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Born internationals: Market expansion and business operation mode strategies in the digital media field

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Abstract This paper examines leading Swedish and Finnish Internet consultancies operating in the digital media service field. These are 'born international' firms that internationalise their business at an exceptionally rapid pace. The paper focuses on why and to what extent the market expansion and business operation mode strategies of these companies deviate from the traditional pattern depicted by the Scandinavian process school. The empirical data consisted of interviews with the founder and senior management and secondary data from company and public archives. The research findings show that in fact both the international new venture research and the Scandinavian internationalisation model appear to be valid. The former model was evidenced by the fact that the born internationals indeed deviated from the behaviour of the traditional firms. The latter was exemplified by the fact that the final internationalisation profile, after the withdrawals of firms from unsuccessful markets, was close to what the Scandinavian internationalisation model would call 'rational' expansion. Hence, if the investigation period is long enough to account for unsuccessful endeavours and withdrawals, we may then find empirical support for the traditional model as well. To be reliable, the investigation period should cover at least one economic slow down.

Keywords Born international · Internet consultancies · Digital media service business · International market expansion · International business operation modes

Introduction

After Rennie (1993) brought the born globals phenomena to light, research is still far from any final conclusion on many aspects. The reasons for the existence and increased number of born globals have been explained thoroughly (Oviatt and

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McDougall 1994; Knight and Cavusgil 1996, 2004; Luostarinen and Gabrielsson 2004). However, the broader research framework called for by many researchers (e. g. Madsen and Servais 1997) is still in its initial stages. One of the reasons is that research has examined born globals apart from their industries and the countries in which they originate (Luostarinen and Gabrielsson 2004). This article examines ‘Internet consultancies’ operating in the digital media service field (later called digital media companies in this article) originating in small and open economies such as Sweden or Finland. Within the digital media industry, certain countries were in the front line, acting as lead markets; these were mainly the USA, the Nordic countries, and the Netherlands. International expansion in this industry was perhaps strongest in Sweden and Finland (Pelkonen 1999), and therefore these countries were selected for more detailed analysis.

Oviatt and McDougall (1994, p. 49) are widely cited for their description of an international new venture, which “from inception, seeks to derive significant competitive advantage from the use of resources and the sales of outputs in multiple countries.” Much research examining rapid internationalisation also tends to be classified under the term ‘born globals’ (Knight and Cavusgil 1996) or ‘born internationals’ (Sharma and Majkgård 1999; Gabrielsson et al. 2004). For the purpose of this article, we use the born international term, which sets requirements for rapid internationalisation (more than 25% of sales from outside the home country within 3 years of the decision to internationalise).

In the digital media industry, we include companies that create highly specialised digital media services on a professional basis. This field is highly people dependent and teamwork oriented, thus resembling other professional service businesses such as advertising agencies, consulting companies or law firms. They target business companies and invoice them on the basis of the projected time used for such creation and consultation (Pelkonen 2003). This field is part of the high-quality service category, which is one of the product categories introduced by Luostarinen and Gabrielsson (2004).

According to their definition, this category of companies provides exceptionally high-quality services. These services are intangible, simultaneously produced and consumed and do not include transfer of ownership. In the born international/global field of research, services have not been studied as extensively as high-tech products. Furthermore, the digital media industry has received little attention in scientific research. The limited attention has focused on the industry structure, employment and market trends (Sandberg and Augustsson 2002; New York New Media Association 2001; Pelkonen 1999, 2003; Pelkonen et al. 2001).

Thus, this research seeks to contribute by increasing knowledge related to the internationalisation strategies of born internationals in the high-quality service sector, here focusing on the digital service business. The study centres on born international firms that internationalised rapidly but were able to survive. It focuses on why and to what extent the market expansion and business operation mode strategies of these companies deviate from the traditional pattern depicted by the Scandinavian process school, which specifies that “[internationalisation] is a process in which firms gradually increase their international involvement” (Johanson and Vahlne 1977, p. 23). Furthermore, it involves “a step-by-step process of international business involvement whereby a firm becomes increasingly committed to and involved in international business operations through specific products in selected markets" (Luostarinen 1979, 1994, p. 1). This research area is interesting because there are both proponents (Luostarinen and Gabrielsson 2006) and opponents (Forsgren 1989) that contest the suitability of the process model of internationalisation for contemporary research. The following sub-questions were posed:

1. How does the *market development strategy and utilization order of the operation mode strategies* of born international high-quality digital media service companies differ from the traditional pattern depicted by the Scandinavian process school (Johanson and Vahlne 1977; Luostarinen 1979)?
2. What is the role of *networking (*Johanson and Mattsson 1986; Johanson and Vahlne 2003; Gabrielsson and Kirpalani 2004) and *inward operations* (Luostarinen 1994; Jones 1999) in explaining the deviating behaviours of born internationals?

This study is descriptive–analytical in nature and applies case study methodologies (Yin 1994; Eisenhardt 1989). It examines the international market and the business operation modes of selected Scandinavian digital media companies, which represent a new service field compared with the more traditional professional fields. The investigation covers the period from 1990 to 2003. As an area for high-quality services, the digital service business emerged in the 1990s. The period is also interesting because the business and financial environment up to the early 2000s strongly encouraged the birth and rapid internationalisation of companies in this sector and then changed completely. A longitudinal examination of three Swedish and three Finnish companies allows us to study both outward internationalisation and withdrawal strategies.

Literature review

The literature has explored the factors influencing born international behaviour and suggested macro-environmental factors, organization-related factors and founder-related factors as major categories (Madsen and Servais 1997). The macro-environmental factors inducing the emergence of born internationals include the existence of common customer needs, global customers and channels, favourable logistics, developments within information technologies, government policies and regulations and finally the transferability of the competitive advantage (see, e.g. Knight and Cavusgil 1996; Lovelock and Yip 1996; Oviatt and McDougall 1994, 2005a). The global business environment seems to be a pre-condition for the emergence of born internationals, and therefore the founders and factors related to their network and organization become more important in explaining differences in internationalisation strategies within the same industries (see, e.g. Johanson and Mattsson 1988; Johanson and Vahlne 2003; Oviatt and McDougall 2005b). The founders have a large challenge to overcome. The characteristics of the digital media business such as information intensity and the people-processing nature of the service call for an international presence (Lovelock and Yip 1996), although the knowledge base of the founders and managers may lag behind.

