Rapid internationalisation of the digital media industry: Market expansion and business operation mode strategies

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ABSTRACT

This paper examines born international companies in a comparative study setting where the internationalisation processes of selected leading Swedish and Finnish digital media service companies are examined on the basis of their expansion into foreign markets and their utilization of international business operation modes. The study centres on the question of the extent to which the strategies of these companies deviate from the more conventional ones. The paper has the potential to significantly extending knowledge of the born globals/born internationals research field. The data at hand show that in fact both the internationalisation process model and the international research stream based on new ventures receive support, although their assumptions are opposite in many respects. The investigation period and the measurements used are the deciding factors. Our data ranges from the 1990s up to 2003. This is just long enough to capture the rapid expansion phase and then the crises which led to the withdrawal of these companies from many distant markets. It seems that the propositions that are built on the importance of co-operation and network relationships are the ones that receive support when the investigation period is extended. More longitudinal research is called for.

KEYWORDS: Born internationals/born globals/international new ventures, digital media/ high-quality service business, international market expansion, international business operation modes.

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1. INTRODUCTION

Ten years 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 Internationals/ Born Globals have been explained thoroughly (Oviatt & McDougall, 1994; Knight & Cavusgil, 1996/2004; Luostarinen & Gabrielsson, 2004). However, the broader research framework that many researchers (e.g. Madsen & Servais, 1997) have called for is still in its initial stages. One of the reasons for this is the careless use of definitions and the inability of researchers to agree on them. A second reason is that research has examined Born Globals apart from their industries and the countries from which they originate (Luostarinen & Gabrielsson, 2004). This article examines the Born Internationals in the digital media industry that originated in small and open economies such as Sweden or Finland.

Oviatt & McDougall (1994, p. 49) are widely cited when describing the deviating behaviour of those SMEs which “from inception, seeks to derive significant competitive advantage from the use of resources and the sales of outputs in multiple countries”. Much of the research also tends to classify under the term Born Globals (Knight & Cavusgil, 1996) companies that would be more accurately described as Born Internationals (Sharma & Majkgård, 1999). It has even been argued that some of the current research studies have defined Born Internationals and Born Globals too broadly to be of any comparative use (Rasmussen & Madsen, 2002). Hence, in line with the suggestion of Gabrielsson et al. (2004), we have adopted the term ‘Born Internationals’ when rapid internationalisation is meant and ‘Born Globals’ when rapid global expansion outside the domestic continent is examined. When examining the Swedish and Finnish digital media industries, the term Born International describes best the behaviour of that particular sector and is thus applied. For the purpose of this article, it is enough to say that from their inception, Born Internationals pursue a vision of becoming international and often internationalise rapidly without a prior long-term domestic period. In the digital media industry we include companies that create highly specialised digital media services on a professional basis. They target business companies, and invoice them on the basis of the projected time used for such creation and consultation (Pelkonen, 2003). This field belongs to the high-quality service category, which is one of the five categories introduced by Luostarinen & Gabrielsson (2004). Although the digital media industry has received little attention in scientific research, research has focused on the industry structure, employment and market trends (Sandberg & Augustsson, 2002; New York New Media Association, 2001; Pelkonen, 2003).

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 specific research problem centres on the extent to which the strategies of these companies deviate from the conventional companies, and if so how? The following sub-questions were posed:

(1) What are the international market strategies of Born International high-quality digital media service companies and how does their development differ from that of conventional companies?

(2) What are the international business operation mode strategies of Born International high-quality digital media service companies and how do their orders of utilization differ from those of conventional companies?

