MASTER THESIS

THE IMPACT OF VIRTUAL EMBEDDEDNESS ON NEW VENTURE INTERNATIONALIZATION

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STANDARD TITLEPAGE FORPROJECTS

Subjects: ***(tick box)***	Project :	Thesis: X	Written Assignment:
Study Programme:	MSc in Economics and Business Administration		
Semester:	4'th Semester		
Exam Title:	Master Thesis		
Group Number:	Number One		
Names + Student Nos of group member(s):	Name(s)	Student Number(s)	
	Paul Claudiu Neamtu	20142930	
	Grzegorz Stanko	20177145	
Submission date:	17.01.2020		
Project Title /Thesis Title	The impact of virtual embeddedness on new ventures' likelihood of internationalization		
According to module description, maximum number of characters/words/pages of the paper	150 pages		
Number of characters/words/pages *(Standard page = 2400 characters including Tables and Figures, excluding References, Appendices, Front Page, Table of Contents)*	157.883 characters without spacing		
Supervisor (project/thesis):	Jonas Strømfeldt Eduardsen		

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Abstract

Purpose: The main purpose of this study is to examine how does virtual embeddedness affects the likelihood of new venture internationalization. In order to answer the main question, research also examines what impact virtual embeddedness has on the liability of newness and liability of foreignness of new ventures.

Methodology: This thesis used semi-structured interview to examine what challenges (or opportunities) are met by a new venture while internationalizing, and how a new venture responds to those challenges. For this thesis, a single case study approach was used to gather insights regarding the phenomenon under investigation.

Findings: Virtual Embeddedness may reduce costs of international business by facilitating access to and the acquisition of external skills, services, and systems relevant to the foreign market; Virtual Embeddedness may reduce unfamiliarity with the foreign environment culture by facilitating access to and acquisition of external knowledge about the foreign market and culture; Virtual Embeddedness may facilitate the creation and management of interorganizational ties, that may provide relevant information about the host country; Virtual Embeddedness increases access to a greater range of potential buyers; All other things being equal, the extent to which the new venture is virtually embedded will increase its likelihood of internationalization.

Research limitations: In this thesis, the main limitation is the use of a single case study, which limits generalizability of findings. Moreover, more limitations were met such as: limited timeframe, the quality of the interview, the use of the qualitative method, and lastly, the choice of the case company.

Originality/Value: According to many researchers, the field of Internet-enabled internationalization remains relatively under-researched and is still developing. While online social networking is playing an increasing role, we do not understand how exactly entrepreneurs use these tools.

Acknowledgements

This thesis came to the completion thanks to many silent heroes standing behind the authors. Therefore, we, Grzegorz and Claudiu, would like to thank some of those heroes.

First of all, we would both like to thank our supervisor Jonas Strømfeldt Eduardsen. He was always very understanding, providing us with much needed guidance and being very professional. His comments were impressively on point and his advice was priceless.

Secondly, we would like to thank our interviewee Valentin Nicoara who impressed us with his entrepreneurial approach and use of virtual opportunities for business.

Grzegorz would like to also thank his girlfriend Maria, who was supporting him all the way through the journey in most loving and beautiful way. She always knew exactly where and when to push, and how to motivate me to work harder, even if it was not always easy. I would also like to thank Claudiu - thanks for going through the entire IBE programme together and making those 2 years the greatest time of my life… so far :).

Claudiu - I would like to thank my girlfriend Ana for the support she offered by pushing me to finish this thesis. Big thanks to Greg who is a writing ninja when he is motivated. Cheers for a long-lasting friendship! Keep your motivation up as you did in this thesis!

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List of abbreviations

LOF – Liability of foreignness

LOU – Liability of outsidership

LON – Liability of newness

VE – Virtual embeddedness / Virtually embedded

NV – New ventures

NT – Network Theory

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1. INTRODUCTION

> ***“It always seems impossible until it is done”***
>
> ***Nelson Mandela***

This chapter has the purpose of presenting the background of this dissertation as well as showcasing the areas which were not covered or analyzed by other researchers. Furthermore, it presents the researched problem which was identified as a gap in the current literature; the research questions, as well as a summary of the content of this paper.