Internationalisation has been thoroughly examined by the Scandinavian process school (Johanson and Vahlne 1977; Luostarinen 1979). They depict a mainstream pattern by which companies gradually increase their commitment in international markets. This risk-averse and learning-based approach of the decision makers influences both the market entry and penetration strategies and also the establishment chain of business operation modes. As for the outward process, companies behaving conventionally first entered countries with shorter business distances from their home and then those that were physically, culturally and economically more distant. On the basis of these three criteria, target markets ranging from those closest to the home country to those that are more distant can be listed.

Luostarinen and Gabrielsson (2004) have found that the domestic market period of born internationals is short compared with that of conventional firms. Their results indicate that while conventional Finnish firms remain on the domestic market for 21 years before engaging in international outward activities, the average for born internationals is 2.1 years. Furthermore, research showing that the rate of market expansion by international new ventures is more rapid than that of conventional firms has been published (Autio et al. 2000). However, it remains to be determined whether this rapid expansion is targeted to nearby countries measured by business distance (Luostarinen 1979) or to distant, so-called cold markets and thereby requiring further empirical investigation. We expect the born internationals under examination will have conquered markets at greater business distances within 3 years of starting their international activities. Thus, the following proposition was made:

Proposition 1 The born international high-quality digital media service companies deviate from the mainstream pattern of outward internationalisation by moving at a fast pace (within 3 years) to distant markets.

Furthermore, conventional firms first used exporting or other non-direct investment marketing operation modes, then moved to establish sales subsidiaries or other direct investment marketing operation modes (DIMOS), then to licensing or other non-direct investment production operation modes (NIPOS) and finally to manufacturing units or other direct investment production operations (DIPOS; Luostarinen 1979).

This model has been debated a great deal (Andersen 1993). The extent to which it can be applied in investigating this new phenomenon of born internationals has been questioned. McDougall et al. (1994, 476) conclude that their "evidence suggests that the theory of internationalisation does not explain the formation process of INV (International New Ventures) very well." The same conclusion is reached by Madsen and Servais (1997, p. 571), who stated that it "is not an adequate framework for modelling the manifest routes to internationalisation of born globals." Aharoni (1993) states that professional business services, such as the digital media industry, differ from the traditional manufacturing industry-originated approach in their international business and internationalisation processes. This argument is supported by several more recent studies (see, e.g. Holmlund and Kock 1998). Nevertheless, the original developers and some other authors have argued that although the behaviours of born internationals differ from the mainstream pattern, it is still a useful framework (Johanson and Vahlne 2003; Luostarinen and Gabrielsson 2004).

A recent study by Hashai and Almor (2004) found that with respect to their DIMOS, born internationals move rapidly to foreign markets but usually do not utilize their DIPOS, such as foreign production subsidiaries, at an early stage. We argue that the characteristics of the service business, i.e. simultaneous production of services and consumption, require the relatively rapid establishment of direct investment production (service) units in markets where growth is sought (Erramilli 1990). Thus, born international digital media service companies seemingly have many such units within 3 years from start of outward foreign activities. We have therefore formulated the following proposition:

Proposition 2 The born international high-quality digital media service companies deviate from the outward operation mainstream pattern of internationalisation by moving at a fast pace through the continuum of stages (within 3 years) from non-direct investment marketing operations to the direct investment production operations stage or by jumping over stages.

Founders play a central role in born internationals. Evidence exists that they may have earlier experience of global business management and connections with potential channels and customers (see, e.g. Madsen and Servais 1997). The born internationals literature emphasises the importance for born internationals of co-operating and networking with partners to overcome their own scarcity of resources and to provide market knowledge (see, e.g. Coviello and Munro 1997; Sharma and Blomstermo 2003). Oviatt and McDougall (1994, p. 55) conclude that a major feature distinguishing "new ventures from established organizations is the minimal use of internalisation and the greater use of alternative transaction governance structures." Consequently, companies form mutually beneficial relationships with their suppliers, buyers, other companies, trade associations, universities and research centres (Zahra et al. 2003). These business relationships provide born internationals with an opportunity to learn the necessary skill, "which enables them to enter new country markets in which they can develop new relationships, which give them a platform for entering other country markets" (Johanson and Vahlne 2003). Hence, born internationals often form alliances with large partners to benefit from their ready-built sales channels, reputation and brands. In addition, they cooperate with large multi-national corporations (MNCs), which use born internationals' products in their systems (Gabrielsson and Kirpalani 2004). This can be beneficial for born internationals in the entry phase, but can become problematic if they become overwhelmingly dependent on such large channels. Furthermore, Luostarinen and Gabrielsson (2004) stated that born internationals deviate from the holistic operation mainstream pattern (Luostarinen 1994) by moving with unusual speed from outward operations to the co-operative stage.

Furthermore, the international network model (Johanson and Mattsson 1986) suggests that networks are central when firms are internationalising. Their recognition that late starters have greater flexibility within their strategic options to form alliances and/or acquire firms due to more developed markets is interesting. The importance of networks is also supported by many other researchers. For example, in their study of the internationalisation of 122 Finnish small and medium-sized enterprises (SMEs), including several service companies, Holmlund and Kock (1998) found that the business network of an SME has a significant impact on the internationalisation process. They argue that it is essential for an SME to create and maintain both strong and weak relationships with other individuals. They point out that weak relationships can be used in obtaining information about upcoming orders, while strong relationships can be used in making decisions concerning internationalisation.

In terms of foreign customers, the born internationals suffer from a double liability; the liability of newness is exacerbated by the liability of foreignness. In the literature, the liability of foreignness—the costs of doing business abroad that result in a competitive disadvantage for a foreign firm—has been broadly defined as all the additional costs incurred by a firm operating in a market overseas that would not be incurred by a local firm (Zaheer 1995). The liability of foreignness implies that foreign firms will be less profitable than local firms, all else being equal, and perhaps even be less likely to survive.

To overcome these liabilities and the knowledge gap, networking and forming alliances become important parts of outward internationalisation. However, another explanation can be found in early inward internationalisation, such as imports of international production equipment, foreign technology licensing and foreign knowledge acquisition prior to the outward internationalisation and its consequent impact on the outward process (cf. Luostarinen 1994; Jones 1999). Internationalisation of services is very demanding even for conventional firms, but for born internationals, it is presumably even more so, requiring favourable conditions, adequate financial resources and earlier acquired experience. The above aspects are captured in the following proposition:

Proposition 3 The founder/s of born international high-quality digital media service companies has/have previously acquired experiences and links with networks or then the firm has imported the necessary equipment, licensed technology and acquired knowledge through inward operations during its early phase (the 3 years following establishment) to overcome the liability of newness and foreignness.

