not delimited to pre-determined options and were open to new ideas. Third, because we wanted to reveal in-depth mechanisms, qualitative interviewing provided us with richer answers to our questions. It enabled us to follow up and ask for more details on the issues we found interesting.

To facilitate the access to interviewees, following the advice of Taylor and Bogdan (1984), we thought of the following issues in advance and clarified them when approaching potential respondents. First, we clearly stated our motives and intentions. The findings are used only for research purposes and are not used to any disadvantage of the respondents. The studies are published as our student thesis and are not used commercially. Second, in case a respondent wanted, we provided the company with anonymity. Third, the respondents had final say over the content of our empirical part. We sent them the draft of our paper and they were able to either disagree with something or confirm that the data in this publication is correct and precise. Most of the respondents explicitly confirmed the publication and a few did not reply to the request to confirm, but nobody disagreed with any details. Finally, we were flexible regarding the logistics of the interviews. We conducted them in the most appropriate time for the respondents and in the most appropriate place. Taking into account the international scope of our research and the fact that managers we wanted to interview were busy or abroad, we had to conduct some interviews over the phone and e-mails to facilitate the logistics and get the access to these people.

Overall, we conducted 6 in-depth interviews (1 – Anonymous1, 1 – Novatours, 2 – Anonymous2, 2 – RealSoundLab). For the global start-up cluster, which includes only Skype and Playtech – the largest and best known INVs originated in the Baltic States and headquartered overseas – we did not get any input from the founders, so we used only publicly available and secondary data. Omitting these companies from our sample would have resulted in one important cluster being not represented. Also we did not interview the founder of GetJar and had to use publicly available data. The founder then reviewed the prefilled questionnaire. In this way we still managed to get accurate input from him.

4.5 Trustworthiness

There is no commonly accepted definition of reliability or validity in qualitative research, and Bryman and Bell (2003) suggested using the concept of trustworthiness. According to them, it consists of four factors: credibility paralleling the internal validity, dependability and confirmability paralleling reliability and objectivity, and transferability paralleling external validity.

4.5.1 Credibility

It is suggested that research should be conducted according to the canons of good practice. We analysed wide spectrum of literature dealing with the methodology of qualitative research to develop our approach. All the steps of our research were thoroughly thought through in advance, and we carefully followed them. We paid attention to all possible obstacles and decided how to overcome them. When possible we triangulated our findings with secondary data available, paying attention to any contradictions and investigating them further. Finally, we sent the draft of our research paper to the respondents to confirm we understood them correctly, which provides us with respondent validation.

4.5.2 Dependability and Confirmability

These concepts are paralleling reliability and objectivity. It is suggested to establish an auditing approach to ensure dependability: publishing all the data gathered to provide an opportunity for peer review. We provided detailed information on our methodology and submitted the results from the questionnaire to other scholars for their review. Also fieldwork was performed by 2 people, the whole research was supervised by an experienced strategy scholar, theory is reflected upon by IE scholars from other independent institutions. All this minimised possible personal biases in all research steps and increased the trustworthiness.

Confirmability is concerned with showing that researchers did not allow their personal values to interfere with findings. First, the auditing approach is able to check it too. Second, we are interested in revealing new theoretical mechanisms and, since we did not propose any in advance, we do not have any personal interest in proving or disproving certain propositions.

Even though there is no established definition of reliability in qualitative research, there are some incidents where quantitative research is not possible, so reliability becomes irrelevant (Golafshani, 2003). In our case, there is no possibility of revealing the in-depth mechanisms by quantitative approach, so the reliability issue is not essential.

4.5.3 Transferability

Qualitative research tends to be oriented towards uniqueness and significance of the object being studied (Bryman & Bell, 2003). Because it is preoccupied with in-depth studies of small samples, the concept of external validity or generalizability as adopted by quantitative research is not applicable. We are concerned with providing an in-depth description of our cases for further theory developing. Statistical generalisation of our findings on other parts of the population is not of our concern.

