

The Age of Digitalisation

Market Entry in the Era of Financial Technology

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List of Abbreviations

ETF	Exchange-Traded Fund
BI	Business Intelligence
KPI	Key Performance Indicator
ETL	Extract, Transform, Load
SQL	Structured Query Language
SEO	Search Engine Optimization
DB	Deutsche Bank

1 Introduction

The process of internationalisation is a complex construct that has been studied for almost a century and can be traced back to theories that are still used and applied up to this very day. Over the past couple of decades, with the onset of globalisation and the development of the internet, businesses all over the world laid their eyes on the international arena for expanding beyond their domestic markets.

Unlike the manufacturing sector where the pace of internationalisation was rapid, the service sector, in particular financial services, remained a couple of steps behind. However, in recent decades, foreign operations and foreign market entries of the financial sector have significantly accelerated (Hannoun, 2006). Accordingly, with the financial sector lagging behind in terms of global development, so did the studies attempting to observe its internationalisation behaviour. In contrast to that, manufacturing companies have been widely researched and a variety of models (Dunning, 1980, 2000; Johanson and Vahlne, 1977, 2009; Rennie, 1993) have been developed to describe how these companies expand and what determines their success.

Due to the use of internet technologies, a phenomenon referred to as FinTech emerged among the firms operating in the financial sector. FinTech, short for Financial Technology, describes the use of technology in the financial sector in order to provide applied financial solutions. Buckley, Arner, and Barberis (2016) define three key periods in the evolution of FinTech: Fintech 1.0, FinTech 2.0 and FinTech 3.0.

FinTech 1.0 can be traced back to 1866 and is characterised by the implementation of the first Trans-Atlantic transmission cable that significantly reduced the communication time between North America and Europe from 10 days to as low as 17 hours. This in turn resulted in the development of the global telex which then improved financial services. Other applications during the period of FinTech 1.0 include the first handheld financial calculator (Thibodeau, 2019) and the introduction of credit cards in America (Markham, 2015).

The primary attribute that was associated with FinTech is that technology acts as an enabler for certain processes that were previously either complex or not available. Thus, FinTech 2.0, which took part between 1967 to 2008, was primarily defined by the emergence of the internet and by 2001 "eight banks in the US had at least one million customers online" (Buckley, Arner, and Barberis, 2016, p. 11).

FinTech 3.0 began consequently to the financial crisis in 2008 and it is still underway. This period is characterised by applications emphasising the power of data and the ability to leverage and harness its benefits. The progress from FinTech 1.0 to FinTech 3.0 proved how changes in technology can reshape the "rules of the game" and how traditional institutions are not the only unique entity existing any longer.

Due to the financial crisis, the trust populations had in the banking system began to decay as traditional banks were perceived as less reliable (Andrew, 2015). Therefore, the period post the financial crisis saw the rise of start-ups, leveraging advanced technologies to expand in the financial sector (Arner, Barberis, and Buckley, 2016).

Parasuraman and Zinkhan (2002, p.287) stated that "internet technology has the potential to alter almost every aspect of business operations" and thus, this dissertation attempts to explore facets of the internationalisation process in order to develop insights regarding the use of internet technologies for cross-border business, as well as, how these have shaped the internationalisation process of electronic business companies (EBCs), in comparison to their traditional counterparts in the finance sector. Therefore, the formal research question is specified as follows:

How do E-Business Companies internationalise in comparison to traditional companies in the financial sector?

2 Literature Review

Exploring existing approaches or seeking newer directions of inquiry are among the reasons of why literature can assist to improve, shape and give form to a research topic in mind. Rowley and Slack (2004) argue that such reviews play a meaningful role in the identification of relevant literature to the research in question, while giving it context or seeking ways to provide added value. Additional aspects include constructing a better understanding of theories, concepts and terminology.

Hart (1998) contributes further benefits, among them are shedding light on any significant variables that may provide additional understanding to the topic while attempting to relate certain concepts, ideas and theory to applications. Therefore, this chapter will explore previous studies in the field of internationalisation in regard to EBCs and traditional theories in the field, while putting emphasis on assumptions, conclusions and key points.

2.1 Previous Studies in the field of Internationalisation

Considerable amount of existing research demonstrates the benefits derived from using the internet as an enabler for breaking barriers previously set on the internationalisation borders (Chai and Pavlou, 2004; Shneor and Flaeten, 2008; Arenius, Sasi, and Gabrielsson, 2005). An exploratory research by Loane and Bell (2002) was set to inspect the internationalisation process of EBCs originating in New Zealand, Australia and the European Union. Eight firms were chosen and demographically analysed using measures including firm age, firm size, number of founders and the personal relationship between them (close family or not) and the speed in which those firms internationalised in terms of time. Many if not most of the case firms in the aforementioned research have undergone a rapid internationalisation, if not from their inception, in order to gain a competitive advantage. It was revealed that the case firms have used the means of internet technology across the organisation's departments and as a sales channel for their products; thus they have set themselves on the international stage in ways never possible pre-internet era, as "The 'old' rules of business are not obsolete for internet-enabled firms" (Loane and Bell, 2002, p.1965).

A study by Fang et al. (2017) explores the internationalisation process of Scandinavian firms as they attempt to enter the Chinese market. The study integrates two commonly known and dominant approaches used to describe internationalisation, The Uppsala Model and the

Born Global Model. However, instead of applying each theoretical approach separately, the authors attempt to form a hybrid version of the two, or as mentioned in the paper "parachuting internationalisation". Out of the four firms, one is an EBC that followed the Born Global approach from inception and harnessed the full power of the internet in its internationalisation process. The internet accelerated the company's expansion across different markets and even allowed for simultaneous market entries. Furthermore, the experiences the four Scandinavian firms underwent in their entrance to China revealed several common factors with great impact: knowledge is of great importance and learning is of the essence; geographic locations are outshined by customer focus and psychic distance is not as promising as previously thought.

In contrast to Fang's finding with regard to psychic distance no longer being in the limelight, Forsgren and Hagström (2007) find in their study focusing on EBCs, that at the beginning of the expansion process, firms choose markets of relative distance in the sense of psychic distance.

Psychic Distance is a concept introduced in Johanson and Vahlne's (1977, p.24) study regarding the internationalisation process of firms and describe it as "the sum of factors preventing the flow of information from and to the market". The factors preventing the flow of information include differences in culture, business, language, education and how developed is the industry. This approach was empirically analysed by Kogut and Singh (1988) using Hofstede's cultural dimensions. The analysis revealed that the mode chosen by firms to enter different markets is influenced by various cultural factors. Karakaya (1993) further contributes by indicating another aspect that can shape and raise hurdles in the path of expansion. Karakaya (ibid) describes market entry barriers and their impact on firms. These barriers include but are not exclusive to cultural, language, political, economic and governmental aspects.