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. The time period for the investigation is from 1990 to 2003. The digital service business as an area for high-quality services emerged in the 1990s. Additionally, the period is 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. Within the digital media industry, certain countries were in the front line, acting as lead markets, mainly the USA, the Nordic countries, and the Netherlands. The international expansion was perhaps strongest in Sweden and Finland. The longitudinal examination of three Swedish and three Finnish companies allows us to study both outward internationalisation and withdrawal strategies

2. LITERATURE REVIEW

Internationalisation has been thoroughly examined by the Scandinavian process school (Johanson &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 to the outward process, companies behaving conventionally first entered countries with shorter business distances and then those which were physically, culturally, and economically more distant from their home. Furthermore, they first used exporting or other non-direct investment marketing operation modes (NIMOS), moved then to establishing 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 when investigating this new phenomenon of Born Internationals has been questioned. McDougall et al. (1994, 476) conclude that their “evidence suggests that the theory of internationalization does not explain the formation process of INV (International New Ventures) very well.” The same conclusion is reached by Madsen & Servais (1997, p. 571), who state that it “is not an adequate framework for modeling the manifest routes to internationalization of Born Globals”. Nevertheless, the original developers and some other authors have argued that although the behaviours of Born Internationals/Born Globals differ from the mainstream pattern it is still a useful framework (Johanson & Vahlne, 2003; Luostarinen & Gabrielsson, 2004). The current authors that have followed the digital media industry and its recent development closely also believe that it may still be too early to declare the process model dead. This will become more evident as we present the empirical data.

The international network model (Johanson & Mattsson, 1986) suggests that in addition to the internationalisation degree of the company, the internationaliation degree of the industry or foreign markets also influences the strategic options of a particular company. Based on their analogy, if the Born Global is 'an early starter' entering a market segment that is still emerging and is about to proceed toward 'the lonely international phase', it will be able to advance according to the stage model (Johannson & Vahlne, 1977). Whereas, if it is 'a late starter' and the market is already characteried by international players, the firm can be 'pulled out' by customers and co-suppliers, and the internationalisation process can proceed much more rapidly. In that case, small firms would tend to rely on co-operation strategies, whereas those with larger resources would tend to opt for acquisitions, which obviously pose higher risks. When the company's internationalisation degree increases within such highly internationalised markets and it becomes 'international among others' the establishment of sales subsidiaries is expected to speed up and coordination of the R&D and production network to increase. (Johansson & Mattsson, 1986)

Also, the Born Globals literature emphasises the importance of co-operating and networking with partners to avoid the scarcity of their own resources and 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 that "distinguishes 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).

Aharoni (1993) states that professional business services such as the digital media industry differ from the traditional manufacturing industry-originated approach in their international operations and internationalisation processes. He argues that the traditional internationalisation theories presented do not apply directly to the internationalisation of the service business. This argument is supported by several more recent studies. For example, in their study of the internationalisation of 122 Finnish small and medium-sized enterprises (SME)s, including several service companies. Holmlund & Kock (1998) found that the business network of an SME has a significant impact on the internationalisation process. They present three arguments for this. First, the resources and information needed in internationalisation are accessed through networks. Second, the operational mode for an SME is most often indirect and thus the enterprise is dependent on another actor in foreign markets. Third, the entrepreneur proved to be heavily dependent on his personal social network in the search for information and partners. The authors argue that it is essential for an SME to create and maintain both strong and weak relationships to other individuals. They point out that weak relationships can be used in e.g. obtaining information about upcoming orders, while strong relationships can be used in making decisions concerning internationalisation.

The business relationships provide Born Globals 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 Globals often form alliances with large partners to benefit from their ready-built sales channels, reputation, and brands. In addition, they co-operate with large MNCs, which use Born Globals’ products in their systems (Gabrielsson & Kirpalani, 2004). This can be beneficial for Born Globals in the entry phase, but can become problematic if they become overwhelmingly dependent on these large channels. Also, Luostarinen and Gabrielsson (2004) state that “Born Globals deviate from the holistic operation mainstream pattern (Luostarinen, 1994) by proceeding in the reverse order or by moving exceptionally fast/ simultaneously through the inward-outward-co-operation process.” In this article we mainly examine the development from outward to co-operation stage to see whether it is sequential or to what extent deviations take place. The inward internationalisation is not examined in this context since the unit of analysis is on the company level in a networked marketplace. However, the study includes withdrawals from once established country business operations.