1.1 New ventures and internationalization

New venture internationalization has been a topic heavily discussed by scholars and firms in the last decades. The world has developed into a globalized society and therefore, new ventures that are internationalizing and creating networks ties across the globe is the new normality.

Brush (1995) defined the concept of a new venture as a *“company that is six years old or younger”*

According to Kenichi Ohmae (1990), more and more new ventures should be competing in international markets, otherwise *“They will not adapt to the new global realities and will become victims of those that do”.* (Theodore Levitt, 1983)

There are many researchers who defined the concept of internationalization from different perspectives. According to Olejnik and Swoboda (2012), internationalization is defined as *“an activity at the firm-level, which goes outside national borders” while* Loustarinen (1988) defines the concept as “*the process of increasing involvement in international operations”.* Agndal (2004) defined internationalization as *“the process by which firms both increase* *their awareness of the direct and indirect influence of international transactions on their future and establish and conduct transactions with other firms"*. For this thesis, the definition of Agndal (2004) will be considered.

The internationalization process offers' new ventures advantages as well as disadvantages when they operate in new markets. According to Hymer SH (1976) and Jonsson & Foss (2011), new ventures take advantage of the current technological changes in order to gain monopolistic benefits in foreign countries. There have been numerous research papers that concluded the fact that internationalization has a positive impact on new venture performance (Jonsson & Foss, 2011). Collis (1991) describes those advantages as a firm's ability to serve new international customers, while taking advantage of technological and social changes, skilled labor, cheaper raw materials as well as capital markets. Olejnik and Swoboda (2012) argues that internationalization of new ventures has the potential to increase the sales and profits, economies of scale, as well as better security when fluctuations appear in the regional economy.

Internationalization is not an easy process, because there isn't a safe market that lasts forever. Therefore, new venture internationalization involves many risks and difficulties which can mitigate the advantages and future returns (Geringer et al., 2000). These risks are usually called barriers or challenges and can be encountered at all stages in the process of internationalization, even though they are different from venture to venture.

Most of the times, new ventures lack the understanding of the specific markets and the culture of the country they internationalize into. Geringer et al. (2000) concludes that when new ventures internationalize, they lack the managerial power which can be used to mitigate the risk of trust and communication. Furthermore, political uncertainty is also a factor that balances the monopolistic advantage gained by new ventures through internationalization.

1.2 Challenges of new ventures in the internationalization process

As mentioned earlier, when new ventures internationalize there are positive consequences as well as negative ones. Considering the purpose of this paper, researchers will focus mainly on the challenges that new ventures meet from the perspective of being a foreigner when they internationalize.

Such challenges are known in academic writing as liabilities. When new ventures go across borders, they are usually facing liability of foreignness; liability of newness and the liability of outsidership. This research will emphasize the importance of liability of foreignness and liability of newness in the context of three main elements: new ventures, internationalization challenges as well as virtual embeddedness which is introduced below.

Zaheer (1995) argues that new ventures are facing the **liability of foreignness** in terms of economic, cultural and political differences. Furthermore, coordinating teams which are remote is also a common challenge that new ventures face, as they usually lack the capital required for that.

Liability of outsidership is describing the challenges that a new venture faces when they are willing to internationalize into a new market in which they do not have any business-related networks (Johanson & Vahlne, 2009). Considering the fact that a foreign market is a system of relationships in which new ventures are forming contract-based ties, we can argue that an outsider can face hard times in collaborating with different members from that network as well as hard times in gaining trust. In simple words, by being a member of a specific network, can increase the organizational performance of a new ventures, while being an outsider will turn the odds against you.

Researchers argue that is really important to be an insider in different business networks, as well as create ties with the actors from those networks, in order to be able to control the liability of foreignness and liability of outsidership.

Apart from being an outsider and a foreigner in a specific market, there is also the **liability of newness** which represents a challenge for new ventures. (Fowler et al, 2011). Liability of newness is typically associated with extremely high probability of failure for new ventures. Therefore, it is of utmost importance for new ventures to understand liability of newness and the threats it poses to them.