These propositions are examined in the digital media industry context with the case study methodology explained next.

Methodology

The empirical evidence of this analysis is based on a thorough longitudinal multiple case study (Yin 1994) of the development of the Swedish and Finnish digital media industry from 1990 to 2003. The data as regards the Finnish case companies were collected in several interviews in 1996, 1998–1999, 2000 and 2003. For the Swedish comparative case data, the interviews and other empirical materials were collected in 2003, so that they were representative and covered the same period of time as the Finnish data. The semi-structured interview data of founders and senior management were supplemented with company annual report materials, public news and articles concerning the companies and books written on the companies' development.

The key objective in the selection of the case companies for this research was to obtain born internationals as a representative sample of the digital media in both countries. The key criteria used in the selection of the case companies consisted of (1) the domestic and international position of the company (a domestic leader and having operations in at least three different countries), (2) recent origin (founded after 1985), (3) participation in the international service business (at least three international customers), (4) status of a publicly listed company and (5) rapid internationalisation (more than 25% of sales outside the home country within 3 years of the decision to internationalise).

The six case companies represent the most rapidly internationalising and also the leading market actors in both countries: In Sweden, they included Adcore, Icon Medialab and Framfab and in Finland TJ Group, Endero and Satama Interactive. The Swedish and Finnish case firms were examined separately and also compared across the two countries. This was done in expectance of some differences. In the European context, all six were among the most active companies in international expansion. In the late 1990s, the companies competed against each other in both the domestic and international market and in arousing the interest of venture capital in their operations. Thus, they represent an interesting case sample of the leading 30 to 40 international digital media companies operating in Europe. All six companies fulfil the criteria set for the case companies. In addition, the six still participate actively in business and thus offer an opportunity for follow-up analyses. The Appendix presents the case companies in more detail.

Cross-case analysis

Our analysis is structured around the following in Fig. 1.

Macro-environment and the digital media industry

As the first element of our framework, we will examine the macro-economic environment of the digital media industry at the time of its international expansion. The industry was among the most rapidly evolving industries in the late 1990s. During this period, the Internet became the ‘buzz word’ for nearly any technology-driven business idea seeking major risk financing. Service companies building digital media solutions and services were among the most respected and financially highly valued actors in these markets. For a while, the markets were a suppliers’ dream world—there was a shortage of professionals capable of mastering hypertext markup language-based production and exploiting the opportunities and capabilities of the ‘new media.’ Companies were able to put a premium price on their services.

The aggregate turnover of the companies grew by 50% to 100% per year, and strong optimism prevailed among them. The Finnish industry grew from scratch in less than 5 years to employ ~2,800 professionals in more than 300 companies with a turnover of 180 million euros in 2000 (Pelkonen 2003). The Swedish industry became much larger, having 8,000 professionals in close to 800 companies and a turnover of 450 million euros (Sandberg and Augustsson 2002). In addition to business volume growth, venture capital flooded into the industry. Consequently, several international operations were started, either with green-field investments or international acquisitions. The Internet hype peaked in early 2000 when Internet

Fig. 1 Conceptual framework

business-related companies worldwide had more assets than conventional giants such as airlines, media companies and manufacturing firms.

The macro-level drivers for this development in the late 1990s were based on strong push factors that included ever-intensifying domestic competition (Finland), consolidating domestic markets (Finland and Sweden) and continuous demands by investors for risk taking to achieve growth (Finland and Sweden). The companies were also pulled into international markets to better serve their domestic customers (Finland and Sweden), to battle for 'global dominance' (Sweden), to leverage opportunities offered by several local MNCs (Sweden) and to continue growth by international expansion (Finland and Sweden). The times were described vividly by interviewees:

> Internationalisation in our business seems to be most often based on growth and market share expectations dominated by external financiers. The companies seek growth for growth's sake only. Do these companies remember to follow their profitability?—we are sceptical about that. (Finnish digital media CEO, October 1999)

> I do not think that the Swedish companies would have expanded that fast if they had not been backed up by 'old' money in Sweden. The rebels of the 1960s—now crowding the business board rooms of the digital media companies and financiers—all had connections to make things happen, not the entrepreneurs. The international boost came from there and not originally from inside the digital media industry. (Swedish digital media ex-manager, December, 2003)

The stock market crash began during the spring of 2000. The market values of IT and telecommunications-related companies dropped rapidly by from 70% to 90% of their highest value (Pelkonen 2003). The trend was global and naturally affected the market valuations of the Swedish and Finnish companies. Digital media companies that were largely built on risk taking and rapid growth strategies had to shift their focus to more cost-efficient operation modes. However, the cautious customers of digital media companies created the real impact—business benefits were now sought, and it was no longer 'hip to be online.' The downwards trend was intensified by the disappointing launch of interactive mobile services. Hence, the worsening situation led to major cuts in personnel and even to the dramatic bankruptcies of several key actors in the markets. Nearly all digital media companies had to rapidly align their business focus.

After the market crash, the key drivers for the rapid changes in the internationalisation strategy of the digital media companies were demands on the part of venture-capital providers for a focus on profitability instead of growth (Finland and Sweden), tighter capital markets (Finland and Sweden), the bankruptcies of several customers (especially Swedish dotcom companies), more cautious and skilled customers (Finland and Sweden), major losses incurred in international operations (Finland and Sweden), loss of control over corporate growth (Sweden) and/or acquisition integration challenges (Finland and Sweden).

