

The Power of International Sourcing

A case study of a Dutch new venture internationalizing towards Eastern Europe



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Summary

This is an explanatory study with the aim to give more insight in the internationalization process of new ventures. Traditional perspectives on internationalization are challenged by that of new ventures that internationalize at a much faster pace and with considerably less resources at their disposal. Specifically we will look at what mechanisms are in place to identify and pursue international opportunities, what are the incentives of internationalization, and how are these international processes established and accommodated? We will look at the origin to this internationalization and how this process is maintained in a later stage. With this in mind the following research questions have been formulated: *How does the background of entrepreneurs influence the internationalization process? Which knowledge serve the internationalization process? How do networks contribute in establishing and maintaining the internationalization process?* An in-depth case study of a new venture was performed. The subject of this research is a Dutch new venture which was established in 2010 and that has outsourced part of its processes towards Eastern Europe.

Our findings show that the origin of the internationalization towards Eastern Europe lies in the background of the entrepreneur. This is where he developed his interest and knowledge for the region. Besides the interest and knowledge, the network of the entrepreneur in this region also developed at this stage.

Regarding the internationalization process of our case firm several kinds of knowledge seem to accommodate this. First, we found that knowledge of the local market abroad enabled the entrepreneur to identify opportunities abroad. Second, the entrepreneur previous business experience in Eastern Europe accommodated the internationalization process of the case firm. Third, institutional knowledge also turned out to be valuable, because of the initial lack of institutional knowledge the entrepreneur engaged in a commission deal with the government

which later was dropped because of an alleged election fraud. Additionally, new knowledge is accumulated by practice and experience but also to a certain extent provided by his network.

Furthermore our findings show that key persons within the social network of the entrepreneur contributed to the establishment of the firm. The origins of these network relations started as close friendships. These social relations also contributed in the extension of the entrepreneurs' network in that region. When doing business the entrepreneur relies on his social network that exists of relationships founded on the basis of trust and mutual respect. Besides friendship, bilateral long-term interest is also mentioned by the entrepreneur as an essential factor in maintaining business partners.

Key words: Internationalization, international sourcing, resource seeking internationalization, international new ventures, international entrepreneurship

Discipline: International Entrepreneurship

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1. Introduction

Globalization has a significant effect on many markets around the world. The barriers to enter Eastern European markets have been lowered and they have become an attractive source for Western firms to tap in to (Kiss, Danis, and Cavusgil, 2012; Meyer and Skak 2002). Not only do these markets offer a new and wide base of potential customers, they also offer a plenitude of beneficial resources to attract international firms. We have already observed this within the established Multinational Enterprises (MNE's). Besides the established MNEs, new ventures are also keen to benefit from opportunities that lay abroad. In contrary to MNEs, international new ventures (INVs) often have to cope with limited capabilities and management resources (Oviatt and McDougall, 2004).

The internationalization of new ventures challenges the traditional perspectives on internationalization (Rialp, Rialp and Knight, 2005; Weerawardena, Mort, Liesch and Knight, 2007). McDougall, Shane and Oviatt (1994) discarded five of the most used internationalization theories and exposed their shortcomings in explaining the internationalization process of new firms. The main deficiencies in these theories are that they assume that firms internationalize a long time after they have been founded, and therefore emphasize larger, more mature firms. Furthermore, the focus of these theories lie mostly on firm level and therefore largely ignore the small group and individual level of analyse (i.e., business alliances and the network of the entrepreneur) (McDougall et al., 1994).

Although the volume of research on the internationalization of new ventures has increased significantly, the subject still remains relatively under-explained. Solid theoretical frameworks are still lacking in this field of study (Autio, 2005; Gassmann and Keupp, 2007; Rialp et al., 2005; Weerawardena et al., 2007). Authors note the importance on further development of theory, construct and conceptual frameworks in order for the literature to

advance. (Di Gregorio, Musteen and Thomas, 2008; Mejri and Umemoto, 2010; Weerawardena et al., 2007). In order to get a better understanding of ventures that internationalize at an early stage, more profound research, based on case studies is required by the field (Gregorio et al., 2008; Knight and Cavusgil, 2004; Rialp et al., 2005; Zhou, Wu and Lou 2007).

The primary purpose of this paper is to explore the internationalization process within INVs. What mechanisms are in place to identify and pursue international opportunities, what are the incentives of internationalization, and how are these international processes established and accommodated? With particular interest we will have a close look at the origin of this internationalization and how this process is maintained in a later stage. In contrary to the vast majority of international entrepreneur literature, which focuses on the internationalization of sales, this paper will consider the internationalization of processes from a sourcing perspective. With this in mind the following research questions can be formulated:

- *How does the background of entrepreneurs influence the internationalization process?*
- *Which knowledge serve the internationalization process?*
- *How do networks contribute in establishing and maintaining the internationalization process?*

To answer the research question of interest, an in-depth case study of a new venture will be performed. The subject of this research is a Dutch new venture that makes use of sourcing possibilities in Eastern Europe. In this case the different aspects that are concerned with international sourcing will be studied and where possible compared against the literature. Data for this research has been gathered from an in-depth interview with the founder Mark, and the use of archival documents. As suggested by Weerawardena et al. (2007) these will triangulate findings and enhance the reliability.

2. Literature background

2.1 Introduction

For this literature review, we use the work of Jones, Coviello and Tang (2011) which served as a basis to select the most relevant papers. Their review gives a comprehensive overview of the domain ontology and thematic analysis over the last two decades of international entrepreneurship research.

The internationalization of a firm is a complex phenomenon and can hardly be explained by one perspective only. Over the last two decades a range of theories and models have clarified different aspects of internationalization of new firms, but the field of international entrepreneurship is still asking for a more holistic view (Mejri and Umemoto, 2010). To answer this call we examine a combination of these aspects to research internationalization among new firms. First we look at the diversity among the internationalization of new firms.

2.2 Diversity of INV

When studying internationalization of new firms it is important to have a clear overview of the variety among these firms and what differentiates them from each other. Another aspect that we should take into consideration is the variety among the definitions that are used for international new players in the literature, how they can complement or how they can contradict each other. Within this section we compare and analyze several concepts to get a better understanding of the main theme of INVs.

When reading about international new players in the field of international entrepreneurship and international management, one will come across a range of definitions. Some of the most commonly used definitions for international new players are: born globals,

global start-ups, INVs, and international entrepreneurs. In general the phenomena these terms describe are firms who start to internationalize in an early stage of their existence.

Weerawardena et al. (2007) define SME's that internationalize in an early stage of their existence as 'born globals'. Oviatt and McDougall (1994) are reserved in using the terms 'global start-ups' and 'born globals'. As only few of the firms in their previous studies were actually global. Instead they work with a more descriptive term of 'international new ventures' which they define as the following: *“an international new venture as a business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries”* (p. 49). They believe the term 'global start-ups' and 'born globals' should be reserved for the type of new ventures that are truly global which means they coordinate multiple value-chain activities in many countries (Oviatt and McDougall, 2005).

Oviatt and McDougall (2004) describe different types of INV along two dimensions: number of value chain activities that are coordinated and the number of countries entered. In the framework they distinguish four types of INV at the extremes of these two continua. The first two are commonly known by the name of new international market makers, which only coordinate a few activities across the borders. The primary activities they internationally coordinate are logistics, while alternative structures tend to govern the other activities. Their sustained competitive advantage comes with (1) their skill to identify and act upon emerging opportunities before the

competition does, (2) the know-how of markets and suppliers, and (3) the competence of creating and maintaining a loyal network

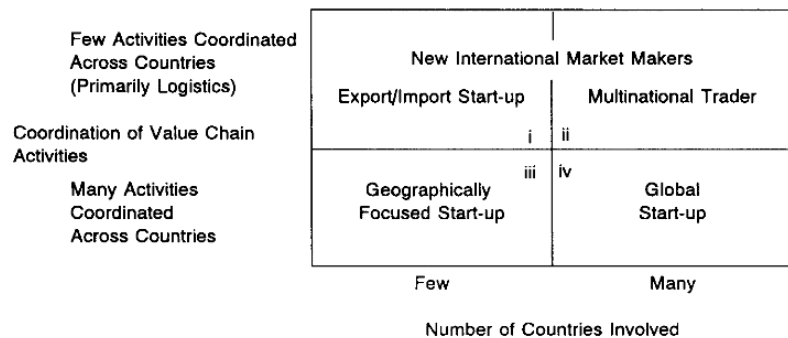


Figure 1: Types of INV (Oviatt and McDougall, 2004).

of business associates. New international market makers that limit themselves in only serving a few countries known to the entrepreneur are known as export/import start-ups. On the other hand, new international market traders that serve a range of countries are known as multinational traders (Oviatt and McDougall, 2004). Start-ups that are geographically gain their advantages by coordinating multiple value chain activities in a limited range of countries. The coordination of R&D, HR and production are socially complex activities and can involve tacit knowledge that is hard to imitate. The global start-up is the most complex of the four INVs described by Oviatt and McDougall (2004); it derives a competitive advantage by the extensive coordination of a wide range of value chain activities in a unlimited range of locations (Oviatt and McDougall, 2004). One could argue that the source of these differences within the INVs depends on its incentives and motives to internationalize.

What all definitions of INVs have in common is that they describe a venture that starts to internationalize right at the start or near its establishment. In order to distinguish them, one should look at the number of countries the firm is involved in and the number of value chain activities that are coordinated across countries.

