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## Extending the international new venture phenomenon to digital platform providers: A longitudinal case study

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### ABSTRACT

People increasingly interact with services enabled by digital platforms. This has been a consequence of the digitalization of artifacts, which has transmuted traditional businesses into digital forms. With the increasing digitalization and modularization of services, digital platforms have given many digital service providers possibilities to scale globally, and to rapidly transcend national borders by serving multi-sided markets. However, we still know very little about how digital platform providers actually internationalize their services, or how they make their platforms available for global markets. In this paper, we contribute to the increasing literature on digital-based INVs, examining how firms of this type internationalize their services, and more specifically, how recent technological developments have shaped the firms' internationalization processes. Drawing on concepts from the network approach to internationalization, resource dependency theory, and INV theory, we extend the scope of INV theory via a model that encompasses the internationalization process of digital platform providers. We report on a longitudinal case study of a digital platform provider (covering the period 2000–2017), which allowed us to gain in-depth insight into the INV phenomenon.

### 1. Introduction

Digitalization has become an everyday phenomenon (Yoo, 2010), and has revolutionized how organizations, irrespective of their size or industry, create and deliver value-based transactions within local and foreign markets. Digital technologies can transform physical products and services into digital forms through greater connectivity across digital platforms<sup>1</sup> (Nambisan, 2017; Tilson, Lyytinen, & Sorensen, 2010; Yoo, Boland, Lyytinen, & Majchrzak, 2012). Research has clearly shown that the digitization of commerce is disrupting traditional business models, removing established incumbents, and reconfiguring organizational structures (Brouthers, Geisser, & Rothlauf, 2016; Tripsas, 2009; Yoo, 2010; Yoo et al., 2012). One of the most interesting business forms to emerge is that of digital-based international new ventures (INVs), i.e. firms that internationalize proactively and rapidly shortly after inception (Oviatt & McDougall, 1994). Also referred to as entrepreneurial internationalizers (Schwens et al., 2017), such firms make use of the contemporary globalized and digitalized world to develop a unique

competitive advantage across borders. However, the timely acquisition of scholarly knowledge across international business (IB) paradigms has been outpaced by the constant transformation of global commerce through digital technologies in this, the Digital Age.

Because there are several types of digital-based INVs, in this study we focus on a new and increasingly important group of firms, namely digital platform providers.<sup>2</sup> These firms – which have been referred to as today's most influential businesses (Parker, Van Alstyne, & Choudary, 2016; Tan, Pan, Lu, & Huang, 2015) – have spawned services which are radically changing existing business models, disrupting ecosystems, and shaping industry structures (Evans & Schmalensee, 2016; Parker et al., 2016; Watanabe, Naveed, Neittaanmäki, & Fox, 2017). Evans and Gawer's (2016) global survey indicates that in 2015 the market value of platform companies was 4.3 trillion US\$, and that the world's four most valuable brands are held by digital platform providers (Forbes, 2017). Furthermore, the number of startups engaged in developing new kinds of digital platforms for global markets is increasing (Edelman, 2015; Korhonen et al., 2017). Hence, we cannot

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<sup>1</sup> For example, Amazon has created a digital platform for its eBook service, whereby publishers, bookstores, and customers may enter and conduct business over the Internet.

<sup>2</sup> A digital platform provider refers here to digital-based INVs developing digital platforms. The platform provider may differ from the brand name of the platform. For instance, YouTube (a digital platform) is owned by Google – a digital platform provider which also develops other digital platforms, such as the Android operating system platform. There can be also several other types of digital-based INVs operating in a digitally enabled environment (Laudon & Laudon, 2017), e.g. digital content or service providers.

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overlook the crucial importance of digital platform providers in our present information-based economy and society.

Digital platforms can be defined as “a shared, common set of services and architecture that serves to host complementary offerings” (Nambisan, 2017, 1032). By using services offered by firms developing and marketing digital platforms, we can listen to music as a service through Spotify or iTunes, watch movies through Netflix, or rent a house in a foreign country through Airbnb. To better understand the industry context of digital-based INVs providing digital platforms, one can apply the layered modular architecture<sup>3</sup> framework of Yoo, Henfridsson, and Lyytinen (2010). The framework includes the following four layers: (i) a content layer, (ii) a service layer, (iii) a network layer, and (iv) a device layer (Yoo et al., 2010). As an example, Netflix (a digital platform provider) provides video-on-demand service within the service layer, whereas film studios provide content for Netflix’s service within the content layer. The end users of the Netflix service can gain access to movies through the network layer, operated by network operators. The device layer is operated by hardware manufacturers and designers, who provide equipment such as TVs and tablets to watch the movies. However, digital platform providers tend to rely on the resources provided by other firms, operating within different layers of the architecture. For instance, Netflix needs movies for its service, obtainable from content providers who might be located in several countries. Furthermore, in order to bring content providers, end-users, and other actors around the globe together in the digital market space, digital platform providers must operate in two-sided or multi-sided markets across different countries (Eisenmann, Parker, & Van Alstyne, 2006; Evans & Schmalensee, 2016).