Our study can be generalised to theoretical propositions as suggested by Verschuren (2003). First we generate new theoretical propositions, explaining in-depth causal mechanisms based on our evidence. Then this theory can be applied to other cases. The results are generalised based on analytical induction, not statistical inference.

5 Findings

We start the analysis with discussion of the internationalisation goals imposed by business models and analyse which INV internationalisation strategy choices and why were made by our respondents.

5.1 Goals

We find the goals to (G3) enter new markets and (G5) recover costs of R&D dominating and mutually exclusive among our analysed cases. They split the cases into 2 segments: internationalising either to (i) increase sales or to (ii) survive. Our data indicate that increasing sales is more important for the lower scope INVs (e.g. small consulting and professional services companies), while the higher scope ventures based on high technology and run by more internationally-experienced founders employ more complex business models which consider survival goals as critical for internationalisation (e.g. biotechnology and communication technology developers). However, we do not draw any statistically significant generalisations and these are characteristics of our sample only.

We did not find any INVs with a business model which considered the goals to (G2) raise prices and (G4) sell more in existing markets to be the main for internationalisation. Both goals are associated with the acquisition of new ideas for improving products and operations. Such corporate renewal is a competitive advantage from a strategic management rather than entrepreneurial perspective. The fact that young entrepreneurial-spirit-driven ventures do not emphasise their long term corporate strategy shows that their early strategy is driven by the desire to implement their initial idea only. The goal to create a time-sustained corporation that is not dependent on a single idea but has the strategy of constantly acquiring new ones may come at later business cycle phases after surviving at first. Therefore, although Cavusgil and Knight (2009) identified these 2 goals as important for INVs, in our cases of entrepreneurial businesses they are not applicable.

Our sample analysis shows a link between goals and the INV internationalisation strategy. As goals in our model proxy a business model, it reflects a link between a business model and the strategy. However, the link between an industry and strategy is not clear. Therefore, results from our sample question the widely used practice in IE research of controlling for industry. As a side finding our cases suggest that probably industry imposes neither a business model nor the INV internationalisation strategy, but a business model imposes the strategy. This implies that a business model may be a better control variable for INVs, but the question is out of our research scope.

5.2 INV Type

Survival goals determine higher geographic dispersion of markets and especially operations compared to expansion goals. As goals are implied in the nature of a business idea and its business model, in line with the IE theory, more internationally oriented entrepreneurs come up with more demanding business ideas regarding the international strategy, which transforms into more global ventures, while others limit the venture scope. Very few INVs are born globals literally, i.e. global start-ups.

5.3 Operations Internationalisation Strategy

All ventures in our sample performed high core product standardisation. Lower profile INVs internationalised very few activities and tended to use *international strategy*, while higher profile ventures opted for better cost reduction and internationalised more value chain activities by employing *global standardisation strategy*. Although a slight tilt towards *transnational strategy* was identified in some cases (e.g. Playtech tailors its software to some highly regulated markets), none implemented the full *transnational strategy* because it requires too complex corporate architecture for such small companies. In line with theory, *localisation strategy* was not considered as an option at all because it lacks integration, is slow in market expansion and cost inefficient.

Our findings illustrate the fact that INVs` business models are based on regional or global ideas which can be implemented worldwide rapidly and require fast internationalisation strategy. Companies stay rather small in employees` number even when maturing, they tend to find partners for localisation and focus on the core idea (e.g. the market leader GetJar has only 44 employees after 11 years of growth and is highly focused on one function – distributing mobile applications).

We did not find any connection how goals determine operations internationalisation strategy. This may be explained by the fact that we did not find any Baltic INVs that had the goals to (G2) raise prices and (G4) sell more in existing markets, i.e. goals that impose transnational strategy. As we did not find any INVs that employed localisation strategy either, we may have some omitted clusters and configurations. On the other hand, these INV configurations are not likely to be viable according to the theory discussed earlier and we did not find any real life examples in our environment, so they might be only hypothetical.