The literature has explored the factors influencing the born international behaviour and suggested founder-related factors, organization-related factors and environmental factors as major categories (Madsen & Servais, 1997). The environment has been divided into the domestic market and the foreign target market and global macro environment factors. An important factor for the companies examined in this study is their origin in small and open economies (SMOPECs). The increasing openness and small size of the Scandinavian domestic markets have increased the push forces, and reciprocally the increased openness and large size of foreign target markets have pulled the companies abroad.

In addition, it has been suggested that the industry- and company-specific advantages influence the Born International/-Globals' birth and strategies (Luostarinen & Gabrielsson 2004). The literature also suggests the examination of globalisation drivers in this context (see e.g. Knight & Cavusgil, 1996; Lovelock & Yip, 1996). These 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. Also, the specific characteristics of digital media as an information-based and people-processing service influence the internationalisation/ globalisation process (see empirical examination). An area that has received surprisingly little attention is the influence of the strategic decisions taken by the born internationals and their really individual founders. Gabrielsson & Gabrielsson (2003) suggested that the specific business strategies, strategic levers (scale, scope) and resources should be included in the investigation. This includes also the analysis of potential activities that could be linked to other network partners in order to leverage their resources (Johanson & Mattsson, 1988). See Figure 1 below for the framework utilised for propositions development, data gathering, and analysis.

(Insert Figure 1. about here)

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3. PROPOSITIONS

The development of propositions is rather straightforward. As explained above, the Born International researchers can be divided into proponents (Johanson & Vahlne, 1977/ 2003; Luostarinen, 1979; Luostarinen & Gabrielsson, 2004) and opponents (McDougall et al., 1994, Madsen & Servais, 1997) of the Scandinavian mainstream model. To verify whether the Born Internationals deviate from conventional companies, we decided to examine three propositions that have been proposed by Luostarinen & Gabrielsson (2004), but which have also been prevalent in the Born Globals research stream in general. As mentioned above, we focus our efforts on the outward internationalisation process and then also acknowledge the withdrawals in the empirical investigation.

Proposition 1: *The born international high-quality digital media service companies deviate from the market mainstream pattern of internationalisation by moving at a faster pace to lead-markets, jumping over close-by countries, or even proceeding in the reverse order compared with that indicated by the business distance.*

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 stages, jumping over stages, or proceeding in the reverse order.*

Proposition 3: *The born international high-quality digital media service companies deviate from the holistic operation mainstream pattern by proceeding in the reverse order or by moving exceptionally fast/simultaneously through the outward-co-operation process.*

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

4. 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 during 1990-2003. The interview data as regards the Finnish case companies was collected in several interviews in 1996, 1998, 2000, and 2003. As to 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 were supplemented with company annual report materials, public news and articles concerning the companies and books written on the companies' development. In addition to the research data, both authors have actively participated in the IT & digital media industries as analysts and consultants, as well as researchers.

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) participation in the international service business (at least three international customers); 3) status of a publicly listed company; and 4) rapid internationalisation (over 25% of sales from abroad 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 this included Adcore, Icon Medialab and Framfab and in Finland TJ Group, Endero and Satama Interactive. 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 estimated totality of 30-40 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.

5. CROSS-CASE ANALYSIS

5.1 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, Internet became the ‘buzz word’ for nearly any technology-driven business idea obtaining 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 HTML-based production and 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%/year and strong optimism prevailed among them. The Finnish industry grew from scratch in less than five years to employ ~2800 professionals in over 300 companies with a turnover of 180 million euros in 2000 (Pelkonen, 2003). The Swedish industry became much larger, having 8000 professionals in close to 800 companies and a turnover of 450 million euros (Sandberg & Augustsson, 2002). In addition to business volume growth, venture capital flooded into the industry. Consequently, several international operations were started, either by green-field investments or international acquisitions. The Internet hype peaked in early 2000 when Internet 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 the strong push factors that included ever-intensifying domestic competition (FIN), consolidating domestic markets (FIN & SWE), and continuous demands by investors for risk-taking to achieve growth (FIN & SWE). The companies were also pulled into international markets to better serve their domestic customers (FIN & SWE), to battle for “global dominance” (SWE), to leverage opportunities offered by several local MNCs (SWE), and to continue growth by international expansion (FIN & SWE).