> 1999–2000 were the ideal times for any kind of business development and visionary plans—also for the fluffy ones. Companies in our industry started really thinking about issues such as "why to exist, what to really do, how to work efficiently" only when forced by the crash of 2001. I prefer today's business to that of the peak—we have solid ground to build on. (Finnish digital media CEO, March 2003)

> In 2001 our company was still evaluated by stock market analysts as the 'strongest buy in the history of strong buys'. At that time we operated on all three continents and employed over 2000 professionals. Only a bit more than one year after that the show was all over—we had only our Swedish operations left, all international units were either sold or bankrupt. Looking back now, all this seems like both a miracle and a very bad dream. (Swedish digital media CEO, December, 2003)

International business strategies

As a second element in the framework, we will analyse the business strategies and motives that the digital media companies had for their international expansion. The key rationale behind the expansion of the Swedish and Finnish digital media companies was to achieve further growth and international market power. The companies were opportunistic and aimed to leverage the feasible market conditions prevailing in the late 1990s as rapidly as possible. Expansion plans were very optimistic and aggressive—market growth was expected to continue for several years at the exponential levels experienced from 1998 to 2000. To simplify, the key motives for the expansion were either 'to obtain first-mover advantages,' i.e. to benefit from being the first in the markets (cf. Lieberman and Montgomery 1988), or 'to follow the leaders,' i.e. to keep up with the industry pace. Companies having pocketfuls of venture capital rushed to expand to several markets and to commit to risky operations.

Despite the extent of international operations, there was little careful planning for them. Acquisitions were based on the need to expand rapidly into the markets, and little attention was put into actual strategic and operational integration between the acquired/founded international units. The companies wished to tie the key personnel into the expanding company with stock options and contractual arrangements. At the subsidiary level, too, little attention was placed on actual business integration across geographical markets as the parent companies kept on searching for acquisition targets and expanding their international operations. Furthermore, little attention was put on the key element of digital solution delivery—people and the development of their competence (see Pelkonen 1999). International knowledge management issues—transferring know-how from one country to another—also created challenges. The managerial challenges were described by interviewees by, e.g.:

> In 1999–2000, I had the opportunity to start our Asian operations. Asia was the quickest rise and fall of a dynasty I have ever experienced. We competed with other Swedish companies on who opens the next office in the next country there. In reality we had nearly no production, no people, just the office address. Yet, when we send a press release, our stock price rose 10%/every opening. Crazy times, I must say. (Swedish digital media manager, December, 2003)

> Looking from the Finnish perspective, the Swedes tried to drive a bicycle with the front wheel lifted to the air and sometimes even without hands. They tried to expand abroad as rapidly as possibly, as they could not successfully grow on their domestic markets. Fragmented resource allocation leads to capital burning, which in turn leads to trouble. What else could you expect than withdrawals and bankruptcies? Still, we were as blind as they were… (Finnish digital media CEO, March 2003)

We will next examine the market and operation strategies used by the digital media companies in their expansion. As a general rule of thumb, it can be stated that the internationalisation of the digital media industry in both Sweden and Finland was extremely rapid.

Swedish digital media companies

Two of the Swedish companies, Icon Medialab (1996) and Framfab (1998), started their internationalisation earlier than Adcore (1999). Icon Medialab followed the conventional internationalisation process but rapidly established sales subsidiaries in central Europe, the USA, northern Europe and Asia. These countries subsequently gained importance as the companies acquired production units in the same market areas and in some markets, such as the Netherlands, by merging with local players. The notable difference in the pattern of establishing operation modes when compared with the conventional pattern was that the non-investment marketing operations (export) phase was jumped over. When the markets finally crashed, the withdrawal was implemented by divesting all except Holland, the UK and the USA (see Fig. 2).