Further emphasis is put on knowledge being a strong factor in the internationalisation pattern of firms. Petersen's study (2002) concludes that due to the internet, processes conducted during the internationalisation of a firm are awarded with improved efficiency of market transactions. Moreover, with the access to a lake of data provided by the online horizon, firms can react to market changes, while improving their learning processes and knowledge; which in turn propels firms into the global business arena.

Johanson and Vahlne (1977) describe internationalisation as an iterative and gradual

process and distinguish between four different factors: Market knowledge, market commitment, commitment decisions and current activities. The study highlights that a firm's market entry process will be influenced by how committed and invested it is in the target destination. Normally, a firm will enter a market while committing as little as possible and expand from that point onwards. Additionally, a corporation will usually enter markets that are familiar to it in terms of a higher psychic distance. The model created in this study describes a process where market knowledge shapes commitment decisions and how current internationalisation activities follow.

Generally speaking, distance has been a widely researched and explored aspect in the internationalisation process of firms and as previously mentioned, psychic distance is an application of a broader distance concept. It was found that distance plays a major factor in the selection of location, entry mode and knowledge transfer (Xu and Shenkar, 2002; Kostova, 1999; Tihanyi, Griffith, and Russell, 2005). It was further concluded that "essentially, international management is management of distance" (Zaheer, Schomaker, and Nachum, 2012, p.19). Therefore, distance is a concept that is of the essence when discussing factors that might play a role in internationalisation processes and cannot be disregarded.

Terzi (2011) accentuates the added value that is derived by the use of internet and electronic means. In this study, the author describes how the use of electronic applications can bear fruit in the form of reduced costs, speed, improved communication, reduced significance of physical geographic distance and business networks. Factors including historical linkages, managerial structure and fitness to target industry continue to have impact withal. Moreover, the study sheds light on the fact that trade barriers which normally reshape a company's internationalisation, no longer hold a significant impact as they previously did, due to the introduction of electronic activities.

This dissertation author's review of extensive academical work finds certain factors that appear in a consistent manner across the broad scope of research explored. The following table provides a recap of factors, result of the studies covered in this chapter, that play a role in the internationalisation process of EBCs:

<i>Factors</i>	<i>Authors</i>
Market Entry Barriers	Chai and Pavlou, 2004; Shneor and Flaeten, 2008; Arenius, Sasi, and Gabrielsson, 2005; Karakaya, 1993; Terzi, 2011
Firm Size	Loane and Bell, 2002
Firm Age	Loane and Bell, 2002
The Internet	Loane and Bell, 2002; Fang, Tung, Berg, and Nematshahi, 2017; Petersen, Welch, and Liesch, 2002; Terzi, 2011
Managerial Structure	Loane and Bell, 2002; Terzi, 2011
Knowledge	Fang, Tung, Berg, and Nematshahi, 2017; Petersen, Welch, and Liesch, 2002; Johanson and Vahlne, 1977;
Relative Distance (i.e. Psychic Distance)	Forsgren and Hagström, 2007; Johanson and Vahlne, 1977; Kogut and Singh, 1988; Xu and Shenkar, 2002; Kostova, 1999; Tihanyi, Griffith, and Russell, 2005; Zaheer, Schomaker, and Nachum, 2012
Cultural Differences	Loane and Bell, 2002; Johanson and Vahlne, 1977

Table 1: Factors Impacting Internationalisation: Previous Studies

2.2 Theoretical Framework

Review of literature covered in the previous part of this dissertation and other academical work imply that while internationalisation belongs to a broad scope of research fields, they are mostly based on predominant theories in the field. Each of these theories attempts to explain why and how firms expand and engage in activities overseas.

Through the exploration of these academical works and theories, a set of factors that impact the internationalisation process will be noted in order to better understand how these approaches attempt to explain and illustrate the internationalisation construct. This will assist in consolidating information scattered across the vast variety of existing research, while gaining insight leading to the clarification of the research question this paper deals with.

2.2.1 Uppsala Model of Internationalisation

Empirical studies involving Swedish firms and the observation of their international development have laid the grounds for the emergence of this theory. The Uppsala model of internationalisation describes the process in which firms incrementally increase foreign market commitment by using and integrating acquired knowledge in a way that shapes the way they internationalise. This behavioural approach was first brought to light by Johanson and Valhne (1977), and was consequently integrated in many other theoretical frameworks of internationalisation.

In their study, Johanson and Valhne (1977) describe the process and order in which several Swedish firms proceeded in the expansion of their business abroad. The behaviour, as previously indicated, was seen to be as one of an iterative nature, where the companies in question had enacted in actions and initiatives that further increased their commitment to target markets of interest. For example, one of the firms mentioned, a firm dealing in the pharmaceutical industry and operating in nine different countries, seemed to follow a certain pattern in which it would gradually further extend its reach and operations. Among these operations, it was said the firm had received orders from the foreign markets, and after some time and sense of establishment, continued to make agreements with agents and brokers, up until commencing in actual manufacturing activities, and thus further committing to the target markets. The Uppsala model sets a clear target: to find explanation behind the iterative pattern of firms.

The model uses four core concepts: market commitment, market knowledge, current activities and commitment decisions. These core concepts are further categorised into two groups, one being state aspects, while the other is change aspects.

State aspects include market commitment and market knowledge, these are naturally temporary, while change aspects include commitment decisions and current activities. However, they are not to be regarded separately as they both influence each other and as explicitly stated by Johanson and Valhne (1977, p.27): "Market knowledge and market commitment are assumed to affect both commitment decisions and the way current activities are performed. These in turn change knowledge and commitment". This statement enhances how these core concepts are interlinked and how one concept affects the other and is also affected by it. The following figure is a depiction of this mechanism:

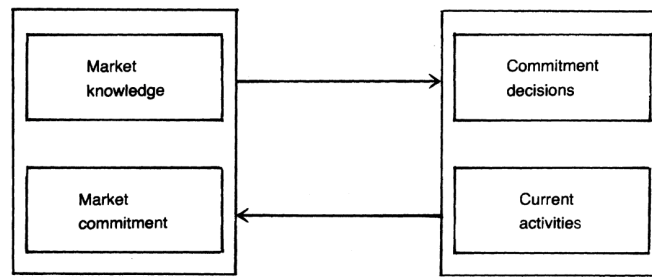


Figure 2.1: Mechanism of Internationalisation - State and Change Aspects)

Source: Johanson and Vahlne, 1977, p.26

Market Commitment consists two main factors, these include the amount of resources and to what degree are these resources committed, or better said, how difficult it is to reroute these resources to another use or is it even possible to find an alternative use for them. The amount of resources can refer to different types of investments and expenditures; these include marketing, personnel and organisation. While the degree of commitment can be determined by how integrated these resources are with parts of the organisation.

Market Knowledge is classified by how it is acquired and is composed of two types. The first type is objective knowledge and is teachable. The second type is experiential knowledge, which is harder to transfer and can also be referred to as tacit knowledge. This type of knowledge is regarded as crucial in order to have a better sense in taking advantage of opportunities. Additionally, the knowledge can also be distinguished in terms of general and market-specific knowledge. General knowledge deals with common marketing and customer characteristics and is objective knowledge, while market-specific knowledge is experiential and is linked with national markets, including demographics, structure of market systems and possible cultural traits. Both of these knowledge types are required for entering a new market and are considered a resource that enhances market commitment.