The stock market crash began during the spring of 2000. The market values of ICT-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. But the cautious customers of digital media companies created the real impact – business benefits were now sought for, it was no longer 'hip to be online'. The downward 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 (FIN & SWE); tighter capital markets (FIN & SWE), the bankruptcies of several customers (esp. Swedish dotcom-companies); more cautious and skilled customers (FIN & SWE); major losses incurred in international operations (FIN & SWE); loss of control over corporate growth (SWE), and/or acquisition integration challenges (FIN & SWE).

5.2 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 as rapidly as possible the feasible market conditions prevailing in late 1990s. 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 & 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.

In contrast to 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 acquisitions 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. International knowledge management issues – transferring know-how from one country to another – also created challenges.

One of the key challenges for the Swedish & Finnish digital media companies was to acquire, keep, and develop international customer relationships. As company management focused mainly on creation of further growth –day-to-day operational level issues were either ignored or too little time was left for them. At worst, this led to a decline in customer service. Based on the empirical analysis, it seems that in many cases the management of digital media companies were not experienced enough in: 1) international operation management, 2) cross-national project management, and 3) exporting service delivery from one country to another. This failure was caused mainly by the overoptimistic targets set by stakeholders, the limited international experience of the managers, the rapid timeframe for expansion, and the rapid pace of change in the economy.

5.3 Resources, networking and utilization of strategic levers

We now move on to the third 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. E.g. 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 & 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.

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 serve better e.g. Nokia, Sonera, Amer Group, Ericsson and ABB, and Swedish digital media companies e.g. Telia, Ericsson, SAS, Nordea, SonyEricsson, Volvo, Lego, Carlsberg, Nike, KLM, Mastercard and Goodyear. 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 Finnish companies. 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.

Third, digital media companies sought to improve their international market positions within their business networks (cf. Johanson & 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 a well-functioning cross-border production subcontracting arrangement. The pace of international expansion left only a little room for taking good advantage of the off-shore production possibility. More recently, the companies seem more interested again in leveraging this cost efficiency–focused opportunity.

Finally, Swedish and Finnish digital media companies 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 analysed companies 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 seem to have surprised the management of the companies. Though the Internet is a global, digital solution, creation of service business within the area seems to be a local business to a large extent.

5.4 International market and business operation strategies

As the fourth and the core element of our analysis, we will look at 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. The main difference between the companies originating from these two SMOPEC countries were that the Swedish companies can be considered early starters when they began their internationalisation in 1997-1999, whereas the Finnish companies were mainly late starters when they internationalised in 1999-2003. This seemed to influence the internationalisation behaviour as was expected on basis of the network-based internationalisation model (cf. Johanson & Mattsson, 1986/88). We will therefore examine the Swedish and Finnish companies separately. See Figures 2 and 3 for detailed descriptions of the case companies' international expansion along the operation mode categories and countries organized according to business distance (Luostarinen, 1979) dimensions (cultural, economical, and geographical).

5.4.1 Swedish digital media companies:

Two of the Swedish companies, Framfab (1998) and Icon Medialab (1996), started their internationalisation earlier than Adcore (1999) The internationalisation process of Framfab can be considered to have progressed through the conventional model with respect to both markets and operation modes when stages are considered, but only more rapidly than traditional companies do. A notable difference was the marketing alliance between the Nordic partners that was established at an early stage, considering the holistic internationalisation model (Luostarinen, 1994), which would assume that conventional companies would make such alliances only after developing outward operations. Moreover, the Nordic and central European countries were expanded/extended through both the green-field and the acquisition modes, by first establishing a sales subsidiary and then later penetrating further to include a production unit. 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 the domestic and nearby 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 Figure 2.