Operations internationalisation strategies were determined by the INV type: by definition global standardisation strategy requires value chain activities internationalisation, which is done by geographically focused start-ups and global start-ups; and companies that do not internationalise enough value chain activities, namely export start-ups and multinational traders, pursue international strategy.

5.4 Entry Mode

Our results indicate that the more global an INV is, the lower commitment and faster entry mode it chooses. Exporting was the foreign market entry mode favoured by most INVs. Only geographically focused start-ups used FDI for entering foreign markets. Global start-ups used it for core activities internationalisation while entering the markets through exporting. They tend to construct the business model that maximally leverages information and communication technologies to minimise the costs and maximise the speed of expansion into foreign markets, in this way increasing the control and integration of international operations while limiting commitment. Baltic INVs tend to use FDI to enter only culturally proximal countries or surrounding regions they know the best. In line with the previous literature, they are biased towards other EU countries.

Contrary to our theoretical expectations, entrepreneurs find licensing slower than exporting. INVs experience the liability of newness when they try to license the novel unproven technology and exporting the final product helps to cope with this. Licensing significantly limits the control over cash flows, as royalty fees timing depends on the implementation timing decision by the licensee, which may pose a severe default risk for a new venture. Therefore, the INVs that had licensing as their main entry mode in their initial strategy started exporting at first (e.g. RealSoundLab started licensing only after exporting).

We found two internationalisation goals dominating among Baltic INVs: (G3) entering new markets and (G5) recovering costs of R&D. In all cases they were mutually exclusive. We found all 4 INV types present among Baltic INVs. They are useful for labelling 4 configurations we found, because each of them chooses a particular operations internationalisation strategy and entry mode. We found that Baltic INVs employ only two operations internationalisation strategies: international and global standardisation. Baltic INVs engage in both FDI and non-FDI entry modes. Non-FDI modes are more popular among companies emphasising entering more markets, while FDI modes among those emphasising internationalising value chain activities more extensively. Surprisingly, the entry mode requiring the lowest commitment, licensing, is not popular among Baltic INVs.

6 Discussion

6.1 Configurations

Combining all 3 strategic internationalisation decisions provides us with 32 hypothetical INV internationalisation strategy configurations (4 INV types, 4 operations internationalisation strategies and 2 entry modes distinguished by commitment). Our study reveals that the successful INVs originated in the Baltic States use only 4 of them named after the INV types by Oviatt and McDougall (1994):

An export start-up does not internationalise any significant value chain activities and only sells its output in the foreign markets of limited scope. The operations internationalisation strategy is called *international*, which implies standardised domestic output sales abroad with no cost reduction efforts by leveraging the advantages of foreign operations. The dominating entry mode is *exporting*. This configuration is favoured by the ventures that want to increase sales through internationalisation from inception. In our sample the examples of this configuration are translation and localisation company Nordtext and international business consulting company Anonymous1.

A geographically focused start-up internationalises its activities in a specific limited region. To increase its international operations efficiency, production is standardised among all markets by employing a *global standardisation* strategy. The region size and specific countries are chosen where founders feel comfortable in managing risks and can impose tight control. Thus tight control and high commitment entry modes are favoured, namely FDI modes or *franchising* at least. This configuration is favoured by the ventures that despite increasing sales also strive for profitability improvement through leveraging location and other advantages that tight control entry modes provide. Examples of this configuration in our sample are consumer credits provider SMScredit Group, IT services provider Anonymous2 and tour operator Novatours.