1.3 Network perspective on the internationalization of new ventures

One of the dominant views of the previous research in internationalization of companies is the network perspective (Fletcher, 2001). In the past two decades the concept of networks attracted noticeable attention, possibly due to realization of the importance of social context, as well as the developments in transportation, telecommunications and technology. New opportunities that were not previously available, enabled greater chances of mobility and international collaboration and therefore reshaped the global business architecture (Parkhe et al, 2006).

One of the main assumptions of the network perspective is that a company can't be looked at as an individual, but it needs to be analyzed in relation to other actors in the foreign market, because of its reliance on resources managed by other actors. Business network is being described as a series of various autonomous actors, connected to each other through relationships, that are flexible and can change with alterations of the environment (Johansson & Mattson, 1988).

The importance of networks in Internationalization was also acknowledged by the creators of one of the most recognized models - The Uppsala model. In their revisited version of the model Johansson and Vahlne (2009) stated that "t*he business environment is viewed as a web of relationships, a network, rather than as a neoclassical market with many independent suppliers and customers*" (Johansson & Vahlne, 2009). The authors of the model suggest that the company's challenges and opportunities are more and more a matter of relationships and network specificity, rather than country specificity. Another observation is, that new knowledge is developed in relationships. Revised Uppsala model states "*that markets are networks of relationships in which firms are linked to each other in various, complex and, to a considerable extent, invisible patterns. Hence, insidership in relevant network(s) is necessary for successful internationalization, and so by the same token there is a liability of outsidership*" (Johanson & Vahlne, 2009).

Network view also assumes that instead of competing, it is more efficient for companies to cooperate and by doing so, create a competitive advantage (Andersson, 1998). Firms can benefit from combining their business networks and creating alliances with other companies, which later on may influence their market selection and internationalization entry mode. It is also argued that it is mostly existing network relationships with company major partners, that are largely driving the internationalization decision (Coviello and Munro, 1997).

1.4 Internet and virtual embeddedness effect on new ventures

The development of the Internet enabled companies to create innovative ways of accessing markets and manage their operations more efficiently, especially when it comes to smaller firms (Sinkovics et al, 2013). Increasing competitiveness, on both domestic and global markets, makes companies to deploy the Internet as a strategic tool (Porter, 2001).

Besides the advantages connected to improved communication, control and collaboration, the Internet related technologies are also opening new opportunities for relatively fast international expansion (Sinkovics and Penz, 2009). Many scholars argue that the use of the Internet may provide firms with opportunities to reduce or even remove many of the traditional challenges connected to the internationalization process as well as sustaining the business operations abroad (Loane, 2006). As a consequence, it has also been argued that the Internet has become an important catalyst for internationalization and became the most important innovation of recent years when it comes to foreign business expansion (Mostafa et al, 2005).

Another view is that the Internet is not only an alternative to traditional ways of internationalization, but also a better, faster and more efficient one. It is considered to eliminate many risks connected to international business such as market entry barriers, distance barriers, culture, foreign market knowledge and many more (Lefebvre et al, 2007). The development and common use of the Internet may also provide very good opportunities to gain advantage of company’s information processing abilities and global connectivity capacity (Sinkovics et al, 2013).

The use of electronic Internet-based technologies is becoming a more and more popular way to establish interorganizational connections. The connections initiated that way are often made quickly and at a lower cost compared to traditional, physically based connections (Morse et al, 2007).

Virtual embeddedness is a relatively new concept in the world of research. According to Morse et al. (2007) virtual embeddedness is a critical point in understanding new venture survival in the process of internationalization. Therefore, it is really important to understand what this concept means. Fowler et al. (2004) defines virtual embeddedness as a term which refers to the *"establishment of interorganizational connections through the use of electronic technology*".

1.5 Problem area & statement

When recognizing the characteristics of modern globalized markets there is no doubt, that it is important for new ventures to look for opportunities away from their home ground. However, young firms are facing many challenges starting with liability of newness and, when it comes to internationalization, liabilities of foreignness and lastly outsidership.