Current Activities and their consequent impact are described to possess a certain lag between their time of occurrence and their actual reach to fruition. Johanson and Vahlne (1977) mention marketing activities as an example for a continuous activity which has to be repeatedly and consistently undertaken, in order to see actual generation of sales. This lag itself and its duration leads to further commitment to the target market, with longer lag resulting in more commitment. These activities are considered to be important due to the fact that they act as the main source of firm's experience, and as previously mentioned, experience is of the essence when

a firm is to take advantage of possible opportunities. It is further argued that gain of experience can be done through outsourcing activities of qualified personnel, however, it is additionally emphasised that the needed experience, taking all aspects of it into consideration, may be hard to obtain and therefore results in a slower process of internationalisation.

Commitment Decisions are presumably made in the presence of problems or opportunities in a market environment and as previously mentioned, are better taken advantage of when experience is already acquired. This kind of endeavour, be it in response to problems or opportunities will evidently result in additional commitment to the market in question. Each commitment, when extended, is further distinguished by two aspects: economic and uncertainty. It is described, that the firm, by the nature of incrementalism characterising this theory, will continue committing to the market until hitting the maximum risk possible when facing market uncertainty. Following this logic, it is assumed that the more knowledge or experience a firm holds, the more it is willing to commit due to a lower degree of uncertainty, which in turn results in lower risk.

As mentioned in chapter 2.1, Johanson and Vahlne (1977) introduced the concept of "psychic distance" to point out that companies usually aim to move to countries close in geographic terms to their domicile, due to the fact that their knowledge of those markets is more extensive. This is a direct result of the theory's statement claiming that a firm is more inclined to commit when possessing more knowledge in regard to a certain target market.

This model was revisited by its original authors (Johanson and Vahlne) in 2009. In the revisited model, a firm's network and general relationships play a bigger role. The new model puts emphasis on the fact that a broader scope is required and instead of considering only market commitment, the model also covers the firm's current relations which are affected by the degree of trust, knowledge and commitment. Furthermore, knowledge about the insides of a network is also referred to as an important concept. Generally, the concepts have been slightly refined, but the theory's core assumption that experience and commitment are inevitably interlinked still remains.

The following table consolidates the core influential factors in a firm's internationalisation, while providing assumptions and reasoning behind them according to the Uppsala Model:

<i>Factors</i>	<i>Assumption</i>
Market Commitment	Amount of resources invested, that are not easily replaced and increases the link between a firm and a market
Commitment Decisions	Define the rate in which a firm gradually enters a market and resources committed to it
Experiential Knowledge	Influences and shapes how a firm can perceive and take advantage of opportunities and possible problems
Physical Distance	Companies prefer to enter markets similar to them or markets which they know better
Current Activities	An enhancing source in terms of added experience to better capture opportunities
Relationships and Networks	Required the development of international activities

Table 2: The Uppsala Model of Internationalisation: Consolidated Representation of Factors (Author's Compilation)

2.2.2 Born Globals

The Born Globals (BG) model of internationalisation (Rennie, 1993) comes from a similar stream to the one the Uppsala model belongs to. However, whereas the Uppsala model sees internationalisation as an incremental and time consuming process enveloped by learning and skill development, the BG model notes exceptional cases where firms aim internationally and globally from their inception. Furthermore, the approach had been explored extensively in several different studies (Madsen and Servais, 1997; Knight and Cavusgil, 1996) and accordingly, the studies conclude the most common and relevant factors that give rise to the emergence of BG firms and the existence of this phenomenon. Among these factors are: market conditions, development of technology, global networks and partnerships, and the capabilities of people, which includes the managerial approach of the founders. The following figure illustrates the conceptual framework of the BG approach:

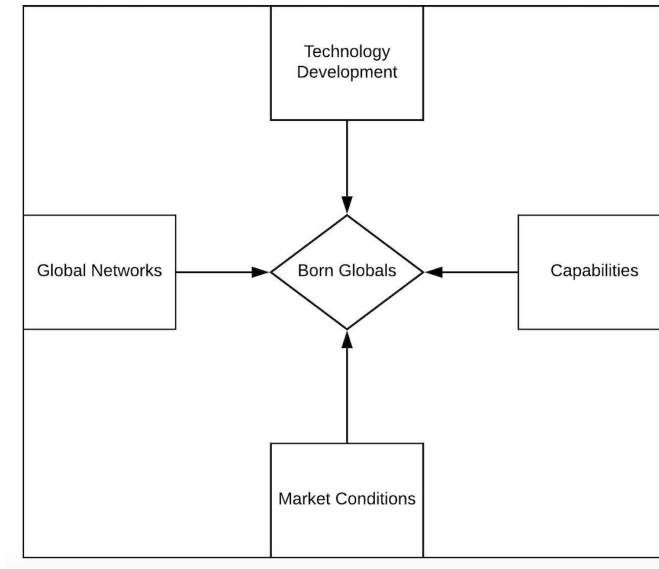


Figure 2.2: Born Globals - Conceptual Framework

Source: Author's Own Construction

Market Conditions are described by Madsen and Servais (1997) as factors that push a firm into having to sell its product or service outside of the country. An example of such factor can be low demand for a product in the local market. This process can be seen as a two sided coin, where on one hand the low local demand is acting as a factor that pushes the firm into internationalising, and on the other, a higher demand in a target market acts as a factor pulling the firm to enter it.

Technology Development is deemed to be a major key factor rooted in the BG theory as it is what actually kickstarts the companies into internationalisation faster and easier. It is therefore not surprising, that a large portion of current literature dealing with born global firms focuses on technology-intensive corporations, as the use of technology broke down barriers and reduced communication costs, in such way that the ability to discover and take advantage of business opportunities in a variety of countries is enhanced (Oviatt and McDougall, 1994; Knight and Liesch, 2016).

Global Networks are used by rapidly growing BG firms and are referred to as partners, distributors or the internet itself, to achieve wider reach and easier internationalisation. This part of the BG theory puts emphasis on how the relationships a firm or the founders can create, or are available, play an important role and are vital for international endeavours (Fletcher, Loane, and Andersson, 2011).

Capabilities are described as the ability of people to take advantage of opportunities to foster and drive internationalisation. In recent years, people have gained significant experience in the international arena due to travelling becoming easier and technology connecting people across countries; thus, this results in competence to operate and handle oneself in foreign situations. These capabilities also include those of the founders of the firm, and due to these competences being attained easier in comparison to the past, managers tend to look outwards in terms of business, and perceive the world as the marketplace, instead of remaining in their domicile (Madsen and Servais, 1997; Rialp, Rialp, Urbano, and Vaillant, 2005).