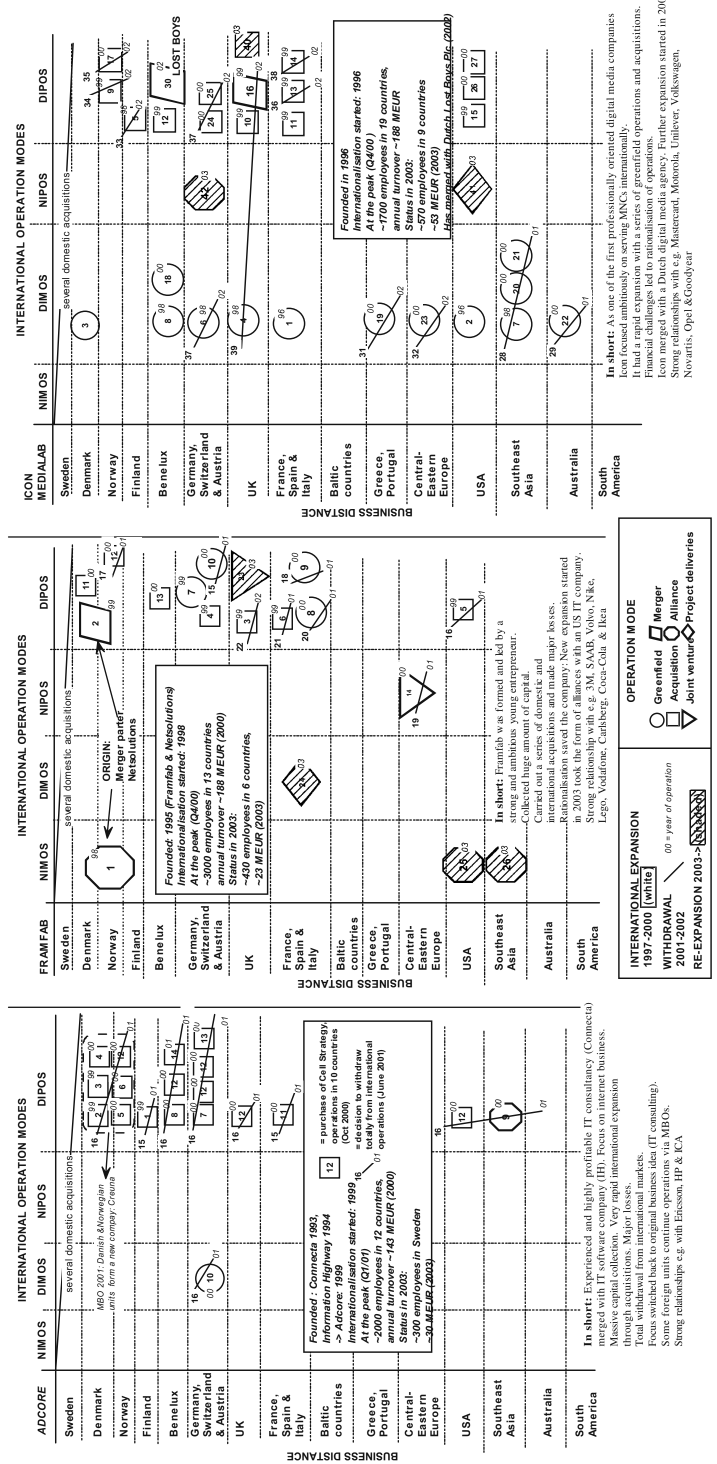

Fig. 2 International business operation/market matrix of Swedish companies

It can be said that the internationalisation process of Framfab progressed through the conventional model with respect to both markets and operation modes when stages are considered but only more rapidly than traditional companies. A non-direct investment marketing operation based on a marketing alliance between the Nordic partners was established at an early stage. Moreover, the Nordic and central European countries were entered through either green-field operations or acquisitions, usually by establishing a production unit in a relatively early stage. Thus, the move to use direct investment operation modes was extremely rapid. Remote countries with respect to business distance such as the USA and Central Eastern Europe were added only after experience had been gained from nearby countries. The withdrawal after the financial crises of 2001–2002 started from distant countries and led to a situation where only domestic and close-by country operations still existed. As a result, Framfab had both domestic operations and also production units in Denmark, Benelux, the UK and France. Further, in 2003, they formed a marketing alliance to replace the earlier divested production unit in the USA (see Fig. 2).

Adcore, the third Swedish case, started later than the other two Swedish cases and was characterized by a rapid internationalisation process all around the globe. Adcore also jumped directly over many operation mode stages and for instance acquired production units from the outset. Several key owners were able to withdraw before the crash as millionaires thanks to a successful initial public offering (IPO). Soon after this, in June of 2001, the decision was made to withdraw from all international markets, and the company today continues as a consultancy focusing more on the domestic market in Sweden. In a few countries, the activities were terminated, and in some, a management buyout was implemented.

With respect to the Swedish digital media service companies prior to the withdrawal phase, proposition 1 seems to receive support since the three cases examined had indeed moved at an extremely rapid pace to distant countries in North America and Asia. In the case of Icon Medialab, European countries such as France, Spain and Italy and the USA were entered the same year as international activities began, and Asia soon followed. In the case of the Framfab and Adcore, the USA was entered 1 year after internationalisation had started in the Nordic countries. This exceptionally rapid market expansion differs from the slower pace of conventional companies.

However, when the investigation period is extended to cover the time after the crisis and to include the withdrawals and arrangements that subsequently occurred, it is apparent that the case companies have in fact followed the Scandinavian internationalisation model of advancing to close-by countries and not spreading all over the globe. Icon Medialab still has operations in Europe and the USA but had to withdraw from many countries, including all the Asian ones. During the crisis, Framfab divested from many countries and is nowadays mainly a European player and has lately handled its American and Asian businesses through alliance partners. Adcore withdraw from the international markets entirely. Thus, this investigation sheds new light on proposition 1. The firms did not after all deviate from the conventional internationalisation pattern as to market expansion behaviour if the crisis and the subsequent withdrawals from the markets are taken into account. Hence, on the basis of the examination of the Swedish digital media service firms, proposition 1 received only partial support.

Turning to the next proposition, when the Swedish case evidence is examined prior to the withdrawal phase, the firms proceeded rapidly from non-direct investment marketing operations to direct investment production operation; the case companies even jumped over the non-direct investment modes when compared with the conventional operation pattern. Proposition 2 received support in this phase. However, when the operations are examined after the withdrawals from many markets, the firms are left with relatively basic operation modes, which consist of sales and production units located mainly in Western Europe. Only Icon Medialab has been able to retain its American operations, but even it has had to withdraw from Asia.

Finnish digital media companies

All of the Finnish case companies were awakened by the internationalisation opportunity only when the digital media market was already becoming populated especially by Swedish companies. TJ-Group expanded first into the countries of northern Europe with a sales subsidiary (1998), which was soon complemented by several acquisitions of production units. The conventional internationalisation model was otherwise followed, but non-direct investment marketing and non-direct production operations were jumped over. A rapid establishment of direct marketing investment operations was followed by direct investment production operations.

Satama Interactive behaved similarly with regards to rapid establishment of production subsidiaries in the Nordic countries and central Europe (1999 and 2000). The development was similar to that of TJ-Group, except that alliances were used more actively in the Nordic countries. Due to the crises of early 2000, Satama Interactive also withdrew their direct investment production units from North America and relied upon project deliveries based largely on the needs of Nokia. Furthermore, partnership agreements were established with former Satama employees that continued as entrepreneurs.

Endero (formerly Terranova Visuals) started by expanding into the northern and central European countries by setting up sales subsidiaries (1999), which were later developed into production units. All this occurred at a rapid tempo. Nedecon, which later merged with Terranova to form Endero, started its internationalisation from Southeast Asia (Singapore and Hong Kong in 1999) and South America (Brazil in 2000) by establishing production units. In respect to both market and operation mode expansion, the development of Nedecon was rapid indeed. Nedecon launched an IPO, which enabled this rapid expansion. After the merger, Endero remained a listed company on the Helsinki Exchanges and obtained further financing from its key sources. Still, when the financial status worsened, the company had to withdraw from all except the Finnish market, where it still operates with an altered business focus.

Turning to an examination of the Finnish digital media service companies prior to the crisis, we see that in line with proposition 1, they rapidly advanced to distant countries, for example in North and South America and Asia. For the TJ-Group, it took 3 years from the first foreign entry to expand to the USA; for Satama Interactive, it took 2 years to reach the USA, and Endero expanded to Southeast Asia within 1 year of their first international entry. Thus, prior to the crisis and the withdrawal, proposition 1 seems to hold. The firms' expansions to distant locations were much faster than those to which conventional firms have been accustomed.