Now that we understand how to identify the differences among the international new players we are now going to look on what motivates them to go abroad. In the next section we will discuss what incites these INVs to internationalize.

2.3 Incentives of internationalization

To fundamentally understand INV, one should look at the motives behind their internationalization: what motivates these firms to go beyond their domestic, relatively save, environment and explore opportunities abroad?

In the work of Dunning (1993) five motives of internationalization are identified. They consist of market seeking, export seeking, efficiency seeking, resource seeking, and strategic

asset seeking. These motives can be categorized into the two dimensions of market-seeking and asset-seeking internationalization. International businesses with market-seeking motives have the tendency to focus on the exploitation of existing firm-specific advantages, like a strong brand name. On the other hand, internationalization with the motivation of asset-seeking will improve its competitive advantage by using international resources (Di Gregorio et al. 2008). This particular variety of motivations, in order to internationalize, cannot be seen as individual incites. In fact, the motivations are complementary to each other and strongly depend on the firms' contexts (Dunning, 2000).

Where numerous models fail in analyzing INVs, is that they emphasize on the international process and related subjects with the focus on the speed of international sales (Di Gregorio et al., 2008). As Di Gregorio et al. (2008) points out, some businesses do not have an internationalization strategy, but they tempt to see its foreignness as its core asset and source of its competitive advantage. In applying entrepreneurship research to the study of INVs, Di Gregorio et al. (2008) shifts the focus from the process and timing of sales towards the evaluation and exploitation of opportunities. One explanation that can be given in order to clarify the growth of INV's is that its key elements within the entrepreneurial process are rather dispersed. These key elements refer to individuals, experiences, or opportunities to combine resources and/or markets (Di Gregorio et al., 2008, p. 190). An alternative scope to observe INVs is how these firms are international in combining tangible and/or intangible resources, without the internationalization of its sales. These combinations of resources play an important role in the establishment of new ventures and often will precede official establishment of a firm (Di Gregorio et al., 2008).

Hence, the answer to why these new ventures internationalize is that they are seeking assets and/or markets abroad. Another aspect that should be taken into consideration when asking this question is that its key elements, such as individuals, experiences and

opportunities, are internationally dispersed. The following section will discuss the differences among the internationalization of smaller firms versus larger firms.

2.4 Internationalization of small vs. larger firms

In spite of the major importance of small firms to the economy, previous research on the process of internationalization was inclined to focus on large manufacturing organizations. However, INVs do not internationalize according the common models, which are applicable for larger firms (McDougall et al., 1994; Coviello and Munro, 1997).

One of the most commonly used models is the Uppsala Model proposed by Johanson and Vahlne (1990). They argue that firms internationalize through a process of evolutionary development in terms of product offerings and depth of operational mode, also referred to as the stage model (Harveston, 2000). The four stages are described as; stage 1: no regular export activities (sporadic export), stage 2: export via independent representatives (export modes), stage 3: establishment of a foreign sales subsidiary, stage 4: foreign production/manufacturing units (Harveston, 2000). Further this model depicts that firms commence in their domestic market and develop procedures, routines, systems and structures. Once they are established, the firm will gradually expand its activities to foreign markets and gather more knowledge. Most likely, the firm will first expand its business to physically close and culturally similar markets as they have most in common with its domestic market (Johanson and Vahlne, 1990; Johanson and Vahlne, 2009). With the experience gained from these first steps outside the domestic market, the firm will expand to markets that are physically and culturally more distant from its domestic market. With this model in use, firms' managers will only increase resources and/or commitments to a level in which they feel comfortable within the internationalization process. To acquire this kind of comfort and experiential knowledge takes considerable time and thus the internationalization process proceeds at a slow pace (Harveston, 2000).

This model however, does not suffice in the description of internationalization of new ventures, as this goes along with considerably less resources and at a more rapid pace. Oviatt and McDougall (2004) have proposed that INVs that are successful show four basic elements. As they lack resources compared to larger firms, they internalize a minor portion of its assets, and implement less costly governance mechanisms, like network structures, to control a larger amount of vital resources than larger organizations would. Furthermore, INVs use private knowledge to gain foreign location advantages, and make this imperishable through protective means like: imperfect imitability, licensing, networks, and direct means like patents (Oviatt and McDougall, 2004). The lack of these resources further urges them to generate other, more innovative, ways of internationalization. They are bound to succeed in a foreign market at an earlier stage, and with superior efficiency and effectiveness. The liability of smallness thus might turn out to be more of an advantage than it is a liability. Smaller businesses automatically bring along some kind of flexibility and agility that can provide them with key benefits for successfully entering foreign markets. The flexibility within these INVs is characterised by the lack of the administrative heritage (Harveston, 2000).

In conclusion when we look at internationalization, the major differences between small and large firms are the amount of resources they commit and the timespan. Larger firms have more resources available for the internationalization process but gradually invest them into foreign markets. With the lack of these resources smaller firms are urged to internationalize in a more rapid pace. Furthermore, another major difference between small and larger firms is, that the larger firms only start to develop its internationalization process once most of the other processes within the firm are already matured. Within smaller firms that are still maturing the process of internationalization runs alongside the development of other processes within the firm. The advantage of this mutual development is that they can be adjusted to each other, hence creates flexibility.

In the following section we will look closer into how value is created within the firm through the recombination of resources and knowledge.

2.5 Firm Strategic Advantage

The recombination of resources and knowledge is of great importance to create additional value to one's organization. It allows the organization to grow by innovating and diversifying and thus, to develop possible competitive advantages over its rivals. In resource recombination the firms' current resources are used and meld with newly accessed resources to find new profitable ways.

The organizations' key strengths are its valuable, often proprietary knowledge, particularly its routines and recombination capabilities. Competitiveness arises from the bundle of stand-alone resources, either location-bound or non-location-bound firm strategic advantages (FSAs) i.e. technology, reputation or marketing, and the expertise to combine these with newly accessed resources to produce new goods and services to meet customer needs (Verbeke, 2009).

Effective recombination is not easily planned, especially when going abroad and thus it requires entrepreneurial skills to adapt to new circumstances. One of the most important issues to overcome is the process of combining resources located domestically with those resources located abroad and therefore minimalizing the distance that exists between them.

Verbeke (2009) mentions for the development of FSA and resource recombination in international business ten common patterns spread over the two dimensions generic type and geographic source. On one hand FSA is either location bound or international transferable. On the other hand the FSA can be developed in the home country, host country or through a network.

The first pattern is a type of FSA that is internationally transferable (non-location-bound) and developed in the home country. The development of this FSA does not need recombination. Pattern II is a non-transferable (location-bound) FSA domestically developed and in order to become internationally transferable upgraded. The process of upgrading relies on the recombination capability of the firm. The third pattern shows a FSA that is internationally transferable and

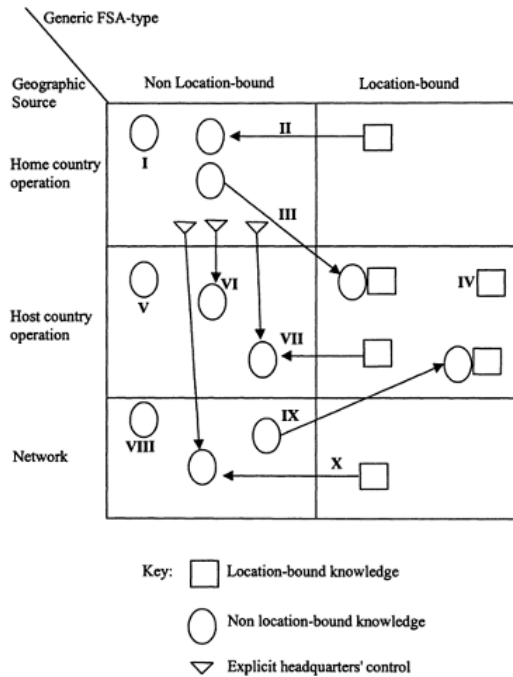


Figure 2: Ten patterns of FSA development (Verbeke, 2009).

developed at the home country but is complemented with location-bound knowledge in order to succeed locally. With this kind of FSA, firms try to benefit from both integration and local responsiveness at the same time. A common term used for this is: “Think global, act locally”. With pattern four, the FSA is location bound and developed in the host country, thus these FSAs are locally exploited. The development of the FSA coincides with a recombination of the firms’ prior knowledge and local knowledge.

Pattern V is a non-location-bound FSA autonomously developed in the host country and subsequently diffused internationally. This can be either as an intermediate or finished good. Similar to pattern V, pattern VI is a FSA developed and made internationally

transferable by a foreign affiliate however, this process is guided by the corporate headquarters in the home country. The capabilities of recombination are both located in the home country as in the host country.

In the case of pattern VII, a location-bound FSA is developed by a foreign affiliate to, in a first stage, serve the local market but subsequently is upgraded to make the FSA internationally transferable. This process is, similar to pattern VI, guided by the corporate headquarters in the home country. In pattern VIII an international transferable FSA is developed by multiple affiliates located in different countries. Each of the affiliates may contribute specific knowledge like marketing, distribution or technology to the development of the FSA. Like in the 8th pattern, in pattern IX an internationally transferable FSA is developed by several affiliates. The distinction in this pattern compared to the previous one, is that location bound knowledge is added to enhance local responsiveness.

In the final pattern that Verbeke (2009) mentions, pattern X, a network of affiliates work together to develop a location-bound FSA for a specific host country market. Once the FSA proves to be successful it is leveraged to an international transferable FSA, guided by the corporate headquarters.