To conclude, Born Globals is a relatively young theory in comparison to other internationalisation theories. It is, however, important to note, that this approach describes a phenomenon becoming common over the last couple of decades due to the onset of modernisation and technological advancement. Therefore, it can assist in explaining the internationalisation behaviour of firms characterised with heavy use of technology and the internet itself as a channel.

2.2.3 Dunning's Eclectic Paradigm

The eclectic approach first rose to awareness in 1976 by Dunning (2015), who defines the functionality of enterprises as an entity that is supposed, by nature, to transform through production, inputs to outputs, while granting those outputs an added value in comparison to their previous form.

Also referred to as the ownership, location and internalisation (OLI) approach (Dunning, 1980), this theoretical work came to life in order to examine the international production of a firm and its determinants. The eclectic paradigm attempts to give reason and evaluate variables that shape a firm's production and its growth in external markets; it does so by dividing it into three different categories: ownership (O), location (L) and internalisation (I) advantages. Dunning uses these three independent variables as a basis leading to a firm entering a new market.

For a firm to be able to competitively produce alongside firms domiciled in target markets, it must possess ownership advantages in a satisfactory degree to breakeven the costs linked with entering a foreign market. In other words, ownership advantages can award a firm with competitive advantage over other local firms and potential entrants. In order for a firm to unlock

these benefits, it must have access to both tangible and intangible assets, that other players in the target market do not have.

Location advantages speak of benefits that can be obtained by the process of a firm positioning its production or segments of it in foreign locations. Furthermore, these benefits are location specific, hence, they cannot be transferred (i.e. different legislation in comparison to home country that contributes to lower costs and access to natural resources).

The third and last advantage Dunning speaks of is internalisation advantage. Unlocking these advantages is a result of a situation where there are more benefits to be reaped by the retention of specific skills, assets or production driving mechanisms. Internalisation is an additional way to reduce operational costs including transaction and transportation costs.

The following table includes the main activities which Dunning describes in his study. Firms may or may not be involved in these activities, but they serve as a rough guideline for the expression of the three aforementioned advantages, result of this framework.

<i>Ownership Advantage</i>	<i>Location Advantage</i>	<i>Internalisation Advantage</i>
Capital	Access to resources	Control of supply and price
Technology	Raw material costs	Exploiting technology
Organisational skills	Labor costs	Reduction of transaction or information costs
Trade marks	Legislation	Brand reliability
Economies of scale	Governmental policies	
Market access	Geographic proximity	

Table 3: OLI applications

Table 3 depicts examples applying to each of the variables. The table can be looked at in a general way and in different scenarios. For example, if a firm possesses certain tangible assets, special technology, patent rights or a reputable trade mark, it can unlock the benefits of ownership. Having exclusive and specific access to resources or operating in a country with favourable policies can unlock location advantages. Reducing transactional costs by keeping

operational processes internal and not external can unlock internalisation advantages.

According to Dunning, each and one of these advantages, when fulfilled, will lead to a different internationalisation process of a firm in a form of market entry mode. These are distinguished in the study in the following way: According to the eclectic paradigm, if all three advantages exist, a company will engage in Foreign Direct Investment (FDI). If a firm will not profit by using locational factors with its ownership and internalisation advantages, then export will be the preferred way to enter a market. However, if a firm will only benefit by using its ownership advantages, then a licensing approach would be the way the firm will most likely choose. In order to simplify, the following table demonstrates all three scenarios:

<i>Ownership</i>	<i>Location</i>	<i>Internalisation</i>	<i>Market Entry Mode</i>
x	x	x	FDI
x	-	x	Export
x	-	-	Licensing

Table 4: Eclectic Paradigm Market Entry Mode Selection

2.2.4 The Resource Based View

The Resource Based View (RBV) approach was born out of the need to explain the successful internationalisation of a firm. The theory argues that a firm's competitive advantage is derived of the resources a firm controls, that are available to it and those which are "valuable, rare, imperfectly imitable, and not substitutable" (Barney, Wright, and Ketchen Jr, 2001, p.625). Resources are further defined as all "assets, capabilities, organisation processes, firm attributes, information, knowledge" (Barney, 1991, p.101) that a firm possesses and are used in the development of a value generating strategy assisting the firm in improving its efficiency and effectiveness.

Penrose's (2009) work had a direct impact on the theory of RBV. Penrose provided theories covering the effective management of a firm's resources and suggesting that a diversified portfolio of resources (e.g. brand, capital) assists in achieving competitive advantage. In other words,

firms within an industry can obtain competitive advantage due to the unique resources they own, however, it is not only the sole fact of ownership of the resources that grants a company with competitive benefits, but the efficient usage of them.

Firms pursuing the international path need to evaluate whether their competitive advantage or advantages, can be placed or used in foreign markets in a way that sets them in a stronger position than other players in the market.

Unlike other theories dealing with internationalisation, RBV sets its eye on internal factors rather than taking into account the interplay of both internal and external factors. More specifically explained, a company should use its internal strengths to respond appropriately to opportunities and threats (Barney, 1991). The following figure illustrates the core concept of this theory and how it is distinguished in terms of internal and external factors:

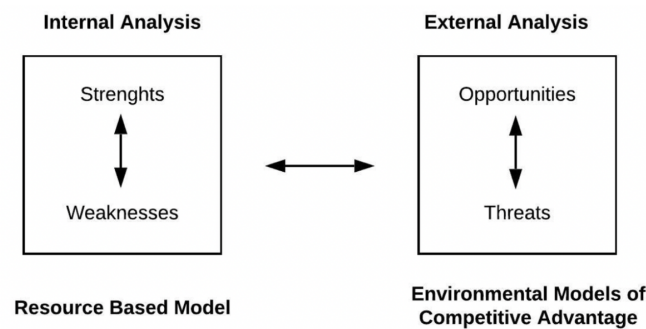


Figure 2.3: The Resource Based Model

Source: Barney, 1991, p.100

The way RBV encompasses internationalisation is by suggesting that a firm would only enter a new market after having considered the resources available, how imitable and replaceable they are and how well the firm is capable making use of them, while positioning itself in a leveraged spot in comparison to the other players in the market (Ruzzier, Antončič, and Konečnik, 2006).

RBV does not directly link the type of resource used to a specific entry mode choice, however, the model acts as a measurement to firm performance abroad and by doing so, can help decide on forming a strategy when entering a new market (Tulung, 2017).