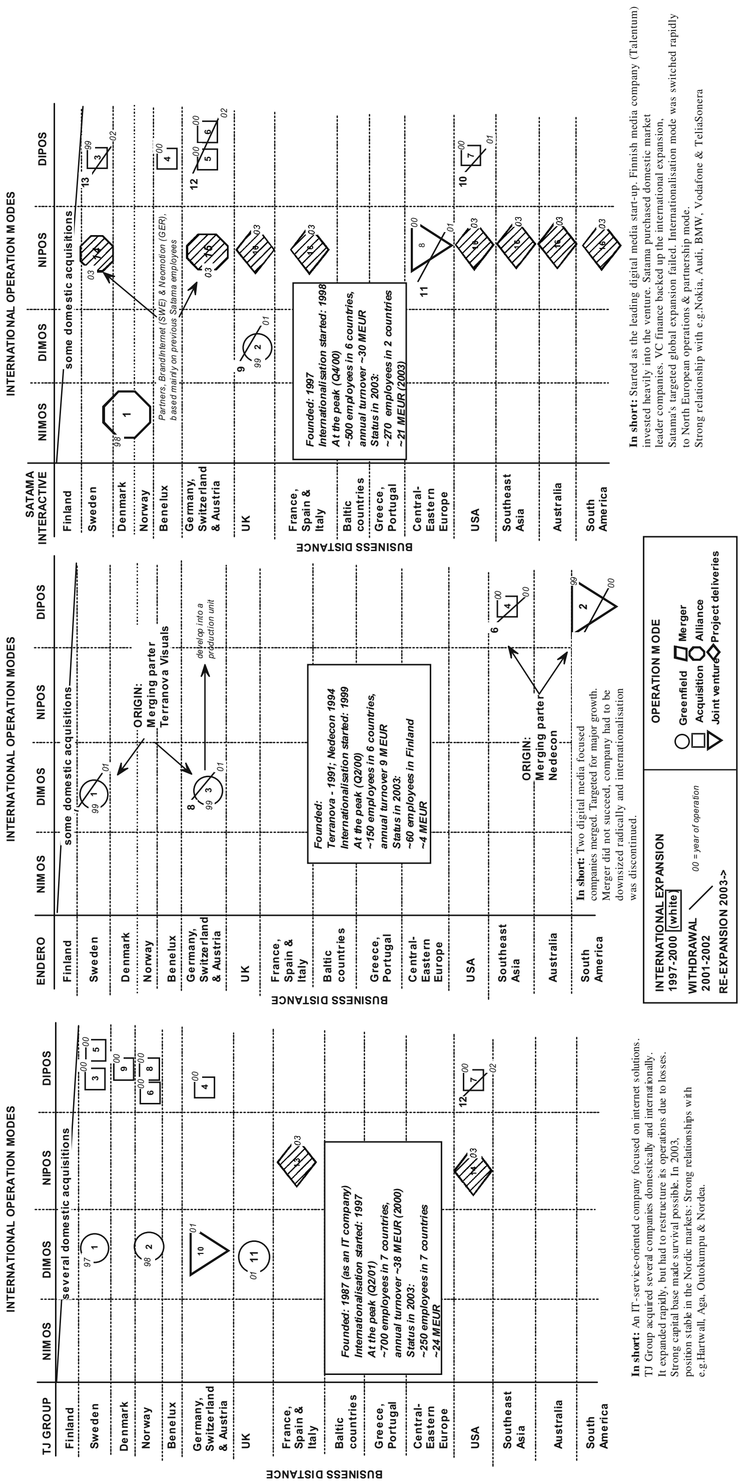

Fig. 3 International business operation/market matrix of Finnish companies

Furthermore, the Finnish digital service firms followed a pattern of operation modes similar to that of the Swedish born international firms by advancing rapidly from non-direct investment marketing operation modes to use of direct investment production operation modes. In the early phase, they jumped over the non-investment marketing and non-investment production operation modes. Proposition 2 is thus supported prior to the crisis.

A very different picture emerges as the market expansion and operation modes are examined after the crisis and the withdrawals of the Finnish digital media service firms. The TJ-Group had to close down its US direct investment production operations and instead uses project deliveries. Similarly, Satama Interactive closed down its American operations and uses project deliveries. Endero's international activities were discontinued entirely. Thus, the examination of the Finnish case firms has resulted in a conclusion similar to that for the Swedish firms. Due to withdrawal from many countries and of many outward operations, it becomes obvious that the business market expansion strategies and operation mode strategies were after all not so aggressive and the companies handled much of their international business in near-by countries and through alliances. This actually means that most of the case companies are quite market focused and thin with respect to direct investment operations. This forces them to rely on a network of co-operation partners. Hence, we conclude that propositions 1 and 2 received only partial support, which was found to depend on the investigation period; hence, they received support before the crises but not of the development after it is counted. This result was found to be consistent when comparing across the two countries of Sweden and Finland.

Resources and networking

We now move on to the next element in the framework, an analysis of issues related to resource dependence and business network faced by the digital media companies in their internationalisation process. First, most of the company founders were skilled and committed to their business field and technology. During the boom, they were referred to in the business press as the key change agents in the Internet economy or 'the new economy.' In all the six case companies, company founders had an important role in both company growth and international expansion. For example, in Sweden, Jonas Birgelsson (Framfab's founder), Johan Staël von Holstein (one of the Icon Medialab founders) and in Finland Jesse Jokinen (CEO, Nedecon—Endero) and Heikki Rotko (CEO, Satama Interactive) were presumed to be among the leading business managers of the near future.

While the companies were competing against each other, so were the founders competing for publicity and recognition for their vision of the future. This was especially evident in Stockholm and Helsinki. Many internationalisation decisions appear to have been influenced by the ambitions of the founders to show off—to boast about further advances in the glorious internationalisation battle (cf. Madsen and Servais 1997). When times got rougher, the entrepreneurs became symbols of the crash. With no exception, all the key founders either withdrew or were pushed out of their managerial roles.

> There simply are so few of them who can say "been there, 'done it!". This makes the entrepreneurs afraid, become disappointed, and not find the right contacts abroad. (Finnish digital media CEO, 1999)

> I must say that now we know much, much more. We got first class training in international business at the expense of our international owners and investors. We know now much better when to invest in our own R&D and when not to. And with whom to operate. Moreover, I think all of us in the driving seats developed as managers. We are now the ones to do it—again. (The same CEO, March 2003)

> The times between 1998 to 2000 were absolutely crazy. All who were in the business knew that it could not last for good. Our managers and most of the personnel were daily, at worst hourly, looking at stock prices. We were playing a game all knowing that there would be losers—we just did not know when the crash would come. It was nearly possible to manage the supernormal valuation growth we had in our hands and all-around us. (Swedish digital media ex-CEO, December 2003)

Second, business-wise, Swedish and Finnish digital media companies were seeking to create deeper customer relationships with their international MNC customers by expanding their international operations. Finnish companies aimed to provide better service to e.g. Nokia, Sonera, Amer Group, Ericsson and ABB and the Swedish digital media companies to e.g. Telia, Ericsson, SAS, Nordea, Sony Ericsson and Volvo. In comparison with Finland, the Swedish economy has a much broader and versatile population of MNCs. Thus, it is logical that Swedish digital media companies benefited from closer proximity to these customers than their Finnish counterparts. In addition, it seems that Swedish companies were also better than their Finnish competitors at acquiring and serving international MNC customers outside their country of origin. Furthermore, Swedish companies were more capable in establishing new MNC relationships through their acquisitions (e.g. Lego, Carlsberg, Nike, KLM, Mastercard and Goodyear), while Finnish companies were more reluctant to stick to serving their 'domestic MNCs' in international markets.