Although the patterns of resource and knowledge combinations mentioned by Verbeke (2009) are applicable for MNEs they might also, to a certain extent, be applicable to the INVs. The following section will briefly discuss the background of the entrepreneur.

2.6 Background of the entrepreneur

Like we have seen in the previous section, the formation of an INV can be motivated by the geographical distribution of core elements within the entrepreneurial process. For the discovery and exploitation of opportunities the entrepreneur, as individual, plays a central role. Based on prior experiences and practices, the entrepreneurs typically discover these

opportunities (Di Gregorio et al, 2008). These experiences and practices form the entrepreneurs' perception of the world. Specific market knowledge and international entrepreneurial orientation (which include the dimensions of: innovativeness, risk-taking and proactiveness) are suggested to be two of the primary factors that define the pace of internationalization (Oviatt and McDougall, 2004; Weerawardena et al. 2007). The background of the entrepreneur refers to these experiences and practices. The knowledge acquired by the entrepreneur provides him with valuable insights to locate opportunities in cross-national markets (McDougall et al. 1994). Prior experiences and practices can lead to capabilities that range from plain language skills, to skills in developing international networks. This invites us to study the background of the entrepreneur that precedes the formation of the INV. The following section will focus on the knowledge element within the internationalization process.

2.7 Knowledge based view

A common framework used for understanding how a firm can gain a competitive advantage is the resource-based view (RBV). From this perspective the firm is regarded as a bundle of resources. The sustainability of the competitive advantage is attributed to the totality of unique idiosyncrasy of those resources. This is also reflected in the proposed attributes of Barney (1991) that illustrates that resources or capabilities should be valuable, rare, inimitable and non-substitutable (VRIN) in order to be competitive and thus sustainable. The dynamic nature of internationalization makes it hard to be explained by the rather static RBV (Kuivalainen, Puumalainen, Sintonen and Kyläheiko, 2010; Saarenketo, Puumalainen, Kuivalainen and Kyläheiko, 2004). A model that has emerged in the internationalization theory is the knowledge-based model (i.e. Saarenketo et al., 2004). The knowledge-based view (KBV) has a more dynamic approach in analyzing the process and is therefore more suitable for studying the nature of firm internationalization (Kuivalainen et al., 2010;

Saarenketo et al., 2004; Saarenketo, Puumalainen, Kyläheiko and Kuivalainen, 2008). The KBV considers the intangible resources of the firm and considers knowledge as the most important resource contained by the firm. In the next section we will continue with the network perspective which will further help us in explaining the competitive advantage.

2.8 Network perspective

As we use the KBV to extend our knowledge regarding the competitive advantage of an INV, the network perspective will contribute to our understanding in how this competitive advantage is translated into actual business performance. Gassmann and Keupp (2007) consider the KBV as insufficient in explaining the competitive advantage of an INV. They suggest it should be complemented by the social capital theory and network perspective. Furthermore several other authors have argued the network of the entrepreneur is an enabler of the internationalization of the firm (Zain and Ng 2006). With this in mind, the network of the entrepreneur seems essential to the internationalization of its firm and thus worth investigating.

A network can be interpreted in a multitude of forms, in this research it will persist with the definition of a network as the relationship between the entrepreneur and friends, family, customers, distributors, bankers, government, suppliers, competitors or any other kind of relation that contributes to the internationalization of its business activities (Zain and Ng 2006).

As part of the network, the social network especially seems to play a significant role (Zhou, Wu and Lou 2007). A social network mainly consists of the social interactions between individuals within the network. However the exchanges of business and information may also occur through these social relations (Zhou et al., 2007). Furthermore, these social relations within the network of the entrepreneur may also pay credit to the business

relationships that are formal, for example such as the personal relationship with governmental officials or business professionals (Zhou et al., 2007). In their research Ellis and Pecotich (2001) discovered empirical support for the identification of new opportunities through social networks. The social network can serve the entrepreneur with essential information about foreign markets, to gather international knowledge, to develop formal business links, and to gain access into foreign markets (Ellis, 2000; Ellis and Pecotich, 2001; Harris and Wheeler, 2005; Meyer and Skak, 2002). Harris and Wheeler (2005) even showed that successful internationalization driven, directed and managed by the relationship within the network. Hence, when studying the internationalization of new firms, the social network seems of great importance to determine the origination of their international linkages. In line with the study of Harris and Wheeler (2005), this research is particularly interested in how these relationships are established, where they originated and how did the entrepreneur use them to exploit opportunities.

Thus to enter a foreign country, knowledge of international business is not enough, country specific expertise is required. This is especially relevant for Eastern European countries, as they have a rather different cultural, economic and political environment (Meyer and Skak, 2002). In Eastern Europe institutional trust is lacking and active mistrust towards strangers is prevalent. Furthermore there is a severe shortage of market information that is reliable. This means that, for transactions to be successful, there is a high reliance on personal connections that are trust based (Zhou et al., 2007). The performance impact of social networks on internationalization has been pointed out before in streams of research that draw upon 'guanxi' (China), 'kankei' (Japan), 'immaek' (Korea), and 'blat' (Russia and post-Soviet Russia) (Zhou et al., 2007). On the basis of the literature review, in the methodology section we will outline the research model. Here we will discuss the study settings, data collection, interview structure, data from the internship, and the data analysis.

3. Methodology

Taking into consideration the previous work by researchers in the field, the goal of this study is to further explore and extend the field of international entrepreneurship on the basis of an in depth case study. We will look into the origins of the internationalization process and how this process is maintained. The choice for in depth case study as source of data is in line with emerging research bias regarding this type of data collection over surveys (Ellis, 2000). When extending theory, random selection is not preferable, nor necessary (McDougall et al., 1994).

3.1 Study setting

The case study took place at a software development firm in the Amsterdam area of the Netherlands. The firm is specialized in mobile application on several platforms such as Android, iOS and Windows. For the sake of privacy and in order for the interview to be as open and comprehensive as possible pseudonyms are used for the company and the entrepreneur. In this thesis the name of the company will be Media X and the entrepreneur will be referred to as Mark. Media X was founded in 2010 and has acquired a substantial portfolio of clients to date. In its short life-span they have already managed to be a well-established player within the market. The firm has a permanent staff of five and employs a fluctuating number of interns throughout the year. The interns are hired to offer support in several departments such as graphical design, development or marketing. Since founding Media X, Mark has established partnerships abroad to facilitate workflow and project completion and thus can be considered an international firm. Although the client base of the Media X is almost exclusively focused in the Netherlands, the workflow spans international borders. Among their clients are governmental institutions, multinationals, SMEs as well as private individuals.

3.2 Data collection

The data for this study consists of two parts: the explorative data gathered during a two-month internship at Media X and a follow up more targeted interview with the founder a year later.

The interview lasted approximate one hour and was taped with a voice recorder in order to be transcribed. This resulted in thirteen pages of useful transcript analysis. The transcript was analyzed and put in order according to the three categories. These three categories contain information about the background, the KBV and the network. The findings have been supplemented by archival documents obtained from the company as well as information retrieved from the company's website and other press materials concerning the company.

3.3 Data from internship

Data was gathered during a two-month internship at the case firm. The researcher worked closely within several processes of the firm. First of all, alongside several stages of the product development. These tasks included market research, product research, tender preparation, content creation, product testing, and product evaluation with the client. As a large portion of the product development are outsourced to partners in Ukraine the researcher often was involved in discussing the product during conference calls. Besides product development the researcher also assisted in the search of new market opportunities.

Furthermore the researcher was involved in the development of online marketing and search engine optimization.

3.4 Interview structure

The background of the entrepreneur, the KBV and the network perspective are the three main themes discussed throughout the interview. The questions of the interview were sourced from these three themes. To determine the most important resources, a report is drafted of the entrepreneurs' own estimate of several country-specific qualifications required in establishing

collaborations in Eastern Europe (Meyer & Skak, 2002). On the basis of the network perspective we would like to explore the role of the entrepreneurs' inter-personal relationships in the internationalization process. With respect to the network perspective, three broad questions regarding the internationalization process will be addressed: the functions of relationships, where do the most important relationships originate from, and with regard to the relationships what strategies does the entrepreneur pursue (Harris & Wheeler, 2005)?

The questions concerning the background of the entrepreneur were based on paper of Di Gregorio et al. (2008) and included questions such as: *"Which study did you follow?"*, *"What is your working experience?"*, *"What are your experiences in traveling abroad?"*, *"How and why did you establish Media X?"*.

To cover the qualifications we followed the approach of Meyer and Skak (2002), the entrepreneur was asked about his perception of qualification necessary in establishing collaboration in Eastern Europe; *"Could you give an assessment of the importance of various country-specific qualifications in making the decision to establish collaborations abroad?"* Besides the qualifications forwarded by the entrepreneur a list of management qualifications derived from the paper of Meyer and Skak (2002) are discussed. These qualifications were asked in mostly closed-ended question with open-ended sub questions. These questions ranged from for example: *"Have you ever done business in an Eastern European country before?"* to *"Do you have any relatives from Eastern Europe?"*. Consequently the role inter-personal relationships of the entrepreneur were explored. In line with the study of Harris and Wheeler (2005), the entrepreneur was asked; *"What do you think about when you consider the future of your business?"* According to the answers put forward by the entrepreneur, he is asked; *"Who do you discuss [this issue] with, or consult with?"* and *"What do you seek when you discuss [the issue raised] with these people?"* In order to have a better understanding of the relationships mentioned by the entrepreneur follow up questions were asked in the range

of “*When and how did you meet?*” to “*How have they affected the business?*” (Harris and Wheeler, 2005, p. 192). For a complete overview of the interview outline see appendix I.