A multinational trader does not internationalise any significant value chain activities but seeks to enter the worldwide market. Similar to the export start-up, it pursues an *international* strategy and employs low commitment entry modes to speed up market expansion. The ventures that employ such configuration consider survival goals as the most important in their business model and strive for quick worldwide presence. In our sample this configuration was employed by the technology developers and manufacturers that heavily invest in R&D or manufacturing facilities: cosmetics manufacturer MADARA Cosmetics,

Table 1

INV Strategy Configurations

	Export start-up	Geographically focused start-up	Multinational trader	Global start-up
Internationalisation goals	Increase sales	Increase sales and profitability	Survive	Survive
Geographical markets dispersion	Low	Low	High	High
Operations internationalisation strategy	International	Global standardisation	International	Global standardisation
Entry mode commitment	Low	High	Low	Low

Created by the authors.

sports equipment manufacturer Anonymous3, acoustic technology developer RealSoundLab, biotechnology developer Asper Biotech and mobile applications store GetJar.

A global start-up intertnationalises its value chain activities and enters the worldwide market from inception. It is a combination of the *geographically focused start-up*, which internationalises its activities through tight control entry modes and employs a *global standardisation strategy* to leverage economies of location, scale, networks, etc. to increase its efficiency, and the *multinational trader*, which enters the global market by employing a high speed low commitment entry mode. Our sample analysis indicates that this configuration separates internationalising operations and entering markets: in the former case only a few strategic countries are chosen for internationalising core activities through FDI, while in the latter the worldwide market is entered by employing a low commitment entry mode, usually exporting. *Global start-ups* have similar survival goals to *multinational traders*, but they face higher pressures for efficiency and their founders can handle more complex strategies involving higher risks. In our sample only the online gaming software supplier Playtech and online communications software developer Skype are global start-ups, which may be the only 2 real born globals in the Baltic States.

6.2 Contribution

Our research is more applied rather than scientific theory building. We have not introduced any new theory but only brought together 3 international business and IE models. Applying them in phenomenological research to analyse real life examples allows finding how these models interconnect and form viable configurations. The main contribution of our work is providing a systematic approach to the INV international strategy formulation by employing the IE and international business theory.

Although we advocate configuration approach to strategy formulation, our model is purely prescriptive. It is built on positioning models which emphasise strategy choosing rather than creating. As argued by Mintzberg, Ahlstrand and Lampel (2009), such a prescription of generic strategy limits the outcome of the process and is merely a component of the business strategy rather than the business strategy itself. In accordance to this, we emphasise that our framework helps to answer a few strategic questions with regard to early internationalisation rather than to formulate business strategy as a whole.

Although strategic management focuses more on strategic positioning in the market, we believe the initial strategic decisions in operations internationalisation are not less important for the success of a venture, especially in the case of our interest – strategy formulation before starting operations. As INVs start internationalising the venture at inception, the founding team alone must make the internationalisation decisions for the not born company without historic patterns. No descriptive models or strategy-as-a-pattern methods are available, so in spite of the recent criticism on the positioning school of strategic management, we believe the prescriptive approach of our INV internationalisation strategy formulation framework holds enough practical power.

As for any model, *garbage in garbage out* issue holds for our proposed configurations as well. Setting the internationalisations goals correctly is critical for getting valid guidance. This requires a well-defined business model, which includes a venture`s revenue sources, cost drivers, investment size and critical success factors. The model has a fundamental assumption that the optimal business model is chosen to maximise the fit between the environment and founders` capabilities, i.e. the design perspective is employed correctly in the first place.

7 Conclusions

In preparing for battle, I have always found that plans are useless but planning is indispensable.

Dwight D. Eisenhower

In this paper we studied links between an INV`s business model and its internationalisation strategy. We proxied a business model by possible combinations of goals an enterprise wants to achieve through internationalisation. We extracted three most important strategic decisions a company makes when internationalising from the existent international business and IE theories and merged them together. These are choosing the INV type, operations internationalisation strategy and entry mode. Then we proposed which decisions should be made to achieve specific goals.