When looking at the internationalization process through the perspective of networks it has been observed, that being a part of relevant network is a key to acquire relevant knowledge, skills, customers, contractors or even financial capital, that are needed in order to successfully operate across the border. Wide area of research shows how different aspects of networks are affecting internationalization process and its components.

With development of the Internet and Internet-related technologies companies gained new opportunities connected to internationalization. Especially for new ventures and smaller firms, Internet became a way to compete with bigger and more experienced companies. Fowler et al (2004) introduced the concept of Virtual Embeddedness (VE) which relates to establishing interorganizational connections through the use of electronic (web-based) technology. Building upon it, Morse et al (2007) showed how VE can help new ventures to overcome liability of newness and therefore, increase the chances of their survival.

According to many researchers, the field of Internet-enabled internationalization remains relatively under-researched and is still developing. While online social networking is playing an increasing role, we do not understand how exactly entrepreneurs use these tools (Sigfusson and Chetty, 2013).

Considering all of the above, the authors of this thesis would like to investigate:

HOW DOES VIRTUAL EMBEDDEDNESS AFFECTS THE LIKELIHOOD OF NEW VENTURES INTERNATIONALIZATION?

The idea is based on research of Morse et al (2007) who researched how VE can help new ventures to overcome LON and therefore, increase their survival. In this thesis researchers take a similar strategy, investigating how VE affects the likelihood of new ventures internationalization.

In order to answer the problem statement, researchers will commit to answer the following sub question:

WHAT IMPACT DOES VIRTUAL EMBEDDEDNESS HAVE ON THE LIABILITY OF NEWNESS AND THE LIABILITY OF FOREIGNESS OF NEW VENTURES

1.6 Project structure

In this part the graphical representation of this thesis is showcased, as well as a short-written description for each chapter. The structure of this project follows in a gradual manner, while the logical sequence of the information is presented in order to help the readers get a better understanding of the focus of this research. Figure 1 represents the graphical view and is followed by the written description.

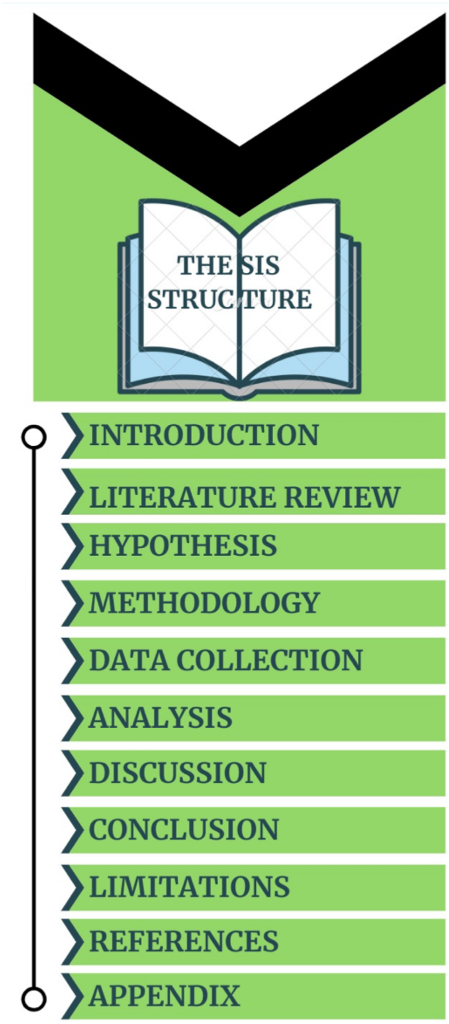

Figure 1: Thesis structure (Source: Own Creation)

This project is structured into nine chapters as it follows:

Chapter 1 is created as an introduction with the purpose of presenting the objective of this thesis as well as the problem statement. The research questions are developed with the purpose of creating understanding in a part of the literature that was not heavily researched.

Chapter 2 examines and compresses the literature that was studied up to the present moment and creating certain hypothesis to be tested further on in the thesis.