3 Methodology

This chapter will outline the strategy and approach employed throughout the research, while pointing out how the data was collected and its nature. The following figure depicts a flowchart demonstrating the implementation of this research:

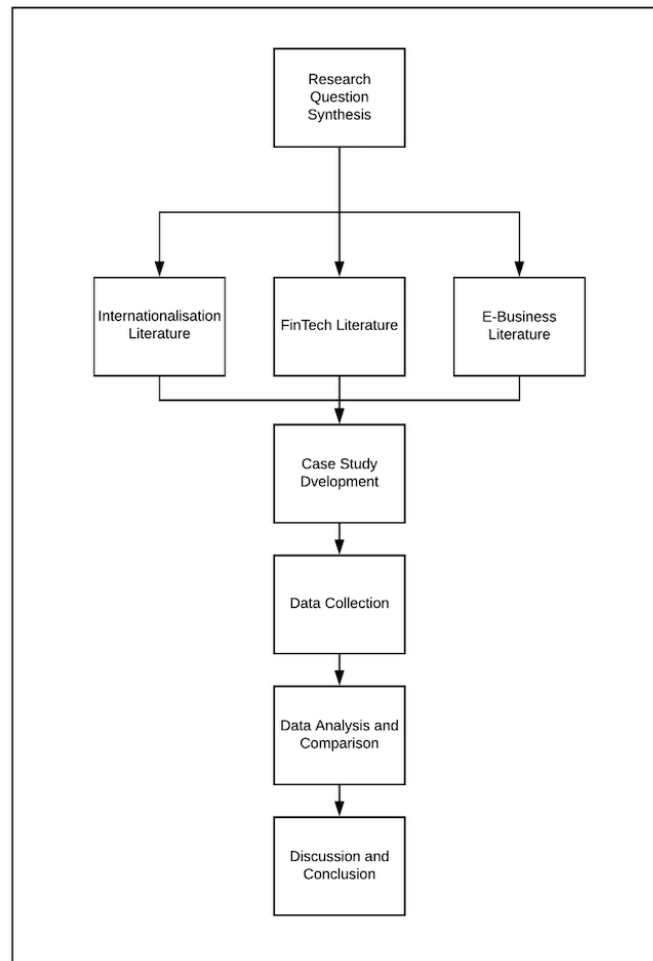


Figure 3.1: Dissertation's Research Implementation

Source: adapted from Sinkovics, Salzberger, Loane, Bell, and McNaughton, 2006

As seen in figure 3.1, the author of this dissertation developed a research question based on a topic of genuine interest. In order to better understand the topic, preliminary research and its reviewing was done. This assisted in developing a formidable scope to this study while having a clearer path in how to approach the issue at hand. This chapter will cover the frameworks used in this dissertation and how the data was collected.

3.1 Research Approach

The field of internationalisation is very broad and heavily researched in terms of traditional companies. However, this dissertation's research question deals with E-Business companies in the FinTech industry, and there seems to be a research gap when trying to compile all of these factors together. There are established studies dealing with the internationalisation of traditional companies in the financial sector and how these take place, but as covered in chapter 2.1, not many have investigated the internationalisation process of EBCs in the FinTech industry.

This dissertation employs a qualitative and exploratory type of research. Due to the nature of this field and the vast volume of academic literature it is possible to draw conclusions by using theoretical frameworks. Qualitative research holds a significant meaning in the field of international business (Doz, 2011) as it is a part of theory development. Furthermore, this work, by its very nature, is abductive, as it attempts to reach a possible prediction while using observations. In doing so, it allows building on existing academical work, when relevant, and can be applied while consolidating several concepts that were never consolidated in the past. This can result in providing added value and generating new findings.

According to the research question this dissertation deals with, there are two aspects the research approach takes into consideration:

- An established understanding of the internationalisation process of firms in the financial sector exists. Among those are banks that were studied by using single or multiple case study research.
- Considering banks are part of the financial sector, there seems to be a gap in research according to the literature reviewed in the scope of this dissertation when discussing the internationalisation process of EBCs dealing in the same financial sector (e.g. online banks).

3.2 Research Design

In order to better understand how do EBCs internationalise and in what way this differs, a qualitative case study approach was the most suitable way of investigating this phenomenon. A qualitative case study, assists in exploring a phenomenon by using a collection of data sources.

This approach is of great advantage due to the fact that by doing so, the issue at hand is explored in more than one aspect and is viewed from many different angles. Moreover, it allows the phenomenon in being better understood (Baxter and Jack, 2008) while pointing out gaps in applied theories, with the end goal of enhancing theoretical explanations (Ridder, 2019).

Three prominent frameworks of conducting a case study exist: the Yinian (2017), Stakian (1995) and Merriamian (1998) approaches. All of the approaches seek to provide a good coverage in terms of exploration and revelation of the phenomenon in question. However, each of the authors use different frameworks and definitions for a case study execution.

The approach chosen for the scope of this paper is the Yinian approach. According to Yin (2017), a case study is an empirical method that should be conducted when either of the following criteria are applicable: a study attempts to answer "how" and "why" questions; the researcher shouldn't be able to manipulate the relevant behaviour of events; the researcher wants to cover contextual conditions believed to be relevant to a phenomenon in question; or when the boundaries between phenomenon and context are not clear. The last two points are further simplified by Yin and are explained that a case study would be relevant in those cases where a real-world phenomenon is to be understood, and this understanding involves contextual factors pertinent to the case.

This study deals with a "how" question and the relevant behaviour of events cannot be manipulated, as the case will observe the behaviours of firms using historical and current data in sequential and chronological order to derive patterns, behaviours and differences. Additionally, the research question deals with a real-world internationalisation behaviour of EBCs and traditional companies dealing in the financial sector, therefore, contextual relationship exists and further validates that this research stands in line with the conditions required to conduct a case study.

Yin (2017) distinguishes between various types of case studies. As this research attempts to point out differences or similarities in internationalisation behaviour of firms, the type of case study chosen to be used in this thesis is multiple-case studies. This type of case design enables to explore differences and draw comparisons between cases. In addition, Yin (ibid) describes different ways, according to which, a case study can be structured. The structure chosen for this study is a chronological structure. Therefore, the case will cover events in the order in which

they had happened.

The Yinnian (2017) approach defines the case selection as a variable that considers two different steps. The first factor, case definition, describes the entity the case study focuses on. The comparative nature employed in this case study deals with two companies operating in the financial sector. One company is an EBC providing financial solutions and the other is a bank included in the list of global systemically important banks (“2019 List of Global Systemically Important Banks (G-SIBs) - Financial Stability Board”, 2019). The second factor, bounding the case, describes a scope given to the case in order to determine the scope the cases deal with. Yin (ibid) specifies time boundaries as an optional way of bounding the cases, while mentioning, that the lifecycle of the case entity can be observed partially or in full. Therefore, the cases are given time boundaries. However, these time boundaries cover the entire life cycle of the firms in question, from when they were established and up until their most recent international endeavours.

The case study candidates were chosen by following an additional set of criteria. Both the EBC and the bank chosen to be studied had to have already been operating outside of their domicile and preferably in several different markets in order to be able to analyse their internationalisation process. Furthermore, both, the EBC and the bank had to uphold a relatively similar set of services. The EBC chosen for this study provides banking as a service and other financial solutions commonly offered by traditional banks, therefore, a bank was the most suitable choice for comparison.