3.4 Data collection and analysis

The first part of data was collected by conducting a preliminary analysis within the company. The researcher was involved in a range of processes within the case company during a two-month internship as discussed in the previous section. The second part of data was gathered from an in-depth interview with the firm’s founder. The data analyzed from this in-depth interview was categorized according to three categories. The categories that we use correspond with the three main interview themes: the background of the entrepreneur, the KBV, and the network perspective. An interpretative analysis is used to structure the transcript of the interview according to the research questions. This method is used in order to couple the theoretical concepts with the empirical data that was collected. Furthermore an overview of events in the form of a timeline have been illustrated, these include events in the life of the entrepreneur and that of the firm. To further clarify the story behind the firm and entrepreneur a narrative has been drafted on the basis of internship and interview data.

4. Results

The entrepreneur and his firm can hardly be placed in a static picture, they are subject to constant change and evolvement over time as results of their contingencies. We consider this fact when we analyze the results of this research. First, we will evaluate the narrative of the entrepreneur and that of the firm. Based on our observations we can highlight three phases within the firm's life span. Key to starting a new phase is a significant change within the business model of the firm. At each phase we will reflect our findings on the three main areas of results: background of the entrepreneur, knowledge about internationalization, and impact of the network.

4.1 Narrative of the entrepreneur and firm

Mark's initial interest for Eastern Europe was created by traveling and holidays; *"I used to go to Eastern Europe more often for holidays, I just liked Eastern Europe"*. With this interest in mind he grasped the chance to join a study group working on a project, which included traveling to Ukraine. *"I found it interesting, because I was keen to go to Odessa."*

"Consequently I have signed myself in for the trip." In line with the project, Mark had the chance to travel around in Ukraine, which was his initial motivation. *"We went with the 3 or 4 of us to travel around in Ukraine."* During this study trip Mark met at that time his soon to be girlfriend, Kate, who provided him with a strong emotional connection to Eastern Europe.

"There I got to know my former girlfriend which I went to visit more often, she is from Belarus." Consequently he took the opportunity to do research for his thesis in Belarus. *"At that time I went to visit Belarus more often, also did research for my thesis."* Besides his study, Mark also gained experience in cooperating with Eastern European countries at his former job. *"I also worked part time at IBM for two years."* *"The websites were partly managed from Hungary, so I had a lot of contact with them. From there I learned how you had to communicate to get things clear without many mistakes or need for revisions."*

In February 2010 Media X was established as a Dutch firm that mainly negotiated international in trade receiving commissions. Besides trade, they also lend their services to the translation of documents. At this point Media X only employed Mark and its co-founder Kate, his girlfriend from Belarus at the time. Their services, trade and translate, were mostly aimed at Dutch firms that wanted to do or did business in Eastern Europe but lacked in capabilities, experience and expertise to do so. With his prior experience, Mark recognized a need for these services that he, with his background, could attend to. The project that had been performed by the study group was fundamental for the foundation of Mark's own business. *"In a total of 5 weeks we went in search of sawmills and sat down with several governments and placed some orders."* Later on, in a similar way, Media X accommodated trade based upon commissions between Eastern European countries and the Netherlands. *"I knew large sawmills over there did business with the government to purchase large quantities."* The first deal established by Media X was the actual same company Mark had done his assignment for during his study trip. Mark accommodated all sorts of trade between the Netherlands and the Eastern Europe. *"To start with, the purchase of wood for several companies, export, for example coffee machines by Technivorm."* *"Another assignment, in Belarus, had a budget of about 2 million at their disposal to purchase machinery in the Netherlands."*

Mark mentions his business is undergoing constant change, especially at its early stage of existence. *"Talking about that, we also undergo a constant change."* Due to the alleged election fraud, concerning Lukashenko, a rather large commission order was dropped. *"The budgets disappeared because the IMF and the EU weren't willing to do business with Belarus as a consequence"*. As commission trade turned out to be a rather uncertain business and therefore couldn't guarantee turnover, the focus of Media X turned to the other aspects within its portfolio. *"As a matter of effect, uncertainty and little certainty this makes it hard to earn a living."* As Media X developed within the first year, Mark included translation, outsourcing,

and marketing to the portfolio as well. Outsourcing and marketing were subjects that he acquired know how about throughout his study career *“But at my website I also mention marketing and outsourcing, because that is where my background lies.”* and previous work. *“There I also had to do outsourcing, with new media and outsourcing I had experience and in marketing, the combination of those three. In this I soon got additional assignments, which developed rather soon to what we are today.”*

In the course of time, Mark has established several partnerships within Eastern Europe. The first relationship was initially based on love but later turned into a business relationship. This relation was part of Media X at its very beginning. *“So first a relationship of love, and later employee employer relation and most of all amicable. So you can see it is a complex relationship.”* Via this relation Mark got introduced to a friend Oleg who, in a later stage, also started working for Media X. With the help of these two relations Mark further expanded his network within Eastern Europe. *“By giving advice about certain partners, if they do legit business or not. If it is better for me to stop the collaboration with them or not. In this respect they are my cornerstones.”* Three relations that Mark has forged partnerships with have been long standing partners. These partners have their own specialities in which they supply Media X. *“One is more app minded, the other is somewhat more backend minded, and the third is more web minded. That is what I observe but they do a lot more which I can’t see.”* The collaboration between Mark and his partners resemble the terms of good collaboration mentioned earlier in the conversation. *“Much trust, lots of cooperation. These are also the partners that I visit outside work, and then we go eating and drinking together.”*

At a later stage change is still present within Media X. The Eastern European labor costs in the branch of software development have somewhat leveled to the extent of their Western counter parts. This is due the growing demand from other countries such as Russia, Mark says. Looking at the future, with a higher volume of orders, Mark would prefer to keep

certain more regular processes within Media X in the Netherlands. So the future prospect of Media X is looking to more de-internationalization of its main processes within the development of its products. The motivation behind bringing these processes within Media X is that communication lines will be shorter and Mark can exert more influence and control on them. *“Later we will have three developers on contract and another three interns. So the developing capacity here in Amsterdam is expanding.” “But the fact is, now that we have development capacity here in Amsterdam, we can guarantee better quality and speed of delivery and that we have a backup.”* The origin of this change finds itself in the constant movement of the market that Mark faces with Media X. *“You don’t know how the markets will develop. You don’t know what the demand will be.” “I always say: the customer forms your company. So you can want many things but in the end the assignments you receive will play a major role in which way your business will be developed.”*

The figure below gives a visual summary of the overall timeline of the entrepreneur and his firm. It also highlights the different phases within the firm’s life span.

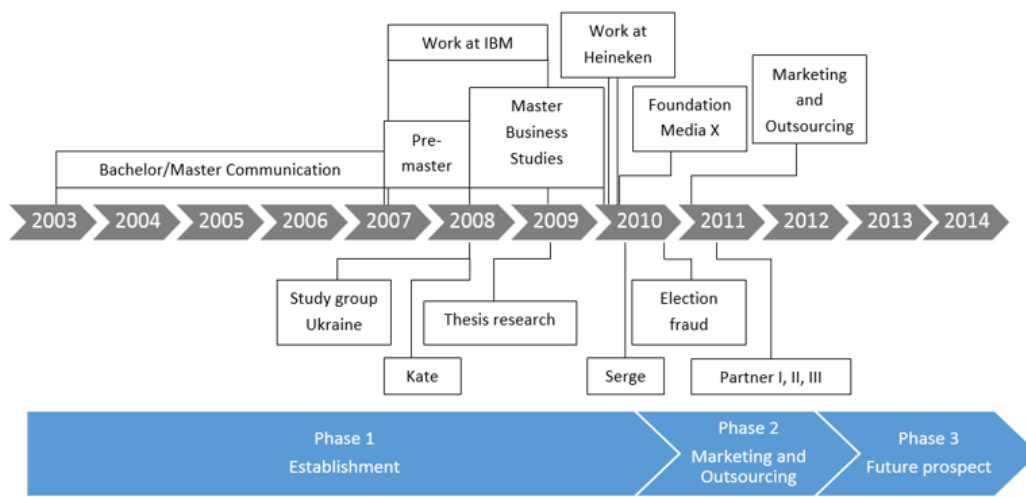


Figure 3 Timeline of the entrepreneur and his firm

When we observe the development of Media X over time we can distinguish several phases. The first phase that we can highlight are the events that resulted into the establishment of Media X, the establishment phase. To be more precise we will look at the background of the entrepreneur to examine the events that influenced the founding of the firm. Furthermore we will examine the firm at its initial stage. Subsequently the introduction of marketing and outsourcing to the portfolio of Media X marks the following phase, the marketing and outsourcing phase. As Media X is getting a better foothold on the market and becomes an established firm it continues to develop itself. We will discuss this in the section future prospect phase.

4.2 Establishment phase

We found three main aspects of how the background of the entrepreneur influenced the firm at the establishment phase. The first aspect that we will highlight is the interest of the entrepreneur. Due his family holidays in Eastern Europe the entrepreneur had developed an interest for the region. The second aspect is the educational background of the entrepreneur. During his study the entrepreneur pursued this interest in Eastern Europe and joined a study trip to Ukraine to perform a project. In a later stage of his study the entrepreneur also performed research on his thesis in Belarus. The third aspect of the entrepreneurial background that influenced the establishment of the firm is the previous working experience of the entrepreneur. During his part-time job at IBM the entrepreneur was involved in managing projects together with Hungarian clients.