> In our acquisitions we were naturally looking for MNCs that we could be able to build major relationships with. In some cases, the MNC's local unit was delighted to have a larger company to help them in their internet activities. Yet, in some other cases, they wanted a local vendor, not a 'bullish' international service company, such as we were in those times. (Swedish ex-CEO, December 2003)

> We wanted to expand our operations at the same pace as Nokia grew. We saw this as our main growth strategy. Unfortunately, we did not understand that Nokia country organizations preferred to operate with local digital media companies, not with the global partner. We benefited, but were not able to customize ourselves enough to the local market needs. It is just not enough to be good in one country for an MNC, one has to be excellent everywhere. (Finnish digital media CEO, March 2003)

Third, digital media companies sought to improve their international market positions within their business networks (cf. Johanson and Mattsson 1988). In addition to international acquisitions, several digital media companies sought international subcontracting partners from countries with lower labour costs. Still, none of the six case companies was capable of creating an effective cross-border production subcontracting arrangement. However, on the marketing side, strategic alliances were common. As already explained in connection with examination of proposition 1 and 2, many of the firms utilised strategic alliances on various occasions. For instance, the Swedish firms Framfab utilized strategic alliances when starting activities in Nordic countries, Adcore when entering Southeast Asia and Icon Medialab when re-expanding after the crisis in central Europe. Of the Finnish firms, Satama Interactive relied heavily on strategic alliances in the Nordic countries in their early expansion, whereas the other two Finnish firms used joint ventures.

Finally, Swedish and Finnish digital media companies utilized their early years after the establishment of the firm to increase their competence in the digital media field. First of all, the software on which they built their services was licensed from the USA. In addition, huge acquisitions of service data were necessary to gain the skill needed to serve the domestic firms and multinational customers. This was described by interviewees as follows:

> In 2000, due to our close relationships with our MNC customer, we were so really at the edge in complex content management systems. We were the global frontrunner in installation and helped to roll out the system in all the three continents. I think this program is still our breakthrough into IT installations and we can leverage the know-how throughout the group. (Finnish CEO, March 2003)

> It is very rare, even in the highly networked Swedish economy, that such energetic, skilled and enthusiastic young entrepreneurs populate one industrial field. In the late 1990s, the Stockholm region was one of the key global hubs for internet development and its 'superstars' were the Internet consultancy CEOs… (Swedish digital media ex-manager, December, 2003)

> We tried our best to benefit from the pioneering experience of the Finnish mobile sector development. Yet, the challenge concerns how to package the offering so that it also sells abroad and in foreign cultures. E.g. the USA is only now (spring 2003) starting to be ready for mobile services…. (Finnish digital media ex-CEO, March 2003)

It may be concluded that the experience gained through networking with MNCs and knowledge acquisition from inward operations within the early phase significantly enhanced the capabilities of the born internationals to overcome the liability of newness and foreignness. Thus, based on the above examination, it can be concluded that proposition 3 received support from both the Swedish and the Finnish case examination.

However, when the outward phase is concerned, both Swedish and Finnish digital media firms seem to have faced major challenges in using the company-wide competence derived from cross-border transfer of knowledge. To manage this international knowledge transfer challenge, the companies analysed invested in creating common standards for their service delivery projects, in company-wide knowledge management systems and in cross-country meetings and seminars aiming at development of personnel competence. Still, the amount of work needed for creating well-functioning international teams and competences seems to have surprised the management of the companies. Although the Internet is a global, digital solution, creation of service business within the area seems to be a local business to a large extent. Establishing a solid and reliable position took a much longer time and was much more costly than the digital media service companies expected. These issues may partly explain the failure of the born internationals to hold their positions in the outward phase.

Discussion

This study centred on leading Swedish and Finnish born international internet consultancies operating in the digital media service field. It focused on why and to what extent the market expansion and business operation mode strategies of these companies deviated from the traditional pattern depicted by the Scandinavian process school (Johanson and Vahlne 1977; Luostarinen 1979).

More specifically, the first research question focused on how the market development strategy and utilization order of operation mode strategies of these firms differ from the traditional pattern depicted by the Scandinavian process school. With respect to both market development and utilization order of operation mode strategies, the results were found to be dependent on the investigation time. When the digital media industry was examined in a shorter timeframe, the propositions (Oviatt and McDougall 1994; Madsen and Servais 1997) that argue that born internationals deviate from the Scandinavian internationalisation process model (Johanson and Vahlne 1977; Luostarinen 1979) seemed to receive support (proposition 1–2). This is understandable since many of the assumptions provided by the international new venture stream (Oviatt and McDougall 1994) focus mainly on the phenomena of international new ventures and their early stage. However, when the business crises of 2000 and the resulting withdrawals of the Swedish and Finnish firms operating in the digital media industry are included, a different picture emerges. Under a longer investigation period, the actual realised internationalisation profile was close to what the Scandinavian internationalisation model would suggest to be 'rational' given their young age. This seems to justify the increased emphasis of the examination of born internationals along the time dimension (Jones and Coviello 2005). The findings of this research suggest that to be reliable, the investigation period should cover at least one economic slow down.

The second research question was concerned with the role of networking (Johanson and Mattsson 1986; Johanson and Vahlne 2003; Gabrielsson and Kirpalani 2004) and inward operations (Luostarinen 1994; Jones 1999) in explaining the deviating behaviours of born internationals. In this study, support was received for the importance of strategic alliances and networking (Johanson and Mattsson 1986/88, Johanson and Vahlne 2003) and the inward operations for development of the capabilities required for the outward expansion of the born internationals (cf. Luostarinen 1994; Jones 1999).