We analysed whether the decisions INVs make are aligned with theory by doing multiple case study research. We clustered INVs based on the decisions they made and found that 4 configurations could be distinguished. This suggests that there are mainly 4 strategies for being a successful INV, which we named based on the INV typology proposed by Oviatt and McDougall (1994): export start-up, geographically focused start-up, multinational trader and global start-up. Then we described in detail which choices each of the configurations involve and which goals it helps to achieve. There are links between business models and INVs` internationalisation strategy configurations, and they work as international business theory suggests. Also survival goals require more complex INVs` internationalisation strategies, which may be associated with more demanding business models, while simpler INVs` internationalisation strategies are associated with expansion goals whose achievement is not critical for a venture`s survival.

The main contribution of our paper is providing the first comprehensive INVs` internationalisation strategy formulation tool, which the founders of new start-ups may find useful. We did not build our own theory, but merged existent models from the international entrepreneurship and international business fields into one framework and tested whether it works in reality. In the end our systematic framework helps to formulate a complete cohesive INV`s internationalisation strategy and answer most of the INV business plan questions raised by Cavusgil and Knight (2009). However, we see the highest value in thinking itself rather than formalising the answers.

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Appendix A: Pilot Study Questions

1. Company name.
2. Number of employees.
3. Company legal registration date.
4. Industry.
5. Target market segment (mass market or niche).
6. The international work or life experience of the founding team.
7. When were significant resources first committed domestically?
8. When were significant resources first committed internationally?
9. When was the first item sold in the domestic market?
10. When was the first item sold in the international market?
11. What were the countries of the first internationalization wave?
12. What were the reasons when choosing these countries for internationalization?
13. What was the entry mode chosen for these markets?
14. Why did you choose this entry mode?
15. Did you enter other markets with the same entry mode?
16. If not, why and to which did you change the entry mode?
17. In which countries is the company present now? Describe the operations in every country.
18. What was the primary motivation for internationalizing?
19. Were there any additional benefits you did not expect initially acquired by internationalisation?
20. How do you approach foreign markets in terms of marketing? Do you tailor activities to every country or have a standardised approach?
21. Which marketing decisions are made in the headquarters and which in local offices?
22. Do you sell standardised production in all markets or you tailor it for every market?

The actual questionnaire delivered to the respondents is available on our website www.bornglobals.eu.

Appendix B: Sample Description

Table B.1

Companies` Data

Name	*Industry*	*Number of Employees*	*Established*	*Origin*	*Goals*	*INV Type*	*Internationalisation Strategy*	*Entry Mode*
Anonymous1	M749 - Other professional, scientific and technical activities n.e.c.	8	2004	Latvia	G3 G6	Export start-up	International	Exporting
Nordtext	N829 - Business support service activities n.e.c.	21	2006	Latvia	G3	Export start-up	International	Exporting
Anonymous2	J620 - Computer programming, consultancy and related activities	18	2009	Lithuania	G1	Geographically focused start-up	Global standardisation	Joint venture / Franchising
SMScredit Group	K641 - Monetary intermediation	50	2008	Latvia	G1 G3	Geographically focused start-up	Global standardisation	Subsidiaries
Novatours	N791 - Travel agency and tour operator activities	130	1999	Lithuania	G3	Geographically focused start-up	Global standardisation	Subsidiaries
Anonymous3	C323 - Manufacture of sports goods	5	2006	Latvia	G5	Multinational trader	International	Exporting
MADARA Cosmetics	C329 - Other manufacturing n.e.c.	40	2006	Latvia	G5	Multinational trader	International	Exporting
Real Sound Lab	C262 - Manufacture of computers and peripheral equipment	13	2004	Latvia	G5	Multinational trader	International	Exporting > Licensing
Asper Biotech	M721 - Research and experimental development on natural sciences and engineering	40	1999	Estonia	G5	Multinational trader	International	Exporting
GetJar	J620 - Computer programming, consultancy and related activities	44	2000	Lithuania	G5 G7	Multinational trader	International	Exporting

Table B.1

Companies` Data

Name	*Industry*	*Number of Employees*	*Established*	*Origin*	*Goals*	*INV Type*	*Internationalisation Strategy*	*Entry Mode*
Playtech	J620 - Computer programming, consultancy and related activities	994	1999	Estonia	G5	Global start-up	Global standardisation	Licensing / Exporting
Skype	J620 - Computer programming, consultancy and related activities	839	2003	Estonia	G5 G6	Global start-up	Global standardisation	Exporting

Created by the authors. Industries by the United Nations (2011).