We found three main aspects of how international knowledge influenced the firm at the establishment phase. First, we will discuss the cultural knowledge of the entrepreneur on Eastern Europe. This aspect stands in relation to the background of the entrepreneur, in which he traveled and performed a study project in the region. This allowed him to develop his cultural awareness of the region. Second, the knowledge of the entrepreneur on the local

market was important. During his study project the entrepreneur gained rather specific market knowledge on which he relied his first business model. The third aspects relates to the knowledge on how to do business in a specific country. The entrepreneur gained this knowledge via his study project and his previous work at IBM.

Furthermore when we look at the international network at the establishment phase of the firm we found two important relations. The first relation originated from a relationship of love, which later turned to a more business like relation. In fact she became co-founder of the firm and coordinates and manages projects from Eastern Europe. The second relation was introduced to the entrepreneur by the first relation, and started out as a friendship. Later on this relation also started to work for the firm and attributed to the product development process. Another less significant but important relation from the entrepreneurs network was the first firm he did business with. This relation originated from the time of his study trip in Ukraine.

4.3 Marketing and Outsourcing phase

We found two main aspects of the entrepreneurial background that influenced the firm at the Marketing and Outsourcing phase. During his study career the entrepreneur acquired know how from the subjects of outsourcing and marketing. Later, at the entrepreneurs' part time job at IBM he further developed his knowledge on outsourcing.

One main aspect of influence of internationalization knowledge on the firm at the marketing and outsourcing phase was found. The knowledge on institutional bodies showed to be an important factor at the transition of the firms' business model at this point.

Looking at the international network during the marketing and outsourcing phase we found five important relations. The first two relations that also played a significant role at the first phase continued this role at the marketing and outsourcing phase. Furthermore, the first

relation, the co-founder of the firm, played a significant role in the establishment of three key partnerships in the marketing and outsourcing phase.

4.4 Future prospect

When we look at the future prospect phase we found that the entrepreneurial background plays a significant less important role than in the previous phases of the firm. Although a portion of the aspects found in the previous phases are still in place in the future prospect phase, new aspects weren't found.

We found two main aspects of how internationalization knowledge has influenced the future prospect phase of the firm. These two aspects relate both to the knowledge of market dynamics. The first aspect of knowledge is on the techniques used in the market; the second is knowledge on the development of the markets where the entrepreneurs firm is active on. The access to this knowledge resides, for a great portion, in the network of the entrepreneur.

When we look at the international network in the future prospect phase we can highlight one main aspect. As demand grew for the services of the three partners of Media X their prices gradually rise to the production costs of western firms. The indirect effect on Media X is that it becomes more efficient to de-internationalize part of its processes. In fact Mark is striving to harbor these processes within Media X itself.

5. Discussion

The aim of this chapter is to discuss the key findings from this research. We will address the research questions and compare these results with what we found in the literature.

Furthermore the limitations of this study will be put forward as well as possible implications for future research directions. Finally, we will conclude on the findings of this research.

5.1 Discussing the results

We found that the incentive for Media X to internationalize part of their process was cost reduction based. The relatively low labor cost in Eastern Europe allowed Media X to develop part of their product for a lower price than they would in the Netherlands.

Furthermore we found that the background of the entrepreneur, international knowledge, and the network of the entrepreneur were the accommodating mechanisms to identify and pursue international opportunities. The origin of the internationalization towards Eastern Europe we found in the background of the entrepreneur. This is where he developed his interest and knowledge for the region. Besides the interest and knowledge, the network of the entrepreneur in this region also developed at this stage. With this knowledge the entrepreneur was able to identify the opportunity to start an international business. The social network was an accommodating factor in the establishment of this opportunity, his firm.

In figure four we depict that the aspects within the entrepreneurial background have influence on the knowledge and network of the entrepreneur. Over time the entrepreneur also accumulates new knowledge via experience and practice. Also the network of the entrepreneur gradual grows over time as he runs his firm.

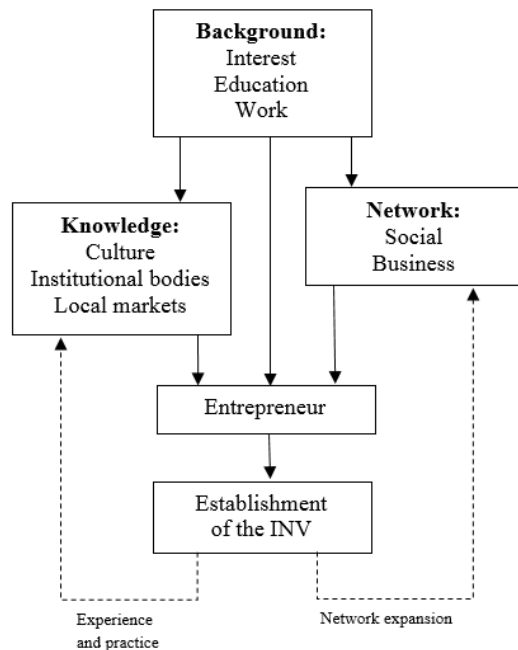


Figure 4 Mechanisms which support internationalization

RQ 1 How does the background of entrepreneurs influence the internationalization process?

The results from this research match the findings of Di Gregorio et al. (2008). They state, that based on prior experiences and practices, the entrepreneurs typically discover opportunities to conduct international business. The background of the entrepreneur supplied him with several aspects of knowledge that were necessary for spotting opportunities and establish a business. First of all, to identify the opportunity to commence an own business requires knowledge about the local markets. Mark gained this local knowledge through his project that was performed with his study group. He sat down with local sawmills and governmental institutions. On the basis of these experiences and practices he later established Media X that would do business in a similar fashion on the basis of commissions. The cultural aspect of knowledge he gained via his traveling experience and the people he got to know. This knowledge was gained first through his work at IBM and later with the study group. He also developed expertise in doing business with Eastern European countries.

RQ 2 *Which knowledge serve the internationalization process?*

Regarding the internationalization process and in fact the foundation of Media X, which was international at its very beginning, several kinds of knowledge seem to accommodate this. First, we found that knowledge of local markets provide in the identification of opportunity which lay at the basis of the foundation of the firm. Second, the entrepreneur already had done business in Eastern Europe before and used this knowledge to accommodate the internationalization process of Media X. Third, institutional knowledge also turned out to be valuable, because of the lack of institutional knowledge Mark engaged in a commission deal which later was dropped because of alleged election fraud. Media X is undergoing constant change; this is also due to the accumulation of new knowledge by Mark. This new knowledge is mainly gained through practice and experience but also, to some extent, provided by his network.

➤ RQ 3 *How do networks contribute in establishing and maintaining the internationalization process*

We have found that the key persons who contributed in the establishment of Media X have been part of Marks' social network before this event. The origins of these network relationships started as close friendship. As Mark notes, *"I had that with more people, that I first got to know them and only later on did business with each other. Entrepreneurship that arises from the friendship."* This finding is in agreement with the findings of Ellis and Pecotich (2001), who mentioned that the social network supports the identification of new opportunities. With special interest we looked at the origins and on which basis they these relations persist. When doing business Mark relies on his social network that exists of relationships founded on the basis of trust and mutual respect. *"Good chemistry and mutual respect is important in the Netherlands but even more so in Belarus."* Mark points out, that

doing business in Eastern Europe is somewhat different from doing business in the Netherlands. In Eastern Europe friendship is more important than expertise in doing business. *“Over there your network, your friendships are way more important, I think, I believe, than your competence.”* So for a transaction to be successful, Mark relies on personal connections that are based on trust, this argument is confirmed by Zhou et al. (2007). Though in contrary to the findings of Zhou et al. (2007) Mark did not experience mistrust towards strangers. At the time Mark established his business there were not many Western firms present in Belarus, he perceived this as an advantage that made him more interesting to work with. Although the relationships that Mark maintains are mainly on the basis of trust, agreements are necessary to a certain extent. This is especially relevant when orders become more complex. Mark said that besides friendship and agreements, bilateral long-term interest is an essential factor in maintaining relationships. *“Long term interest should be bilateral.”* When this bilateral interest is not present anymore, the foundation of a good collaboration will disappear. Mark ensures his partners keep interest in collaboration with him by supplying them with a regular cash flow. This confirms the definition of a business network by Meyer and Skak (2002).

Researching the internationalization of new ventures we did not consider that we would come across a form of de-internationalization on the side of the firm. The case firm was international at its very beginning and later on used its international nature to compete on its home market. The fact that the firm is considering de-internationalization of its processes lies in the balance between cost effectiveness and control over the processes. As cost effectiveness is decreasing the preference to exert more control becomes more relevant.

5.2 Limitations and implications for future research

When we look at the limitations of this research we can see that the data was mostly qualitative which allowed a substantial number of quotes to come forward in the results.

When it comes to interpreting these results by the researcher, to a certain level bias may take

place. We could have used more closed ended questions to prevent this but that would have jeopardized the explorative nature of this research, which was strongly recommended by several studies.

With the knowledge gained by the internship at the case company the interview was well constructed for the entrepreneur but one could say it limited the objectivity of the researcher. An alternative method that would have ensured more internal validity was to perform the interview before the researcher did the internship at the case firm.