3.3 Data Collection

To allow for the study to be as thorough as possible, this dissertation made use of secondary data. In his approach, Yin (2017) specifies six different sources of evidence. Among these sources, are two categories: documentation and archival records. Accordingly, these were the sources of data used in this paper in order to compile the cases as accurately as possible.

In the case of DB, documentation in the form of administrative documents including yearly reports, progress reports and official historical reports were used. These were made available by DB to the public and are accessible through their different website domains.

Similarly to DB, yearly reports, progress reports, archival records stored in company

channels were used. Furthermore, this dissertation's author had access to Company X's database which stores a vast amount of business related data on the most granular level. This had assisted in describing the case in a more accurate manner.

3.4 Data Analysis

CASE-SYNTHESIS YIN

4 Empirical Findings

What are empirical findings and how do they assist

4.1 Deutsche Bank AG

In January 22, 1870, two private entrepreneurs set out to establish a bank in Germany. Couple of months down the road and the reigning government back then granted it a license to operate as a bank in the country. Shortly thereafter, Deutsche Bank (DB) opened its branches in Bremen and Hamburg and thus began its operations in Germany. It was not long after and alongside the opening of domestic branches that DB displayed a rather quick expansion of its foreign operations with the establishment of branches in Shanghai, Yokohama and London, with London being the most important foreign branch. The first decades of DB's operations could be described as a "period of rapid expansion" with the bank having an "eye for good business prospects and a sound feel for risk" (Deutsche Bank AG, n.d., p.4). However, due to the outbreak of World War One, shortly followed by World War Two, DB had closed most of its international activities.

Consequently to the Second World War, DB resumed its operations and entered the general retail banking, or in other words, commenced on servicing the general public. DB's strategy during this time was to operate uniquely in its domicile, servicing local customers and providing loans.

The start of the 1970s is characterised by international expansion for DB, and once again, since the Second World War, DB opens representative offices in London. As DB becomes more

global the company makes key acquisitions in Italy, Spain, United Kingdom (UK), and the US. DB's internationalisation strategy puts strong emphasis on settling in central economic and financial hubs while executing foreign bank acquisitions and converting representative offices to branches.

In 1976 DB converts its office in London to a branch. Following the conversion, DB increased its commitment to the British market with a minor acquisition of the investment bank, Morgan Grenfell. Consequently, five years later, DB ended up acquiring Morgan Grenfell in full form and thus increasing its customer base in UK (Deutsche Bank AG, 2020b).

DB's entrance to the Italian market in 1977 exhibited similar behaviour. Just like in the UK, DB opened a representative office in Milan and consequently, converted it to the first actual branch. DB further committed to the Italian market with the acquisition of Banca d'America e d'Italia in 1984. Through the acquisition, DB commenced with operations in the retail banking market of Italy. A decade later, the acquired bank was renamed to Deutsche Bank AG which further enhanced the integration of the DB brand. Going forward in Italy, DB continued in making acquisitions and investing itself in the Italian market (Deutsche Bank AG, 2020a).

In the United States DB first joined the European Banking Industry Committee (EBIC). The EBIC is a consolidated group of European banks in which DB participated. Thereafter, in 1968, the EBIC established the European-American Banking Corporation and the European-American Bank and Trust company in New York. This first catered to businesses only and not private customers. In order to serve its private customers, DB proceeded to make major expansions in the American foreign sector and in 1979 opened a branch office in New York, a location very far from its domicile. Again, resembling its behaviour in other locations, DB acquired the Bankers Trust in New York. This move was done due to the fact that DB required more growth that could not be achieved in other ways (Deutsche Bank AG, 2020c).

Having reviewed the internationalisation process of DB in a chronological order, taking into consideration the period before World War one and two, it can be said that DB initiated many of its initial operations through joint ventures (e.g. the EBIC), however, in the 70s and onwards, a shift in DB's behaviour is noticeable as it moves from local activities to pursuing global endeavours. DB begins to open its own branches and continuously extending its reach and commitments in the markets it enters by acquiring other companies and owning them.

A study by Slager (2005) puts additional emphasis on DB's international behaviour by calculating the degree of internationalisation of a bank, also referred to as the transnationality index (TNI). This index is calculated by taking into account foreign assets, foreign gross income and foreign employment. The following figure illustrates DB's internationalisation pace and globalisation strategy:

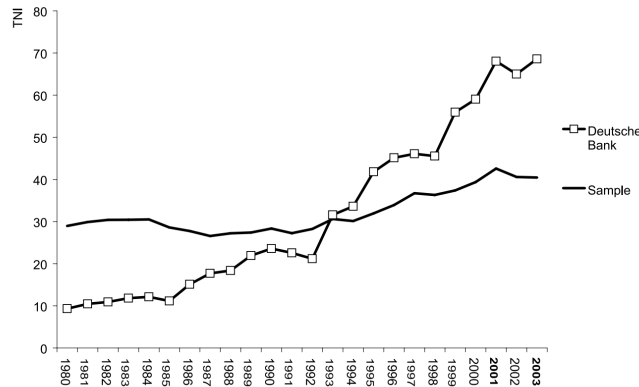


Figure 4.1: DB Degree of Internationalisation)

Source: Slager, 2005, p.39

As covered throughout this case study, DB's activities were described in a way that the company set up branches in financial hubs and continued expanding by acquisitions, and thus, it is possible to see the intensifying degree of internationalisation in figure 4.1 as time progresses.

4.2 Company X

Originally founded in 2013, based in Berlin, Company X deals in the investment and savings finance sector. The company aims to take over the competitive market of savings and investment in Europe by using advanced financial technology to assist private customers making the smartest and most efficient financial decisions. Since being founded, the company managed to raise hundred millions of euros from credible investors, including Goldman Sachs, the American multinational investment bank. Currently, the company is just shy of 310 employees, which means it is out of the Small-Medium Enterprise (SME) scope and is considered a large enterprise (Majocchi, Bacchiocchi, and Mayrhofer, 2005).

Company X acts as a bank and a platform that consolidates financial offers all over the EU and also in the US. The company offers the possibility for its customers to invest their money

in term deposits across different banks in Europe (OR THE US?) while offering very attractive interest rates in comparison to their local providers. This service was previously not available and the traditional way was for a customer to go to its local servicing bank in a physical branch and deposit money in a fixed account, however, the interest rates were usually relatively low.

Due to the FinTech era shining light on new and advanced technologies, Company X made it possible to build bridges between customers in their domicile to banks far out of their reach, while trimming down the bureaucratic requirements on the customer side that would otherwise be required when dealing with money and economic means across different countries. Therefore, partnerships play an important role in the company's expansion and reach and it is thus one of its main strategies, as it builds partnerships with small and middle sized banks.

The business model of Company X is structured in such way that when a customer decides to purchase a financial product offered on Company X's platform, after identity validation and proper registration, the customer is required transferring the relevant funds to a servicing bank hosted and owned by Company X. This servicing bank effectively acts as a "middleman" and transfers the funds to the target partner bank offering the financial product purchased by the customer. When the relevant period defined for the product reaches its expiration, the customer can claim his funds and earned interest back, which are then transferred back from the partner bank to the servicing bank and eventually to the customer.