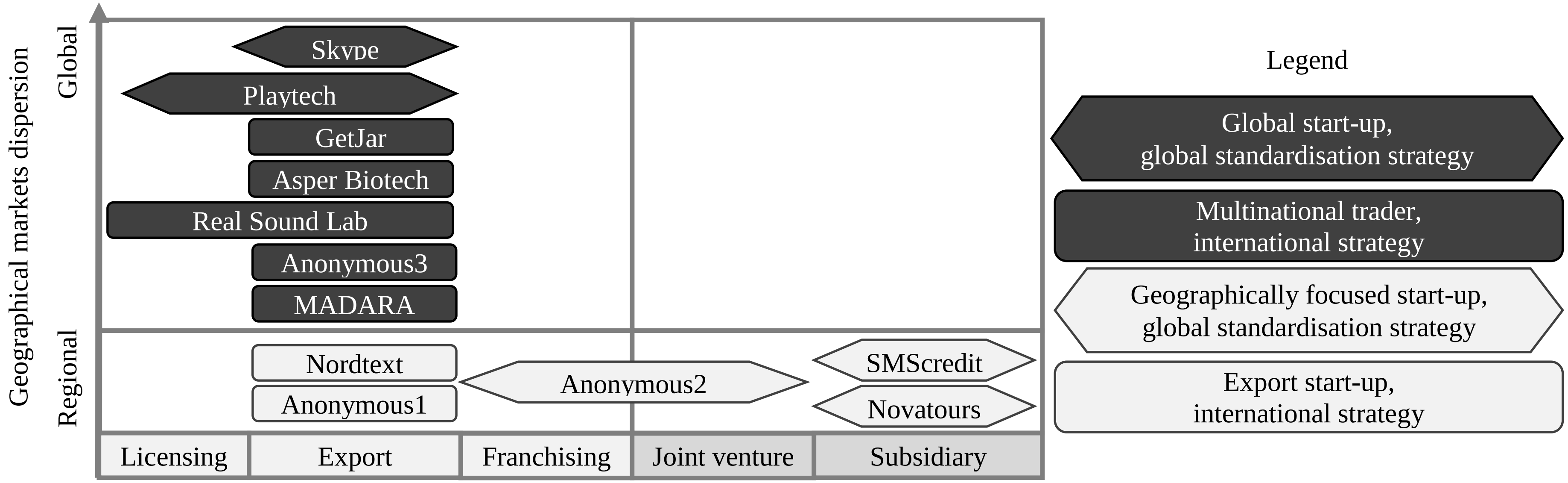

Figure B.1. INVs clustered by the geographical markets dispersion, operations internationalisation strategy and entry mode. Created by the authors.

Appendix C: Companies` Descriptions

Anonymous1

The initial idea of this consulting company was to provide competence for Scandinavian companies wishing to do business in Latvia. The very essence of their business idea requires international presence. Later the company expanded into other Scandinavian and Eastern European countries to increase sales and the scope of their business. Having the only office in Latvia is sufficient for this company to serve its clients, and it does not want to take on extra risks by establishing subsidiaries in other countries. It acquires competence and contacts needed through establishing partnerships with local companies and participating in global networks.

Anonymous2

The company is providing IT services for businesses. Initially, it was established as a joint venture between Scandinavian and Lithuanian partners. The idea was to create value by employing lower cost labour in Lithuania and selling mainly to Scandinavian customers, i.e. to reduce costs by serving Scandinavian customers from Lithuania. All markets were entered through franchising, i.e. the company does not sell to the end customers but provides full marketing package and products to its franchisees. All services and products are standardised and produced mainly in Lithuania, but the company is headquartered in Denmark. The company operates also in Sweden, Finland and the Netherlands.