Although the interview was performed with founder of the firm, which is seen as the key person in the process, in future research we would suggest to triangulate the findings from the interview with the entrepreneur with that of other people involved in the process. For example interviews could be performed with other staff, with partners of the firm or even with customers when viable.

This explanatory study is focused in three main areas of entrepreneurial background, international knowledge and the network of the entrepreneur. These three areas were selected on the basis of previous studies. For future explanatory research in the field we would suggest to also look beyond these areas. For example one could study the personal attributes of the entrepreneur.

This study was conducted with a case firm that internationalized towards Eastern Europe. The social network of the entrepreneur is an important aspect of successful internationalization towards this region. We suggest that additional research should be performed to see if the importance of the social network towards other regions resembles these findings.

5.3 Conclusion

When studying international new ventures one should definitely consider paying attention to the background of the entrepreneur. In this study it has a crucial function in the foundation of the firm. Moreover, the background of the entrepreneur stands in close relation with the knowledge attributes required for successful internationalization of the firm. As this study shows, a great deal of the international knowledge possessed by the entrepreneur was acquired during his previous experiences in the international field. These knowledge aspects range from plain linguistic skills to cultural and local market knowledge. The entrepreneur, through the practice and experience of running his firm, acquired knowledge over time. When the entrepreneur's knowledge is lacking or limited he can also call upon his network to supplement him with various knowledge aspects. In this study we can see an example of how the entrepreneur uses his partners to increase his local market knowledge.

Besides the knowledge aspects, the international network of the entrepreneur also originated from the background of the entrepreneur. The social network of the entrepreneur contributed in a great deal to the internationalization of the case firm. As the case entrepreneur stated: *"I had that with more people, that I first got to know them and only later on did business with each other. Entrepreneurship that arises from the friendship."*

Furthermore, the social network of the entrepreneur attributed in establishing and managing his main foreign partners. This was especially true when working with an Eastern European partner that had a different set of values than Western European partners. The entrepreneur relied heavily on personal relations that were based on trust and had a long-term bilateral interest.

As for the three main drivers behind the internationalization of the case firm we found that their significance differentiated among the phases of the firm. At the establishment phase of the firm the entrepreneurial background was the most significant force driving the

internationalization of the firm. Another driver for the firms' internationalization at this phase was knowledge of local markets and culture which the entrepreneur had gained through his background. At the marketing and outsourcing phase of the firm the network of the entrepreneur played a more central role in the internationalization of the firm. Besides the network, knowledge was also still a substantial driver at this phase. Furthermore, within the future prospect phase of the firm knowledge will play a more essential part the (de-)internationalization of the firm. Although not as much as the previous phase, the network of the entrepreneur will still be an important driver of the internationalization.

Phases	Background	Knowledge	Network
Establishment	X	X	
Marketing and Outsourcing		X	X
Future prospect		X	X

List of abbreviations

FSA	-	Firm Strategic Advantage
INV	-	International New Venture
KBV	-	Knowledge Based View
MNE	-	Multinational Enterprise
mMNE	-	Micro-Multinational Enterprise
NIMM	-	New International Market Makers
RBV	-	Resource Based View

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Appendix I

Interview Guide for the 2nd of June

Introduction

Short introduction: Description about the study and goal of the interview.

Subject I Background of the entrepreneur

Short introduction into the definition of pre-entrepreneurial experience.

Questions:

Could you tell me which study you did?

What did you do when you finished your study?

You have told me you went on some kind of trip to Eastern Europe, was that before you started your business?

Subject II: Knowledge Based View

To establish which resources are most important, report is made of the respondents' own assessment of the importance of various country-specific qualification when taking decisions to establish collaborations in Eastern Europe (Meyer & Skak, 2002).

Questions:

-Could you give an assessment of the importance of various country-specific qualifications in making the decision to establish collaborations abroad?

Perceived Importance of Management Qualifications:

-Have you ever done business in an Eastern European country before?

-How did this take shape?

-For what extent of time was this?

-Which language do you speak when doing business in Eastern Europe?

-Do you master any of the native languages in the countries you had done business?

-Have you ever lived for an extensive period of time (+/- half a year) abroad?

-What was the purpose of this stay?

-Have you ever studied or worked for an extensive period of time (+/- half a year) abroad?

-Do you have visitors from any of the countries you do business with?

-Could you say these visitors are involved in your business somehow?

-Do you have close personal friends from Eastern Europe?

-Have you ever taken any courses which focused on doing business with Eastern Europe (or developing countries)?

-Did you meet any of your network associates during your study?

-Do you have any relatives from Eastern Europe?

Subject III: Network perspective

On the basis of the network perspective I would like to explore the role of the entrepreneurs' inter-personal relationships in the internationalization process (Harris & Wheeler 2005).

Three broad questions that will be address are:

1. what are the functions of relationships in the internationalization process;
2. from where do the important relationships originate;
3. and what strategies of relationship development does the entrepreneurs pursue?

Questions:

-What do you think about when you consider the future of your business?

-Who do you discuss [this issue] with, or consult with?

-What do you seek when you discuss [the issue raised] with these people?

The following set of questions will be used to address each relationship that the entrepreneur highlighted.

-When and how did you meet?

-How would you describe your relationship with them?

-When and how do you discuss things?

-How do you regard his/her views and opinions?

-How have they affected the business?

-What is the specific market knowledge of this contact?

-Does he/she fulfill any other functions?

-Are there, or have there been other people important to you in the development of your business?

Appendix II

Transcript interview 2 June (EN)

Subject I: Background of the entrepreneur

Could you tell me which study you did?

Communication at the UvA (bachelor and master) after that Business Studies (master) at the UvA as well.

Which period did you follow this study?

I started in 2003-2004 and finished the bachelor and master in 2007-2008. In 2009 I started with my master, first I did a switch year to be allowed at the master of Business Studies. 2007-2008 was the switching year and 2008-2009 the master year. It could be that I had eventuated half a year. So that I was signed in the next year as well, 2008-2010.

What did you do when you finished your study?

During the second year of Business Studies, so actually the third year, during the third year of this study I started my own business. X Trade and Translate, MEDIA X that is. This would have been in February 2010.

You have told me you went on some kind of trip to Eastern Europe, was that before you started your business?

With the story of Business Studies, at that time a group came and visit and they asked me if I wanted to go along towards Ukraine.

A company?

No, it was a study group. I found it interesting, because I was keen to go to Odessa. Consequently I have signed myself in for the trip. Accordingly I sold an assignment on behalf of the group to the Pallet Centrale. We went with the 3 or 4 of us to travel around in Ukraine. In a total of 5 weeks we went in search of sawmills and sat down with several governments and placed some orders. There I got to know my former girlfriend, Kate, which I went to visit more often, she is from Belarus. Accordingly I sold another order to the Pallet Centrale to buy

in wood from Belarus. I knew large sawmills over there did business with the government to purchase large quantities. So that was also my advice to the Pallet Centrale, consequently they funded my trips to Belarus.

What was your initial interest in Odessa?

Just a cool city, I've heard good stories about it. I used to go to Eastern Europe more often for holidays, I just liked Eastern Europe.

This study group, they already had the assignment in front? Or how was this established?

This study group was a separate group, international research project, which organised a study trip each year. The student themselves had to take care of selling an assignment, so I had sold the assignment to the Pallet Centrale.

How did you end up with the assignment of the Pallet Centrale?

By calling around, acquisition by telephone. So yes, that's where I met my former girlfriend, at that time I went to visit Belarus more often, also did research for my thesis. I did research on brand experience in Belarus, don't ask me what specifically. There I also had a talk with Heineken, before I also had contact with Heineken. Then I started working at Heineken, from November till January 2009-2010 by rote. It was only for 3 months. This was after my study.

You did your thesis for Tommy Hilfiger?

No, that was something else. Also with brand perception and logo positioning. That in which Heineken occurred had to do with something else. Also brand experience but then as an extension of my first thesis. So it was in the same field of study.

When working at Heineken, it didn't go that well. So I started a business for myself with Eastern Europe. Rather quickly, so I continued with wood and other matters.

Did you work together with sawmills at MEDIA X? How did this take shape over time?

Because at the moment MEDIA X is an app development firm, right?

MEDIA X, Dijk Trade and Translate, commission trade and translate. But at my website I also mention marketing and outsourcing, because that is where my background lies. I also worked part time at IBM for two years. There I also had to do outsourcing, with new media

and outsourcing I had experience and in marketing, the combination of those three. In this I soon got additional assignments, which developed rather soon to what we are today.

How long did that take approximately?

About a year, then it became more seriously. Other matter became less serious. Because commission trade was more risky and you got less certainty at turnover.

What exactly did this trade commission mean?

Between Dutch companies and companies from Russia, Ukraine and Belarus.

How should I imagine this?

Differently, a range of things. To start with, the purchase of wood for several companies, export, for example coffee machines by Technivorm. For them I managed to drop off a pallet in Moscow. Samples, but after that it went silent. Another assignment, in Belarus, had a budget of about 2 million at their disposable to purchase machinery in the Netherlands. For this I arranged all sorts of contracts and commission deals. Over time this budget was dropped due the election fraud around Lukashenko. The budgets disappeared because the IMF and the EU weren't willing to do business with Belarus as a consequence. The currency of Belarus devaluated and as a consequence the budgets were gone.

Have you ever found yourself in similar situations?

Setbacks, for sure this was one of them. As a matter of effect, uncertainty and little certainty this makes it hard to earn a living.

How could you achieve more certainty over there?