Company X undertook a global view from its onset and planned for rapid consistent, continuous and rapid expansion. The platform first launched in Germany in 2013 and successfully integrated itself into the German market, being able to offer higher interest rates than its competitors, German banks, and thus earning a clear competitive advantage.

In 2016, Company X made its services and products offered on its platform accessible across Europe. This move transformed Company X's status from being a local provider of savings and investment in Germany to owning the first pan-European marketplace for savings.

On the same year Company X opened its pan-European savings market, it launched a separate platform dedicated to the Austrian, French and Spanish market. The decision behind opening platforms dedicated to specific markets was to be able to cater to the different cultures, while improving communication and marketing by using the language relevant to the country. Furthermore, market-specific platforms allowed for the diversification of promotions

and products tailored to fit that country.

The years following 2016, Company X continued on launching separate platforms for different countries across Europe. In 2018 a dedicated platform for the UK and the Netherlands was launched. In 2019, the Irish platform was launched, and alongside it, plans to launch in the US ensued. WRITE ABOUT THE US, WRITE ABOUT SPAIN.

Additional significant moves were taken by Company X. One of them was the acquisition of a bank. As already mentioned, Company X uses a servicing bank as a middle-man between the partner bank and the company itself. However, in 2019, Company X acquired the servicing bank and is now the sole owner of it. This not only reduced holding costs but also increased the control the company has over its assets. Moreover, an additional acquisition took place in the same year as Company X acquired a FinTech offering pension products. By doing so, Company X continued diversifying its product portfolio and could now cater to a wider crowd while offering additional financial services.

The following figure exhibits the current distribution of Company X's partnerships across Europe:

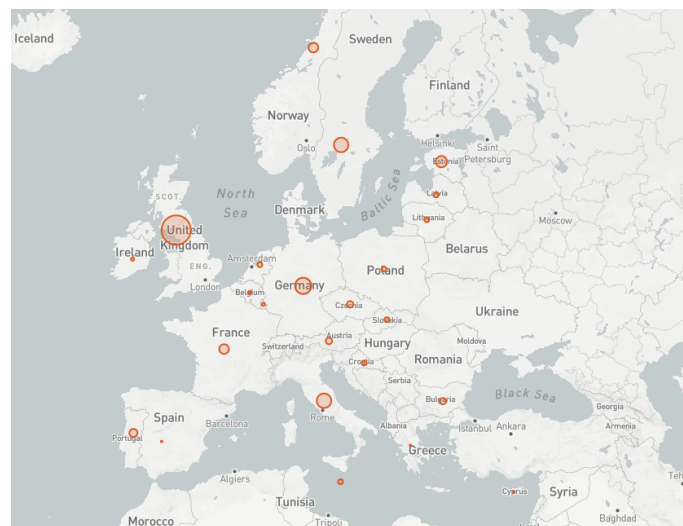


Figure 4.2: Europe - Company X's Partner Bank Distribution

Source: Company X's Data (2020) - Self Constructed

As seen in figure 4.2, Company X holds a significant amount of partnerships in Europe, 133 to be exact. It is no surprise that partnerships are a key factor and leading strategy that influences the company's expansion, market penetration and extension of commitment.

Nevertheless, partnerships, as seen in the last couple of years, are not the only strategies Company X enacted as it also makes business acquisitions. This is an aspect Company X will continue to put emphasis on as it has future plans for further acquisitions.

5 Comparison of Findings

This section of the study aims to observe the juxtaposition of the two firms thoroughly covered in chapter 4. By pointing out similarities and differences in the companies' behaviour towards and during internationalisation, it is possible to draw important conclusions or make meaningful propositions that can assist in answering this study's research question. Therefore, the approach used to analyse the case study findings in this paper is a cross-case analysis.

Cross-case analysis describes the process of transforming and simplifying findings in a comparative manner to detect commonalities, contradictions and differences. This approach is best used and encouraged in studies composed of two cases. This type of analysis requires the researcher to explore the empirical data gathered and question the meaning of things, while identifying patterns, explanations and causal relationships (Cruzes, Dybaa, Runeson, and Höst, 2015; Yin, 2017).

For the purpose of this study, the analysis encompasses three main aspects: market entry drivers, internationalisation strategy and internationalisation barriers.

5.1 Internationalisation Drivers

In order to be able to distinguish between possible differences in internationalisation drivers, this section attempts to distinguish what drove either of the companies reviewed to internationalise.

Since its inception, Company X aimed to become the first pan-European marketplace for savings. Therefore, remaining in its domicile was already out of the question. Company X first wished to take advantage of the fact that there was a market gap in its local market, therefore, launching such service may reward it with a competitive advantage. However, the market gap was not the only source of competitive advantage, but also the use of technology, special capabilities and knowledge Company X has access to. This stands in line with the Resource

Based View (Barney, Wright, and Ketchen Jr, 2001) that discusses competitive advantage as an internationalisation driver and performance enhancer. Consequent to the successful launch, Company X took off the fill this market gap all over Europe, performing a cross-country internationalisation.

The use of the internet, advanced analytics and state of the art technology and infrastructure enabled Company X's internationalisation. This aligns with Dunning's (1980) theoretical approach in the sense of whether to remain domestic or go international. Dunning speaks of three advantages covered in the literature review that are achieved by Company X: ownership advantages by owning advanced technology which results in enhanced market access; locational advantages due to the market gap existing and internationalisation advantages by the possibility to exploit said technology and reduce transaction costs.

In the case of DB, similar to Company X, management approach to internationalisation did push the company into expansion. However, unlike Company X's use of technology, DB pursued a strategy of entering main financial hubs and centres to obtain knowledge, while having access to a new currency and a bigger client base. One of the variables identified by Dunning (Dunning, 2000) that foster internationalisation is market seeking. Market seeking was defined by Mulder and Westerhuis (2015) in the context of bank internationalisation in such way, that banks expand in the attempt to attract, acquire and serve new clientele. This bears a close resemblance to DB's internationalisation. Additionally, DB's tendency to move into locations where capital is available can be associated with Dunning's (2000) concept of strategic asset seeking, where firms would search for gaining access to resources. This was also addressed in a study by Buch and Lipponer (2007), which described access to primary and main financial hubs as a motive for bank internationalisation.

<i>Driver</i>	<i>Company X</i>	<i>Deutsche Bank AG</i>
Management approach	x	x
Advanced technology	x	
The internet	x	
Access to financial resources	x	x
Acquire customers and increase customer base	x	x

Table 5: Case Study Comparison: Internationalisation Drivers (Author's Compilation)

Table 5 illustrates commonalities and differences observed when discussing drivers to internationalisation between Company X and DB. As previously mentioned, both of the firms' management contributed to its decision to internationalise. However, the competitive advantage resulting from the use of technology, the internet, and the opportunity to fill an existing market gap, played a significant role in driving Company X to go abroad. Additional common drivers to both firms include the wish of both firms to have access to more financial resources while acquiring more customers to derive more value and profit. Therefore, the following propositions are suggested:

Proposition 1.1: The use of technology and internet fosters internationalisation in EBCs, while allowing EBCs to enjoy of significant competitive advantage.