Chapter 3 is meant to present the hypothesis created based on the literature review as well as create a theoretical framework.

Chapter 4 has the purpose of presenting the researchers standpoint about reality. Therefore, the methodology of this project describes the following aspects: Ontological, epistemological and methodological choices. Further on, Arbor and Bjerke's' paradigms are discussed as well as the choice for methodological approach for this paper. Data collection techniques as well as research quality assessment is presented.

Chapter 5 is created solely for introducing the case studied and the analysis of this thesis. The findings are presented in relation to the theoretical background as well as the discussion.

Chapter 6 is meant to round up the whole paper and give the reader a detailed conclusion related to the hypotheses that were tested.

Chapter 7 presents the limitations encountered during this project.

Chapter 8 is meant for references.

2. LITERATURE REVIEW

In this section the literature review will be presented. A literature review is an overview of current research and theory in the field, further specifications will be described in the methodology section.

2.1 New ventures and internationalization

One of the main areas relevant to this research is a theory about new ventures and their internationalization. Here, the definition of a new venture and different aspects of its internationalization will be included, in order for the reader to understand the concepts in detail, and also to learn about the challenges connected. This theory will serve as a background for the later reasoning in the thesis.

New ventures - the companies that are six years old or younger (Brush, 1995), are internationalizing their business activities in order to gain knowledge, competitive advantages, efficiency as well as responsiveness from their customers (Bartlett and Ghoshal 1987). In recent years, the process of internationalization has shifted and developed a lot because these processes are not easy to reach. It is a must for new ventures to understand host country customers and their local needs in order to be able to satisfy them.

In the process of internationalization new ventures are having a huge disadvantage because of their lack of knowledge about the host country they focus on. That is the reason why the concept of liability foreignness has been researched. Apart from being foreigners in a foreign market, new ventures are prone to face liability of newness because they are new on the market and they lack trust, networks as well as social capital.

In order to analyse the steps taken by new ventures in the process of internationalization, two key concepts that have to be understood are the liability of newness and liability of foreignness. The two liabilities exist because new ventures in comparison with the well-established firms lack the resources and capacities. (Hannan & Freeman, 1984)

2.1.2 Challenges connected to internationalization of new ventures

2.1.2.1 Liability of newness

Liability of newness has been a central pillar in making researchers understand the emergence and growth of new ventures in the last 40 years (Stinchcombe, 1965). According to Bruderl & Schussler (1990), liability of newness has an important contribution in the role of new venture survival and internationalization, because one of the main purposes of new ventures is to overcome this liability.

The concept of liability of newness is not a new one. It was developed a long time ago, before technological advancements such as the internet, telecommunication or even microprocessors were developed. (Atkinson & Court, 1998; Bettis & Hitt, 1995; Shapiro & Varian, 1999). The technological advancements have created new opportunities for new ventures, which allow them to internationalize faster and tackle a wider market (Shapiro & Varian, 1999).

Stinchcombe (1965) is among the first researchers that mentioned the concept of liability of newness. His focus was on analysing new organizations in new economic sectors. Kirsch (2006) has created a research paper that is presenting the concept of liability of newness reflecting on new ventures after the emergence of the Internet and social networks.

Previous research emphasizes that liability of newness is a serious threat for the survival of new ventures, but the concept as it is expressed nowadays does not consider the technological environment in which new ventures operate today. Aldrich, (1999) emphasizes that updating and understanding the changes in the concept of liability of newness has an important contribution in the internationalization process of new ventures as well as the likelihood of their survival.

In this thesis we discuss the concept of LON and LOF before the emergence of technological and social changes, in the first part of the literature review. However, on the third part of the literature review which discusses virtual embeddedness, researchers present the implications of technological and social changes on LON and LOF with the end goal of understanding their impact on new venture internationalization.

The concept of liability of newness was researched by different authors such as Goldberg, Cohen & Fiegenbaum, (2003); Shepherd et al., (2000) as well as Vesper (1990). These authors explain the concept of liability of newness through four main sources.