The marketing and the websites just went on. They gave me more certainty on payments and assignments.

Was this on the basis of trust, or with the help of contracts, how should I see this?

No, no contracts. It was on more on the basis of trust.

Eventually we arrive in the present, 2014, four year further. Still in collaboration with Belarus?

Yes, so I have worked with several parties. Now there are two or three parties which I work with together for over two and a half year. So these collaborations are still strong. One more so then the other.

Could you give me an outline on how these collaborations work?

I have a somewhat exclusive collaboration with them. So basically they cannot sale directly on the Dutch market, but I don't check on it, but that is some kind of agreement that we are not poaching on each other's territory. They know of me, that I don't shop around for low prices. So when I query a price I only do it at them or at the max at one more party. So it is not that I put them at work for nothing. They know when they participate in an estimate or are set to figure something out it will also come back to them. They also know when they make a sound delivery, in which MEDIA X will achieve a better portfolio and satisfied customers, they know it will reflect on them as well. I have the urge to work with one or two parties at which I place my orders, instead of going around the world in search of the lowest price. In that case you have little certainty, with those other guys I have more certainty.

Where does that certainty originate?

Interests, it's part of political interests. If they find interest in my interests you collaborate on a good basis. If at a certain point these interests move from each other, the basis of a good collaboration will disappear. So it is important to send enough cash and orders, then you got something to say. You could make an abundance of contracts and agreements, but when you don't send them any volume the basis of collaboration will expire. Even when you have signed a bunch contracts and agreements. It is most important to be interesting for the other party, financially interesting, that you supply them with sufficient orders and cash flow.

In the beginning, how did you orientate yourself, how did you come to the partners you have today?

Prices are important, but especially the speed of communication. I have been in Belarus myself, so I had the chance to visit many of the parties myself. With some of them you just have more chemistry than with others, this is also very important.

How did they look towards collaborating with someone from the Netherlands?

Some find it interesting. At that time I was still very small, I had one employee from Belarus and that was all. But the advantage of Belarus is that only few Westerns come over, in

contrary to Ukraine for example. So this makes you a bit more interesting. But at the same time Belarus' market for IT is a seller's market, so that drives the prices up you can say. So there are many people that think sourcing out to Minsk is interesting. As a result the hour rates go up, for companies it will be harder to retain their developers. So Belarus is not necessarily the most easy anymore

Subject II: Knowledge Based View

According to you, what are the qualification an entrepreneur should posses to establish collaboration in Eastern Europe?

Number 1 is trust, if you don't know anyone or if you don't have any introduction it will be hard.

You got that introduction through Kate?

Yes, for example through her. But she also wrote companies that she didn't know. Some things weren't through referrals but were also new. But it certainly helps when you have someone from Belarus who can come along with you, who can translate, who tells you about the culture.

Number 2, a company should be competent. But companies that are competent are most often also more expensive, up to twice as expensive. So that is also a matter of money.

Number 3 is long term interest should be bilateral. If this is not present you get problems guaranteed.

Have you ever experienced such?

Not everybody is as smart. Not in the Netherlands and also not in Belarus. People tend to oversee the long term interest and go for the short term gain. They won't take full commitment to deliver quality. This results in the termination of collaboration for instance. Because you don't have the same view. It can certainly break at a certain point. Another thing that could happen is that there will be a more interesting party which guarantees more sales to my supplier. For example for Belarus, that they will say, Mark, it's all good and well and we have a good hour rate but from Moscow we can get an even better rate from several purchasers. We could talk Russian, that will be more convenient and we could get twice or even three times the margin on an assignment. So I will start focussing on them more than on

you. And yes we have a fixed rate, but because your hours are less interesting now I will multiply them by 50% or 100% to make your offerings also more interesting. Because your competition, from Moscow, they are just more interesting for us. These are pure economical reasons and have nothing to do with problems or unwillingness. This is just a matter of pure economics. If they find another sales channel over there than yes. I would not feel encumbered about this.

Do you have a lot of competition from other entrepreneurs that are looking for the same as you?

Everybody does it in their own way; some people have more developers on their offices or only developers at their offices. Others hire companies to carry out assignments. There are 101 ways and you have to find a good way for yourself to offer competitive and deliver quality. Talking about that, we also undergo a constant change. Now we have four developers at our office, of which two are part time and two are interns. Later we will have three developers on contract and another three interns. So the developing capacity here in Amsterdam is expanding. Besides that we have enough backup in Belarus. That is also needed because we can't handle on our own. But the fact is, now that we have development capacity here in Amsterdam, we can guarantee better quality and speed of delivery and that we have a backup.

So you are less depended on Belarus?

Yes, so that has been important for us.

Is there also collaboration between personal from here and Belarus?

This all goes direct, I can't keep track of that all myself. Allot of people have contact with each other.

Now I have a range of specific questions, some of these may already be answered. I would like to take them through as a kind of checklist for myself.

-Have you ever done business in an Eastern European country before?

-How did this take shape?

-For what extent of time was this?

Yes, I already had experience which this. So from IBM and my study trip.

Could you elucidate on your experience within IBM for me?

The websites were partly managed from Hungary, so I had a lot of contact with them. From there I learned how you had to communicate to get things clear without many mistakes or need for revisions.

Was this a kind of example for you?

No, but educative none the less. You learn how to communicate to get things implemented to first time without any errors.

Did this go on the same scale as now at MEDIA X, or smaller or larger scale?

No, it was on a smaller scale. It was about only a few websites.

-Which language do you speak when doing business in Eastern Europe?

-Do you master any of the native languages in the countries you had done business?

English. I speak a little bit of Russian.

Would you say the English in Eastern Europe is at a good level?

Not of everyone.

How did you resolve this?

By practice and with translation.

-Have you ever lived for an extensive period of time (+/- half a year) abroad?

-What was the purpose of this stay?

-Have you ever studied or worked for an extensive period of time (+/- half a year)

No.

-Do you have visitors from any of the countries you do business with?

Yes regularly, so our employee Kate, she is here in Amsterdam occasionally. When I was in Thailand last week, she was here also for a week. She gets the keys of my apartment, when she is here with a friend. They came to work and celebrate holidays.

A partner who visits more frequently, a partner company with some of their employees. One time I gave them my keys to the apartment as well, I went to sleep somewhere else that time.

Once I booked a hotel for him and I drove him from the airport to his hotel and also paid for it, so that's a bit hospitality.

Also for Kate I have paid for the hotel for her and her friend, so I always take care of them.

This one time a partner, who has more cash than me, came by and booked his own hotel. But then I take them into the city the whole evening, drinks, diner, I pay for everything.

Is this also the other way around?

Yes, when I am over there everything always get paid for me.

-Could you say these visitors are involved in your business somehow?

Yes as supplier or as employee.

-Do you have close personal friends from Eastern Europe?

Most of the people I work with are actually my friends as well. I can count on them and they can count on me. Not all but on most of them I can.

Where they first your friends or where they first your partners and became friends along the way?

The employee, Kate, I first had a relationship with. We broke up later on. One of the partners was an acquaintance of Kate, so that was a sort of friend or someone familiar and only later on we did business together. I had that with more people, which I first got to know and only later on did business with each other. Entrepreneurship which arises from the friendship. The basis of trust is very important. If you don't like each other or if things aren't running smoothly, in the Netherlands it's the same, the chance isn't very high that you have a long standing collaboration. Good chemistry and mutual respect is important in the Netherlands but even more so in Belarus. Here in the Netherlands you could win an assignment on competence and good positioning in price alone. In Belarus that is also important but less important. Over there your network, your friendships are way more important, I think, I believe, than your competence.

Did you notice that already during your study trip?

Not directly.

-Have you ever taken any courses which focused on doing business with Eastern Europe (or developing countries)?

No.

-Did you meet any of your network associates during your study?

Kate I've met during my study trip. The owner of Pallet Centrale, but I don't have that much contact with him. I don't have any people which I send any invoices or which send me invoices from the network of my study. So I do know people, and I am still in contact with people but no billing in between us, which is important.

People from your network could also include persons that you ask for advice or which you could discuss certain things with.

Yes, though. With some I discuss how to handle employees, sometimes I ask to look at technical aspects and how the solution is put together. But that's not critical, that's very limited. That is more a chat when we are having a drink, nothing structural.

-Do you have any relatives from Eastern Europe?

No.

Subject III: Network Perspective

On the basis of the network perspective I would like to explore the role of the entrepreneurs' inter-personal relationships in the internationalization process (Harris & Wheeler 2005).

Three broad questions that will be address are:

1. what are the functions of relationships in the internationalization process;
2. from where do the important relationships originate;
3. and what strategies of relationship development does the entrepreneurs pursue?

-What do you think about when you consider the future of your business?

Expansion of the team in the Netherlands. Professionalization of the team in the Netherlands. Maintain Belarus as scale up capability. So couple of relations in Belarus who have large offices with lots of development capacity and a range of disciplines, which is something I can't maintain here because of the lack of volume. Over there it's somewhat more easy to maintain, as wages are lower and they have more purchasers besides MEDIA X. They can

maintain a larger team. So I think the next 5 to 10 years I will make use of them. But I cannot judge that right now, you never know how certain things will go.

Could I say your wish is to actually replace the production process towards the Netherlands?