The Icon Medialab case is similar. It also 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 Holland, by merging with local players. The withdrawal was implemented by divesting all except Holland, UK and USA.

The third Swedish case Adcore 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 the sales subsidiary stage and in most cases acquired production units. Several key owners were able to withdraw before the crash as millionaires thanks to a successful 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 few countries the activities were terminated and in some a management buyout was implemented.

To conclude, all of the Swedish cases internationalised to all major continents within 5 to 6 years. This exceptionally rapid market expansion differs from the slower pace of conventional companies. In addition, they all proceeded rapidly from non-investment marketing operations to direct-investment production operation; to the extent that one of the case companies even jumped over the non-direct investment marketing operations when compared with the conventional operation pattern.

(Insert Figure 2. about here)

5.4.2 Finnish digital media companies:

All of the Finnish case companies were established when the digital media market was already becoming saturated. Therefore, they soon realized that they needed to internationalise to meet the expectations of their shareholders and investors. 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 South-East Asia (Singapore & 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 readjusted business focus.

Similarly, 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. It is noteworthy that TJ-Group was more aggressive in market expansion than in operation mode development, and thus many promising markets such as the US or central European countries were not developed further than the NIMOS (sales subsidiary) stage. The final remaining company Satama Interactive behaved similarly with regard to rapid establishment of production subsidiaries in the Nordic countries and central Europe (1999 & 2000). The development was similar to that of the other two Finnish companies, 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 Asia, 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.

To conclude, the model is more conventional for the Finnish companies than for the Swedish companies, in particular if one examines the situation before and after the crises and thus neglects the peak of first direct-investments abroad and then withdrawal from these distant markets.

(Insert Figure 3. about here)

5.5 Examination of the propositions

We now turn to an examination of the propositions. It may be concluded that proposition 1 receives support when the examination preceded the crises. Indeed as stated: “The born international high-quality digital media service companies deviate from the market mainstream pattern of internationalisation by moving at a faster pace to lead-markets, jumping over close-by countries, or even proceeding in the reverse order than the business distance would indicate. This was apparent from both the Swedish and Finnish cases. However, when the investigation period is extended to cover the time after the crises and to include the withdrawals and arrangements thereafter, it is apparent that the case companies have in fact followed the Scandinavian internationalisation model of advancing to nearby countries and not spreading all over the globe. Therefore, we conclude that proposition 1 received only partial support, which was found to depend on the investigation period, so that it received support before the crises.

Turning to proposition 2, a similar result is apparent before the burst of the bubble. Indeed as stated by 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 stages, jumping over stages, or proceeding in reverse order”. Both the Swedish and Finnish case companies witnessed this. The notable difference, however, was that those case companies which were early starters, for instance the Swedish Framfab and Icon Medialab, more often followed the traditional model but only at a faster pace, whereas the later starters, often Finnish companies but also the Swedish Adcore, mainly used acquisitions to make up for the time lost on the market. However, when discussing the period after the crises, it becomes obvious that the business operation mode strategies, were after all, not so aggressive and the companies handled much of their international business through alliances. This actually leaves most of the case companies quite thin with respect to direct investment operations and forces them to rely on a network of co-operation partners, supporting proposition 3 as an end result: “The born international high-quality digital media service companies deviate from the holistic operation mainstream pattern by proceeding in the reverse order or by moving through the outward-co-operation process simultaneously and at a fast pace.” Therefore, we conclude that based on the above examination, proposition 2 was partly supported before the bubble burst, and proposition 3 was strongly supported.