Anonymous3

The company is producing sporting inventory in Latvia. It is present worldwide and sells its products on all continents. The initial motivation for internationalising was that Latvian market was too small for proper turnover to be achieved. This led the company to actively seeking clients and partners all over the globe. Without worldwide presence the company would not be able to recover its fixed costs.

Asper Biotech

The company is providing biotech products and services worldwide. At the moment it is present in about 40 countries. The Estonian market was too small for such specialised products, so internationalisation was needed for survival to amortize all the costs involved in R&D. The competence of the founding team allows it to successfully compete on the global market. This could be called a textbook example of a company, established in a market too small for its specialised products, but having expertise in this niche. In this case internationalisation makes the very establishment of the company possible.

GetJar

It is the world`s largest platform-independent mobile applications store. Because the company is striving for the world`s market, it is necessary for it to be present in as many markets as possible. Also, the Lithuanian home market was almost non-existent when the company started its operations. So it started as a multinational trader to recover the initial costs and later internationalised its standardised operations to the Silicon Valley, USA, and London, UK. This allowed getting access to the best expertise from the industry and helped in establishing the leading worldwide position.

MADARA Cosmetics

The company is producing cosmetics in Latvia for the niche market and exporting its production to many dealers worldwide. At the moment it is present in approximately 30 countries on 3 continents. The main motivation for internationalising was the insufficient size of Latvian market for this manufacturing business to be profitable, so the company started to export to increase sales in the limited worldwide niche markets.

Nordtext

The company is offering translation and localisation services. It was established in Latvia, but quickly internationalized to the Scandinavian markets. At the moment it is exporting its services to more than 30 countries. The main motivation behind internationalisation was increasing sales. The company`s services do not require its presence in other markets, so it was possible to establish international presence by exporting.

Novatours

The company is the largest tour operator in the Baltic States. It was established in Lithuania and quickly opened subsidiaries in Latvia and Estonia. It tried to enter several other Eastern Europe markets, but to date all other foreign subsidiaries were closed. Operations are standardised and subsidiaries perform only local marketing and sales with their local staff. The company internationalised with the goal to increase total sales.

Playtech

Playtech is the world`s largest publicly traded online games and gambling software supplier (Playtech, 2011). It was established in Estonia, and its Estonian office is still the main for R&D activities. The primary motivation for such a company going international is amortising the R&D costs. Gaming software development is a niche industry, so the market of only one country is not sufficiently large. By spreading its activities among various countries, it managed to create higher value: development activities were performed in Estonia, where it was cheaper and the necessary competence was present; administrative and worldwide distribution activities were performed in the UK, capitalising on network effects. Such a fusion brought Playtech success and the leading positions worldwide.

Real Sound Lab

It is a Latvia-based company performing R&D of new acoustic technologies. It stated that there is no such term as domestic market in technology, so the unique technology company must be globally oriented. The company started as professional equipment exporter worldwide and later focused on licensing its technology to the global consumer electronics producers. Licensing takes much time while the technology is incorporated by licensees into their production, so it started to export at first to improve its cash flows. Going international was the only viable way to recover R&D costs.

Skype

Skype is one of the most popular internet calling and chatting software. The company was headquartered in Luxembourg and started its R&D operations in Estonia (Munk, 2006). Later the company opened its function-specific offices in London, Stockholm, Tartu, Prague and Palo Alto. The standardised product based on a proprietary closed technology was exported globally to get a sufficient client base and recover the R&D costs.

SMScredit Group

The company is providing fast consumer credits. It started in Latvia, but quickly went to Lithuania, Finaland, and Sweden. The main motivation behind internationalisation was to get access to more and larger markets and increase profitability by increasing the scale of operations. Also the business model was said to be quite simple to implement, so the internationalisation was not hard. The company chose fully-owned subsidiaries as the entry mode, because it valued the benefits of tight control. The choice of exporting in this case was not possible, because it was not viable to export consumer credits.