No, I will see how things will work out. You don't know how the markets will develop. You don't know what the demand will be. How your clientele will look in a couple of years, and what they will demand from you. So maybe it will be it will be needed in the long run, and maybe they will give me so much volume that it will be needed. Maybe it will all develop completely different and in a couple of years it will all look unlike now. These are things you cannot say much about. I always say: the customer forms your company, I believe. So you can want many things but in the end the assignments you receive will play a major role in which way your business will be developed. Naturally you have influence on the assignment you take in and I do exert influence on that. That is something that has affect on me and also has affect on my business.

And still two employees in Belarus, for three years now, one three years the other four years. And I don't expect I would have to dismiss any in the following years. So for certain I will keep capacity over there.

-Who do you discuss [this issue] with, or consult with?

Maybe with one or two partners whom I discuss these matters with, let's say one. There is one I don't do allot of business with but our relation is very good. But these are also companies which are in the same field as I am in now with my business in terms of activities. That is what I discuss with them, their experience, how and why they do things. So myself I consider certain points, which work and which do not work and why. It is also what I have learned in practice, during the running of my business. That I see what works en what does not work and by doing things.

Relations: Kate, Oleg, Partner 1, Partner 2.

Kate

-When and how did you meet?

I think July 2009.

-How would you describe your relationship?

So first a relationship of love, and later employee employer relation and most of all amicable. So you can see it is a complex relationship. There is a certain amount of hierarchy but not that much.

-When and how do you discuss things?

Skype chats mostly, or from time to time when she comes over or when I go over there then we discuss business. But that is also something I discuss with employees, how they think about the future. If they think I should expand here in the Netherlands or in Belarus. Then I discuss with them, how they see things. Or how we do business now with our partners, if that is opportune or if there are less opportune matters. Then I also ask them to form a judgement about it.

How often do you meet each other?

I go twice or three times a year to Belarus, or two to four times. Kate visits the Netherlands once a year for example.

-How do you regard his/her views and opinions?

As here view and opinion, I do something with it or not.

-How have they affected the business?

By working hard they have improved things and by working with devotion they have also improved things. So that is the influence, and sometimes by giving advice about certain partners, if they do legit business or not. If it is better for me to stop the collaboration with them or not. In this respect they are my cornerstones, Kate and Oleg.

-What is the specific market knowledge of this contact?

Kate nothing specific, she is rather odd but she has a strong feeling when somebody is just or not. By herself she is really honest, at least, she is honest for a fair part. She has a good sense when somebody is just, if I can build on somebody. If she doesn't like somebody it is an important measure for me. This will mean the chance is rather high somebody is not to be trusted and I would be wise to terminate collaboration. This has been proven in practice. But she can be wrong sometimes as well. But in this matter I take her very seriously.

-Does he/she fulfil any other functions?

She does translation, website support, SEO (search engine optimisation), and when I'm over there she escorts me.

Serge

-When and how did you meet?

In the first year that I did business over there. He started working for me quite soon instead of the company he used to work for.

-How would you describe your relationship with them?

Really good, trustworthy, personal, honest. He invited me to his wedding. I also send him presents when he has a baby, I give him a loan if he needs something for his baby or for other matters. A good relationship.

-When and how do you discuss things?

Skype mostly. He has never been here, I have invited him though. When I visit Belarus I always pay him a visit.

-How do you regard his/her views and opinions?

I take him seriously on certain fields, but in the end it's me who has to take the decisions. Kate has something to tell on in certain areas and Oleg has something to say in other areas. In the end I always have to make the decisions and take in consideration the customers of MEDIA X.

-What is the specific market knowledge of this contact?

He is a designer. His knowledge about phone applications is somewhat above average because he has made a lot of designs for them but his opinion is not decisive.

-Does he/she fulfil any other functions?

No, not really. He is a confidant but it is mostly design.

Partner 1, Partner 2

-When and how did you meet?

Three to four years ago, in that period.

-How would you describe your relationship with them?

Much trust, lots of cooperation. These are also the partners that I visit outside work, and then we go eating and drinking together.

-When and how do you discuss things?

At their office, during Skype, and during dinner. I talk to them almost on a weekly basis, mostly via Skype and besides that we call and by visits.

-How do you regard his/her views and opinions?

Their opinions and insights can be interesting. You always have to regard them to your own position. So why do they have these insights and why they important to them and to what extent are they important to me.

-What is the specific market knowledge of this contact?

They are owners of development bureaus, so they have some knowledge of techniques and knowledge of the market and developments. More technical insights but also insights in how to set up a company, and what works and what does not work in IT. So these insights I also take in consideration.

How would you compare them with each other, the three companies?

The three are different in matters of insights, attitude, leadership, long term perspective.

Fifteen to eighty men, in this range they find themselves. One is outmost customer friendly and really communicative one way or the other. One is somewhat more trustworthy than the other. One is more preference of none written agreements, others do prefer the need of agreements on paper. This finds also its cause in that some of the assignments are rather complex, then you need agreements on paper. Otherwise you won't find agreement in the end. Because then you don't know anymore what you have set to agree on. So then it is important to record agreements if the assignment becomes larger, let's say 25.000 euro or even below that, then you should just make agreements about what should be delivered or not. How the solution is put together, what the terms are and what the delivery period will be. That is needed with larger assignments. In these cases I have contracts with the three of them.

Earlier in our conversation you mentioned certain agreements with your partner, do you have specific work for the different partners?

Yes, each has its own speciality. But there is a chance that one of the partners has more focus on Moscow, which makes that I distribute more work to the other parties. Because I partly do application development myself now, makes that one of the partners is becoming less relevant for the development of applications and hence gets lesser orders at this moment. It's a bit dynamic, it doesn't stand still.

Could you describe the three partners more specifically, if I would to give them a name?

One is more app minded, the other is somewhat more backend minded, and the third is more web minded. That is what I observe but they do allot more which I can't see. It is difficult to give a description of each company because they are rather complex and I can't be very specific about that.

Do they come with suggestions for you, for the Dutch market?

Yes, they want to collaborate to enter the Dutch market. One of them is working on a website module maker, so that you can subscribe and can make a website by yourself. This would cost you 10 dollars a month for example. Together with me he wants to set foot on the Dutch market. He has the solution in development and preparation, and now he wants to enter the Dutch and I think also the German market. Then I should take responsibility for the Dutch market on his behalf.

Will you become his middleman?

No, then I would run the business with my own company. That is his idea. I don't find that interesting right away, but if he stands on it I would put effort into it and then we will see where it will end up.

-Are there, or have there been other people important to you in the development of your business?

An important matter is that we work with interns now, that has given us allot of growth, because much of the interns we could also offer a contract afterwards. That has made that we now have starters, which are more affordable and they have knowledge and experience with

the way of working at MEDIA X. So they are productive from the start and we also got to know them, which made it possible for us to select the right persons for us.

Not my uncle but the cousin of my father, he has given me advise once. He said; do not communicate that you are the cheapest or that you work together with Belarus. Just communicate that you make good and beautiful things. That is a more interesting proposition then when you only focus on the price.

When did he gave you this advice?

I don't know exactly, maybe 2011 or 2012. But it's true, now you won't see any outsourcing mentioned at our website. We are not an outsourcing party by definition. What you do see is allot of nice brands with many nice solutions and with nice referrals. That is what counts, this also attracts new customers.

I saw that you have changed the logo of MEDIA X.

Somewhat more sleek yes and no referral to Eastern Europe anymore. That sometimes caused some confusion and people asked questions about it. If that is the subject of conversation I won't lie about it. It also has advantages, this collaboration with Eastern Europe. The most important is, also what my uncle said, it doesn't matter how you do things but that you do it. That is what you should reflect. We just show many good deliveries which is most important for the customer.

You were saying; about the collaboration with Eastern Europe bring also advantages, could you name them?

When you have to scale up in the Netherlands, because for example you lack production capacity. Let's say for example I'm granted a assignment of 1.000 hours and I can only take on 200 myself because I'm full will other assignments. Then I should source out 800 hours. When I do this in the Netherlands the hour rate lie in between 40 and 80 euro's so that will cost me 32.000 euro for 20 weeks of work and that is quite a sum. That is also justifiable and I also understand why companies ask these prices. When I do this to Belarus it can be done for half the money. It will bring some risk with it, but I have sound contact over there. So less risky for me. They are proven suppliers and it is not just experimental outsourcing. These make them important assets to the company.

Would you say that your connections with Belarus are part of your competitive advantage?

Yes they allow us to put down a competitive offer in some cases. But not always, sometimes they are too expensive. Because they ask high hour rates.

Do you see competitors with the same sort of systems as you have?

Yes, either they have an office over there or they purchase. There are also a lot of companies which purchase from abroad. I don't think I have a unique position, I think more people do it like me. But how exactly I don't know.

Would you in the future want sell your products abroad?

I already have customers that I send bills to that are located abroad, in Belgium and Malta. I also have a customer from Germany. The basis lies in the Netherlands, we have an English website which is up to date. With this we can gain additional customers but our basis lies in the Netherlands.

Would you describe MEDIA X as an international company?

At the back end for sure and at the front end, we have many application that are focused internationally. We deliver at multinationals that have their focus abroad. Recently we have delivered an application that ran on a trade fair in Paris for example. Internationally we can deliver a qualitative product.

Do you notice much competition from abroad targeting the Dutch market?

There are outsourcing parties who focus on the Dutch market and in search of direct sales, but they are no competition to me. I'm more expensive and a different type of company would approach me to develop or to find a solution to a problem they face or a target they want to see fore filled. That proposition is way different than that of an outsourcing party who can deliver for a sharp rate but lack marketing, design and concept development.