6. DISCUSSION AND CONCLUSIONS

The results indicate several important issues worth discussing. First, the investigation time is of the utmost importance. When the digital media industry was examined on a shorter timeframe, the propositions (Oviatt & McDougall, 1994; Madsen & Servais, 1997; Luostarinen & Gabbrielsson, 2004) which claim that Born Globals deviate from the Scandinavian internationalisation process model (Johanson & Vahlne, 1977; Luostarinen, 1979) seemed to receive support. However, when the business crises of 2000 and the resulting withdrawals are included, a different picture emerges. This would indicate that the notable difference between conventional firms and Born Internationals is in the early usage of co-operation modes as had been earlier proposed by Luostarinen & Gabrielsson (2004).

The second interesting result was that the industry development was found to be of importance. Early starters were able to proceed through the traditional model, whereas the late starters had to either acquire market space or then ally by forming international networks. This seems to support some of the early propositions of the international network model developed by Johanson & Mattsson (1986/88). Looking at the conceptual framework in Figure 1 it becomes evident that the cyclical nature of the digital media-industry has had a large impact on the internationalisation strategies as well. The international business strategies were influenced by the development stages of the home and foreign market business environment as we argued. The financing environment and market development stage were found to be major factors influencing internationalisation strategies. At extreme this lead to overoptimistic target setting for business expansion and foreign operations. Further, it was found that the large customers and their relationships are of the utmost importance. 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 (see also Gabrielsson & Kirpalani, 2004).

These results may make a theoretical contribution and be helpful for managers in digital media service businesses or other industries facing similar conditions. The most important finding stems from the fact that the Scandinavian process model of internationalization (Johanson & Vahlne, 1977; Luostarinen, 1979) after all seems more robust in the longer term than what some of the frontline Born Global researchers have contended. Furthermore, it seems that the propositions that build on the importance of co-operation and network relationships are the ones that receive support when the investigation period is extended (Luostarinen & Gabrielsson, 2004). On the other hand, many of the assumptions provided by the international new venture research stream (Oviatt & McDougall, 1994) also receive support if the investigation period excludes the crises stage of the digital media industry. Having said this, it must be noted that much of that literature focuses mainly on the phenomena of international new ventures and has less to say about the longitudinal development of these companies beyond that stage. More research taking this longitudinal approach is called for.

Moreover, this research also witnessed the managerial challenge involved in the internationalisation of the service business. Services are extremely difficult to internationalise since a local presence is often required, which is demanding resource-wise. Furthermore, the study results may also have implications regarding the ongoing discussion on how firms can gain a sustainable competitive position, the extent to which first mover advantages are important (see e.g. Lieberman & Montgomery, 1988), and the role of business relationships (see e.g. Johanson & Vahlne, 2003). 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 and withdrawing from the markets. When expanding the key challenge is to maintain the relationships of the acquired companies. When withdrawing, the earlier established relationships can still be extremely valuable in e.g. the co-operative stage.

To suggest some further research avenues, this study has examined two important elements with regard to Born Internationals: business operation modes and market strategies. However, we feel that product strategies would also warrant further research (cf. Luostarinen & Gabrielsson, 2004; Gabrielsson & Gabrielsson, 2004). We also suggest that the term Born International should be adopted when rapid internationalisation is studied, thus leaving the term Born Global free for examination of rapid globalisation.

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Figure 1: Conceptual framework