Proposition 1.2: Management's approach and culture drives both EBCs and traditional companies in the financial sector to internationalise.

5.2 Internationalisation Strategy

This section reviews what sort of strategy both of the companies undertook or in other words **how** did they internationalise. This study's literature review thoroughly covered two dominant theories in the academical world trying to explain internationalisation: The Uppsala and Born Globals models of internationalisation. Both of these theoretical frameworks describe the firm's orientations and its approach to expansion.

When discussing DB, a clear strategy using partnerships and wholly owned subsidiaries in forms of acquisitions and greenfield investments. DB's internationalisation process can be

described as rather iterative. When looking at the period before the wars, DB operated in its domicile, and slowly expanded to selected target markets. In the period after the war, after DB was reconstructed, it presented a rather conservative approach in the sense that it left its operations mostly in its domicile. However, when it resumed internationalisation, it again began entering markets in an iterative manner, one by one. The market entries done by DB in that time can be described as cautious. One of the Uppsala's model (1977) core concepts is market commitment, which describes the iterative process a company goes through, slowly dedicating more resources to the target market until it is fully established. This approach aligns with DB internationalisation as it slowly opens representative office in the target markets to reach a position of stability and gain knowledge and important know-hows, which were deemed important in the scope of the Uppsala framework. Each different market entry assists DB in gaining knowledge about the local community, culture and important traits that can assist it to penetrate the market deeper. It is then that DB proceeded on making key acquisitions and establishment of its own branches in the markets it had already entered.

In comparison, when looking at Company X, a clear strategy was evident from the get-go. The company first established itself locally but had already looked over the international horizon. It was no surprise when the company, with the use of advanced technologies, had skipped many of the traditional steps a company would usually go through. Company X moved from being a local player in Germany to entering all the European markets all in one year, while increasing its presence in selected markets in which it already internationalised into. Furthermore, Company X employed heavy use of technology to assist it in its process of internationalisation, using electronic platforms to specifically reach foreign markets. Unlike DB, Company X did not physically present at any of the foreign locations it operated in and handled most of its operations using electronic means. This not only reduced costs greatly but also allowed for Company X to internationalise in a faster pace with less risk. However, similar to DB, Company X did need to acquire cultural knowledge specific to the markets which it developed specific platforms for.

<i>Criteria</i>	<i>Company X</i>	<i>Deutsche Bank AG</i>
Market Entry Strategy	Partnerships and acquisitions	Partnerships, wholly owned subsidiaries
Internationalisation Pace	Globalisation from inception	Iterative and gradual internationalisation
Physical Presence	No physical presence	Fully owned branches and representative offices

Table 6: Case Study Comparison: Internationalisation Strategy (Author's Compilation)

According to the aforementioned criteria in table 6 and in consideration of the cases reviewed, the following propositions are suggested:

Proposition 2.1: Traditional companies in the financial sector internationalise gradually in comparison to EBCs rapid globalisation approach.

Proposition 2.2: In contrast to EBCs, traditional companies in the financial sector establish physical presence in the respective target market.

5.3 Internationalisation Barriers

Both Company X and DB were susceptible to market entry barriers. This section will describe the main barriers faced by the companies, while putting emphasis on differences and the relative impact the barrier discussed had on either of the companies.

Karakaya and Stahl (1989) consider ***government regulation*** as a significant barrier to entry. In their study (ibid), the authors used several studies basing on economics literature through which they found regulations imposed by the government to be a prominent factor, that is continuously mentioned as a significant burden when a company tries to internationalise. The financial sector is heavily regulated, both in local markets or when operating in foreign markets.

Both Company X and DB were subject to regulations and were required to comply. Additionally, establishment criteria including licensing requirements, insurances, contractual

limitations and minimum capital, were present in both cases. Therefore, neither of the firms present any peculiarities in the sense of differences, or special traits granted to Company X being an electronic company, in comparison to DB.

Porter's (1980) study of competitive strategy explores the forces which shape competition; among those are market entry barriers. One of the market entry barriers mentioned is *capital requirements*. Porter (ibid) describes capital requirements as investments made by companies entering markets. These investments include, but are not limited to physical offices/branches, equipment and initial wages paid for workers. Hence, companies require financial capital in order to be able to withstand these expenditures.

In the case of Company X, it does not own or require any physical branches outside of its domicile. Due to the nature of it being a company that conducts its operations online, it is thus able to trim down a significant amount of the costs involved when entering new markets. Company X's main investment was its information technology (IT) infrastructure, rather than buildings and staff.

On the other side, DB's business model requires for personal interaction as the clients handle their accounts through the physical branches DB had to establish in the markets it entered. These branches also required staffing and maintenance, which in turn resulted in significant financial capital investments. However, it is not only this sort of infrastructure that is required, as traditional banks also require IT for managing their business.

Therefore, it is possible to distinguish between Company X and DB in the sense that the use of the internet as a medium between Company X and its customers significantly reduced the impact a company would normally have by capital requirements.

Conducting financial transactions on the internet requires a high level of trust and reliability from the customers. If this trust is in some way lacking or severed, this could restrict the implementation of internet based technology. Lee and Turban's (2001) study of *customer trust* in internet technology indicated that customers are reluctant to make online transactions, due to the uncertainty and risk vis-à-vis security of the system. Therefore, when providing financial services over the internet, security is a prominent challenge.

The difference between the two case companies is thus evident. Company X owns no physical branches, while DB does. The lack of physical interaction and physical presence

contributes to the fact that trust is of the essence and can set a barrier as a company attempts to penetrate a market.

Barrier	Relative Degree of Significance	
	Company X	Deutsche Bank AG
Governmental Regulation	Very significant	Very significant
Investment and Capital	Reduced significancy	Very significant
Customer Trust	Very significant	Reduced significancy

Table 7: Case Study Comparison: Internationalisation Barriers (Author's Compilation)

Table 7 is composed of the three main barriers mentioned in this subchapter. The barriers are allocated to the case study companies in a relative manner, one to the other, by using degrees of significance. For example, the barrier investment and capital is of reduced significancy for Company X in comparison to DB; this is due to the fact previously explained, that DB establishes physical branches in the markets which it chooses to enter.

Therefore and according to the barriers discussed in relation to both of the companies, the following propositions are suggested:

Proposition 3.1: Both traditional companies and EBCs in the financial sector are similarly subject to regulations.

Proposition 3.2: In contrast to traditional companies, EBCs in the financial sector require less capital and investment, due to the absence of physical presence in target markets.

Proposition 3.3: Customer trust is an important construct that can influence EBCs market penetration.

6 Limitations and Further Research

7 Conclusion

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