At first, new ventures have to create internal systems with the purpose of developing and occupying ***new roles and relationships*** in the company. This is not an easy task because new ventures usually do not have former occupants of roles that would be able to transfer the skills and relationships to new people. The second pillar by which the liability of newness is explained is represented by the ***trust relationships among strangers.*** New ventures have to rely heavily on social connections with strangers which are less trusted than the connections in their local network. ***The lack of social capital*** is also a pillar in understanding liability of newness, because new ventures usually lack a well-built network structure. The fourth pillar in understanding liability of newness is the ***lack of economic capital***. Therefore, understanding those capacities and resources will be relevant for the findings of this paper.

According to Beekman & Robinson, (2004) the first source of liability of newness - ***the need to develop new roles and relationships*** exist because of the new ventures' non existing routines. New ventures have a huge disadvantage in comparison to existing firms, because they have to support the costs of development for the roles in house, or by outsourcing if they can find the right fit. Hannah & Freeman (1977) and Stinchcombe (1965) points out that *"high costs in time, worry, conflict, and temporary inefficiency"* are effects caused by the development of organizational systems which have the purpose of connecting and coordinating the roles inside organizations.

The second source of liability of newness - ***lack of trust among strangers*** points out that *"New organizations must rely heavily on social relations among strangers. This means that relations of trust are much more precarious in new than old organizations".* (Stinchcombe, 1965). So new ventures have a clear disadvantage in terms of trust inside local networks. According to Gambetta, (1988) the lack of strongly trusted relationships can affect new ventures by keeping away customers which can be unwilling to buy their service or product because of the lack of legitimacy. Furthermore, the strong reliance on strangers can put new ventures at risk, and increase their vulnerability to opportunism, compared to already settled companies which operate inside familiar networks.

Davidsson & Honig (2003) emphasizes that the ***lack of social capital*** is also a present problem in the world of new ventures. Social capital has been described by many researchers in different ways according to the discipline of interest as well as the level of investigation. For this paper, social capital has been defined from two perspectives: functions and actors. Knoke (1999) defines social capital as *'the process by which social actors create and mobilize their network connections within and between organizations to gain access to other social actors' resources'* while Coleman (1990) defines it by function: *"Social capital is defined by its function. It is not a single entity, but a variety of different entities having two characteristics in common: They all consist of some aspect of social structure, and they facilitate certain actions of individuals who are within the structure'.* Social capital is often limited for new ventures as they usually lack a really strong trust-based network around them. For new ventures social capital is the connection point necessary to reach underlying resources needed for the ventures' survival. Engaging in entrepreneurial activities and creating connection points can be very difficult for new ventures because they operate without support from their network.

Lack of economic capital is the fourth explanatory source of liability of newness (Vesper,1990). Economic capital is defined as "*the amount of capital that a company needs to stay stable, given the amount of its assets and the amount of its liabilities (risk profile)" (Capital.com).* In comparison with well-established firms, new ventures tend to lack economic capital. Therefore, they need to hold economic capital in order to be able to sustain the costs of new roles as well as the tasks they perform. On the other hand, lacking economic capital can put new ventures in financial stress when economic instability occurs (Starr & MacMillan, 1990). When comparing new ventures to larger enterprises, Steensma et al., (2000*) emphasizes that "The norm for new ventures is resource dependency rather than resource sufficiency".*

Contrary to the established body of research presenting newness mostly as a disadvantage, some scholars argue that being new may bring advantages and result in early internationalization (Renko et al., 2016). Renko et al. argue that LON results in companies having smaller amount of deeply embedded routines and being less structurally rigid. Therefore, new firms are said to aim for international markets faster. Four specific areas where newness may be an advantage for early internationalization are: organizational learning, coordination costs of organizing, social networks building, and market positioning of the firm (Renko et al., 2016).

2.1.2.2 Liability of foreignness

Internationalization and liability of foreignness goes hand in hand, because when a new venture wants to go abroad, they will have to cope with LOF.