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

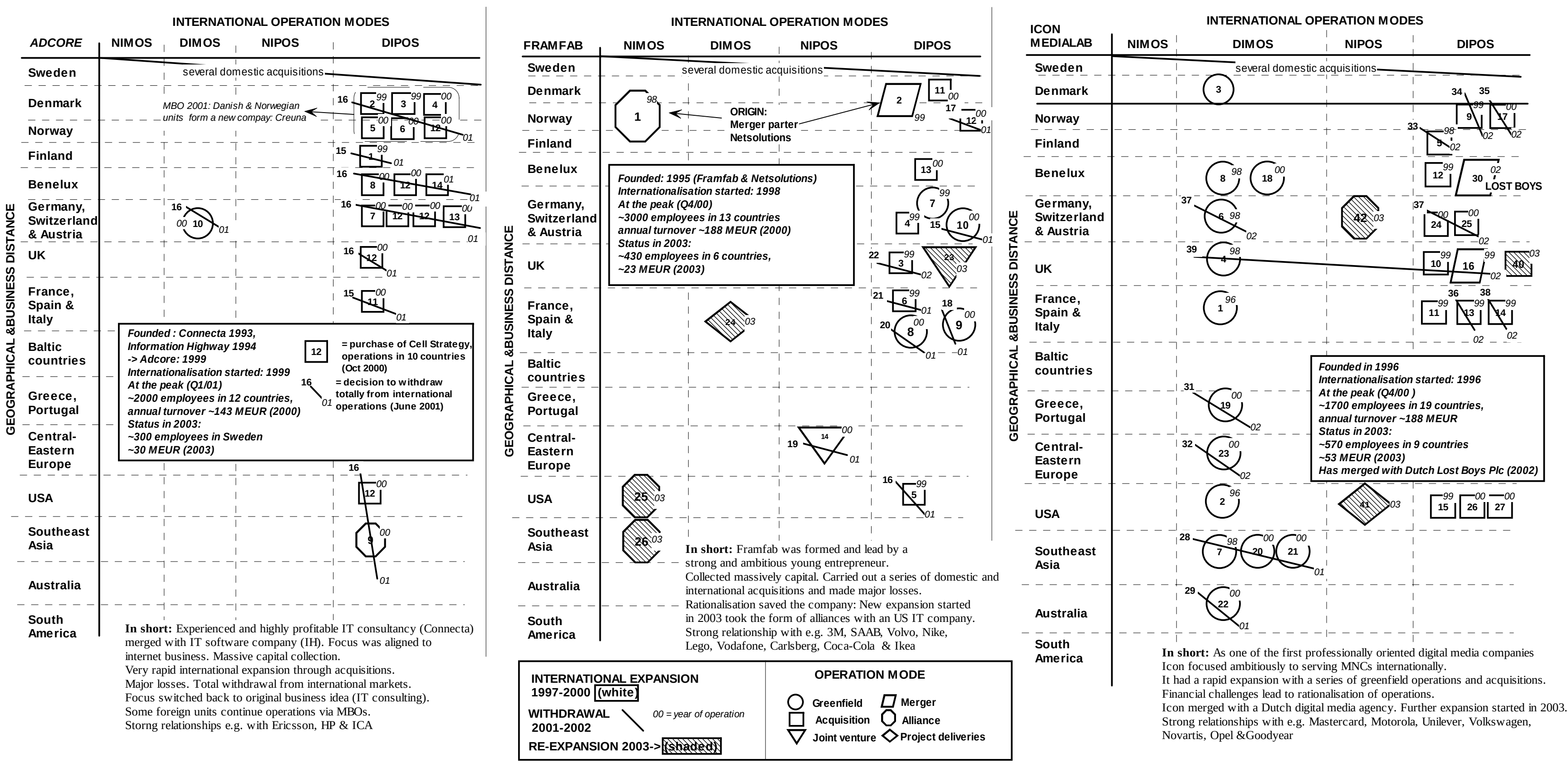
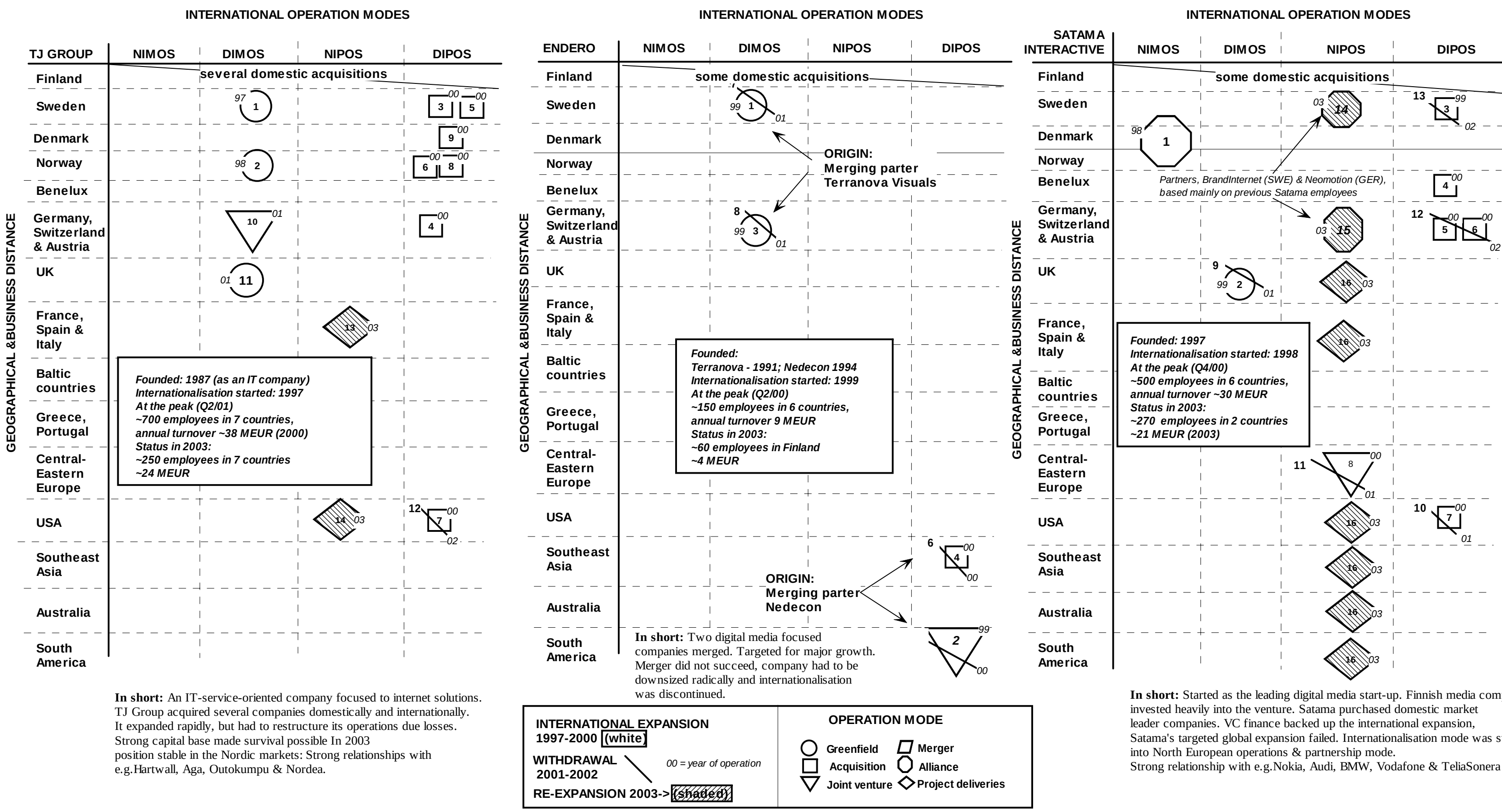


Figure 3. International business operation/ market matrix of Finnish companies



In short: An IT-service-oriented company focused to internet solutions. TJ Group acquired several companies domestically and internationally. It expanded rapidly, but had to restructure its operations due losses. Strong capital base made survival possible In 2003 position stable in the Nordic markets: Strong relationships with e.g.Hartwall, Aga, Outokumpu & Nordea.

In short: Two digital media focused companies merged. Targeted for major growth. Merger did not succeed, company had to be downsized radically and internationalisation was discontinued.

In short: Started as the leading digital media start-up. Finnish media company (Talentum) invested heavily into the venture. Satama purchased domestic market leader companies. VC finance backed up the international expansion, Satama's targeted global expansion failed. Internationalisation mode was switched rapidly into North European operations & partnership mode. Strong relationship with e.g.Nokia, Audi, BMW, Vodafone & TeliaSonera