Conclusions

The Scandinavian process model of internationalisation (Johanson and Vahlne 1977; Luostarinen 1979) after all seems robust in the longer term even for examinations of born internationals. Although in the initial phase the firms had rapidly established subsidiaries in distant countries, they were subsequently forced to withdraw from most of them and settled in close-by countries and were content with modest business operations. It seems that the Scandinavian process model can be extended beyond the ‘behavioural’ perspective of traditional firms for which it was originally designed to cover some ‘rational’ suggestions for born internationals as well. For the founders of the born internationals, this means that they should not exceed their resources and capabilities.

The importance of networking in enabling rapid expansion of born internationals was found to be essential (cf. Johanson and Vahlne 2003). In line with earlier research, it was found that the large MNC customers and their relationships are of the utmost importance (Acs et al. 1997; Peng and York 2001; Gabrielsson and Kirpalani 2004; Kuemmerle 2005). This was probably one of the reasons why the Swedish digital media companies went abroad earlier. In Finland, they had Nokia, but in Sweden, it was Volvo, Ikea, Saab, ABB and quite a few other large MNCs that paved the way.

Furthermore, the study results may also have implications regarding the ongoing discussion on how firms can gain a sustainable competitive position and the extent to which first-mover advantages are important (see, e.g. Lieberman and Montgomery 1988). Based on the evidence obtained in this study, it seems that first-mover advantage is no guarantee for success. Network relationships seem to be more important. This opens up an interesting research area, which includes both the examination of the networks when expanding into the markets and withdrawing from them. When expanding, the key challenge is to maintain good relationships with the acquired companies. When withdrawing, the earlier established relationships can still be extremely valuable in e.g. the cooperative stage and in a possible re-entry to the same geographic market.

The above presented results may make a theoretical contribution. We now turn to results that can be helpful for managers in digital media service businesses. First, the cyclical nature of the digital media industry and other newly born industries should be acknowledged by decision makers of firms, financial institutions and government. As we look at the conceptual framework in Fig. 1, it becomes evident that the cyclical nature of the digital media industry has also had a large impact on the internationalisation strategies. The international business strategies were influenced by the development stages of the macro-market environment as we have argued. The financing environment and market development stage were found to be major factors influencing internationalisation strategies. At the extreme, this led to over-optimistic target setting for business expansion and foreign operations. Second, this research also witnessed the managerial challenge involved in the internationalisation of the service businesses. Services are extremely difficult to internationalise since a local presence that is demanding with respect to resources is required.

The generalizability of these results should be limited to digital media service businesses or other industries facing similar conditions. However, the following conclusions may be drawn. First, the framework (Fig. 1.) was found suitable for investigation of the market expansion and business operation mode strategies of an industry facing a technological discontinuity (Anderson and Tushman 1990). The advancement of technology may in the near future change many fields that have until now remained relatively local and whose managers may find the results of this study useful. Second, the tools and presentation techniques developed in this study (Figs. 2 and 3) were found to be useful in describing a longitudinal and relatively complex development of market expansion and withdrawal of firms that would have otherwise been overwhelming. We believe that other researchers could also benefit from adopting the matrix type of examination that we used in describing the cases.

To suggest some further research avenues, this study has examined two important elements with regards to born internationals: business operation modes and market strategies. However, we feel that product strategies would also warrant further research. The product offerings produced by professional service companies may be differently positioned within their domestic and international value networks. Identifying different service models and patterns for cross-border product delivery (e.g. niche offerings) in these international production networks offers an appealing subject for further analyses. Finally, future research should be largely of a longitudinal nature.

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Appendix

Table 1 Finnish and Swedish case companies

	Companies		
Finland			
	TJ Group	Endero	Satama Interactive
Background	Founded/listed: 1987/1999	Founded/listed: Terranova 1991; Nedecon 1994/Listed in 1998	Founded/listed: 1997/ 2000
	Key owners: institutional investors, founders	Key owners: institutional investors, founders	Key owners: Talentum (Media company), institutional investors,
	An IT service-oriented company focused on internet solutions. Acquired several companies domestically and internationally, expanded rapidly	Two digital media companies merged, targeted for major growth, merger did not succeed, company was downsized radically	Invested heavily in Internet business, purchased market leader companies, VC financier backed up the expansion
Financials and personnel	growth to ~35 MEUR in 2001, decreasing; 2000: ~700 employees, 2003: 250 employees	growth to ~10 MEUR in 2000, deceased to ~5 MEUR; 2000: ~300 employees, 2003: 40 employees	Strong growth to 30 MEUR in 2002; 2000: ~500, 2003: 260 employees
	Major losses through rapid expansion, company	As startups slightly profitable, growth created	Major losses in 2000, nearly break-even, positive cash

Table 1 (continued)

	Companies		
	restructuring made survival possible	major losses, still showing deficit	flow, profitable domestic operations since 1999
Sweden			
	Adcore	Framfab	Icon Medialab
Background	Founded/listed: Connecta 1993, Information Highway 1994/1999	Founded/listed: 1995/1999	Founded/listed: 1996/1998
	Key owners: institutional investors, owners, private individuals, employees.	Key owners: institutional investors, owners, private individuals, employees	Key owners: institutional investors, owners, private individuals, employees
	Experienced and highly profitable IT consultancy merges with IT software company, focus on Internet business, massive capital collection, very rapid international expansion through acquisitions, major losses, total withdrawal from international markets, focuses back on original business idea and survives	Led by a strong and ambitious entrepreneur, accumulates capital, series of domestic and international acquisitions, makes major losses, rationalisation saves the company, currently new expansion takes form of alliance mode with a US IT company	As one of the first professionally oriented digital media companies Icon focuses ambitiously on serving MNCs internationally, rapid expansion with a series of green-field operations and acquisitions, financial challenges led to rationalisation of operations, merger with Dutch agency
Financials and personnel	2000: ~2000, 2003: ~300 employees	2000: 3,000, 2003: 430 employees	2000: ~2,000, 2003: 570 employees
	Very profitable IT domestic consultancy business sustains huge losses, rapid withdrawal strategy nearly makes company again profitable	Strong promises of profits have never been realised, turnover dropped dramatically via withdrawal, losses huge, still faces challenges	Originally profitable business makes huge losses after international expansion

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The research utilized multiple press articles and company reviews from the following online sources: www.digitoday.fi, www.itviikko.com, www.talentum.com, www.finansvision.com, www.di.se, www.affarsvarlden.se, www.rekaksois.com