In the field of IB, a considerable number of studies have been conducted on INVs (referred to also as *born-globals*). In particular, this stream of literature has shown how these firms use network relationships (Coviello, 2006; O’Gorman & Evers, 2011) and global resources (Andersson, Evers, & Gliga, 2018) to accelerate internationalization to multiple countries. However, much less is known in current INV literature are the ways in which digitalization is enabling the emergence and internationalization of more special types of firm, such as digital-based INVs (Brouthers et al., 2016; Knight & Liesch, 2016). To increase our understanding on this topic, we must expand our insights to other domains (Coviello, McDougall, & Oviatt, 2011; Coviello, 2015; Cavusgil & Knight, 2015), seeking to gain a more comprehensive conceptualization of the technologies that enable the existence and internationalization processes of these firms (cf. Knight & Liesch, 2016). In other words, we do not know how a layered modular architecture, in conjunction with the availability of enabling technologies, impacts on the internationalization process, or on the capability to establish global multi-sided markets. This is important because, in the first place, the success or failure of the platform provider depends ultimately on its capability to implement a feasible layered modular architecture that can be replicated for global markets. Secondly, compared to other types of firms, digital platform providers are highly dependent on enabling technologies and content for the platform, and this makes their international opportunities vulnerable to technical and strategic bottlenecks<sup>4</sup> in the market (cf. Baldwin, 2015; Ojala & Lyytinen, 2018). Finally, multi-sided markets differentiate digital platform providers from mainstream software or e-commerce firms that operate in traditional “left-to-right” value chains (Evans & Schmalensee, 2016; Parker et al., 2016).

Due to the highly idiosyncratic ways in which these firms generate

<sup>3</sup> A layered modular architecture comprises a hybrid model, existing between a modular and a layered architecture, with digital components embedded in physical products (Yoo et al., 2010).

<sup>4</sup> A *technical bottleneck* refers to a situation in which there are no (or only limited) alternative technologies to bring the innovation to the market. In the case of a *strategic bottleneck*, a firm (e.g. a competitor) can prevent or limit other actors’ access to resources that it controls (Baldwin, 2015).

value and commercialize their services in digitally-enabled environments, we posit that the internationalization process of digital platform providers represents a particular case of internationalization. In a similar vein, Brouthers et al. (2016) argue that the internationalization of digital-based INVs differs from the incremental pathway models suggested by traditional internationalization theories (Bilkey & Tesar, 1977; Cavusgil, 1980; Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975; Luostarinen, 1979). General IB paradigms and product life cycle theories can be also ruled out, given their tendency to focus on larger and experienced manufacturing-based multinational enterprises (e.g. Buckley & Casson, 1976; Dunning, 1988; Vernon, 1966). However, we would argue that in this context, the network theory of internationalization (Johanson & Mattsson, 1988; Johanson & Vahlne, 2009) can be applied in studying how firms network with different actors and gain access to the resources they need. Related to this, Resource Dependency Theory (RDT) helps us understand early firm internationalization, when firms are dependent on external resources (Hillman, Withers, & Collins, 2009; Pfeffer, 1987; Pfeffer & Salancik, 2003) that are internationally diffused, controlled by other firms, and difficult to replicate (cf. Barney, 1991; Wernerfelt, 1984, 1989). INV theory combines ideas from the two theories. It focuses on the opportunity-seeking behavior, by which an INV “seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries” (Oviatt & McDougall, 1994, p. 49). However, since the international opportunities of digital platform providers are closely dependent on their underlying architecture (cf. Yoo et al., 2010) and on the evolution of new technologies (Tiwana, 2015), we recognize that our combined theoretical approaches may not fully explain how digital platform providers actually internationalize their operations. For this reason, we shall here build upon these core theories with the layered modular architecture framework, our aim being to extend the INV phenomenon to digital-based INVs, and especially to firms providing digital platforms.

Following on from the discussion above, the main objective of the research described here was to longitudinally analyze the internationalization process of a digital platform provider, addressing the following key questions: 1) What is the role of layered modular architecture in the internationalization process of digital platform providers? 2) How and why do these firms access external resources for developing layered modular architecture along with other actors? 3) What types of technical and strategic bottlenecks govern their internationalization processes? To answer these questions, we drew on theoretical insights from the network theory of internationalization, RDT, and INV theory, including also literature from small firm internationalization and information systems (IS). Furthermore, we comprehensively examined the internationalization of a digital platform provider, applying a longitudinal single-case study approach.

We contribute to and expand on existing IB literature and theories in several ways. First of all, we contribute to the network model of internationalization by revealing how a firm’s networking processes can differ from the traditional model, in the case of digital platform providers that operate in multi-sided markets. Secondly, we contribute to RDT by examining how the various actors operating in multi-sided markets can create technical and strategic bottlenecks by controlling important resources. Finally, we extend INV phenomenon and related theory by developing a preliminary model for the internationalization of digital platform providers. The present paper responds also to the call for more phenomenon-based (Doh, 2015) and interdisciplinary studies (Coviello et al., 2011; Coviello, 2015; Cavusgil & Knight, 2015; Etemad, 2017). It further contributes to our knowledge on INVs that act within digital business contexts (Brouthers et al., 2016; Knight & Liesch, 2016). Finally, from a methodological perspective, it responds to calls for more longitudinal case-based research on new venture internationalization (Kuivalainen, Sundqvist, Saarenketo, & McNaughton, 2012).

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