The first researchers that developed the concept of liability of foreignness were Hymer (1976) as well as Zaheer (1995). Even though the literature about LOF has substantially developed from many papers that cover different aspects of it, there are not many studies that involve LOF impact on new venture internationalization.

The literature about **Liability of foreignness** indicates that the concept refers to the extra costs that a foreign company incurs when entering a foreign market. Hymer (1976) emphasizes that "*National firms have the general advantage of better information about their country: its economy, its language, its law, and its politics. To a foreigner the cost of acquiring this information may be considerable."* More recently, the concept of liability of foreignness has been expanded and looked at more holistically. Sethi and Guisinger (2002) argue that LOF is not only connected to costs associated with entering a foreign market, but rather to costs related to firm's interaction with all the elements of the international business environment (such as comprehensive and accurate reading of the environment, formulation of appropriate strategy, adaptation of firm's internal processes). It is also argued that firms can not only mitigate LOF, but also turn it into competitive advantage by adjusting to the environment better than rivals (Sethi and Guisinger, 2002).

There have been numerous researchers that studied the concept of LOF and the impact it has on business performance such as Hymer (1976); Zaheer (1995); Hunter (1996) as well as Miller and Parkhe (2002) among others. Their research was based primarily on MNEs, with the focus of showing that they encounter barriers when entering a foreign market and have disadvantages that local firms do not have. Even though their research was primarily based on MNEs, other researchers such as Mudamdi & Zahra (2007) pointed out that the construct of Zaheer and Mosakowski (1997) is equally relevant for new ventures which are internationalizing. Therefore, a reason to use the theory of LOF in research for this paper is equally justified.

The research conducted on LOF focused primarily on industries such as automobile, banking as well as clothing (Zaheer, 1997; Miller and Parkhe 2002). Most of the research conducted proves that the competitiveness between local firms and host firms puts the host firms at a disadvantage.

Zaher and Mosakowsi (1997) studied the dynamic aspects of LOF and proved that new ventures have the ability to learn and adapt to the economic environment in which they are operating. They emphasized that with time, new ventures' perceived legitimacy in a foreign country increases with the end goal of being able to compete at the same pace as the local firms do. Caves (1971) studied the concept of LOF and expressed the idea that a firms' specific assets can help it in overcoming this liability.

According to Zaheer (1995) and Luo et al. (2002) liability of foreignness diminishes the competitive advantages of foreign firms compared to their domestic counterparts. Mezias (2002) defines LOF as the *"benefits denied to foreign firms that are enjoyed exclusively by domestic firms".*

Considering that liability of foreignness always incurs when a new venture goes abroad, we will need to have a better understanding about its explanatory mechanisms or the so-called sources. Previous research focuses on explaining LOF through the cost approach and / or by explaining the costs' determinants.

Based on work of Zaheer (1995) and Zaheer and Mosakowski (1997) the sources of LOF can be described as:

A. Coordination costs of international business

B. Firm specific costs associated with firm's unfamiliarity with and lack of roots in a local environment and culture

C. Costs resulting from the host country environment such as lack of information networks, political influence, and legitimacy of foreign companies

D. Economic nationalism among host country stakeholders.

A. Coordination costs may be understood also as economic costs or activity-based costs. They may consist of transportation and communications costs, trade barriers, and costs associated with foreign exchange transactions.

B. Costs associated with unfamiliarity reflect lack of knowledge of, or experience in the host country, which cause the disadvantage to foreign company compared to local firms. Not enough experience or knowledge in the foreign market causes unfamiliarity hazards, which are causing additional costs that the firm has to acquire to reach the same level of host-market knowledge as a local firm (Eden and Miller, 2004).

C. Lack of information networks, political influence and legitimacy are connected to firm's organizational costs and can be described as relational hazards. The uncertainties connected to unpredictability of foreign environments (external) and difficulties of managing employees at a distance and/or from different cultures (internal) lead to higher administrative costs of managing the relationships between agents involved in doing business abroad (Eden and Miller, 2004).

D. Economic nationalism among host country stakeholders can be also described as discrimination hazards. Discriminatory approach (resulting in differential treatment of host and home companies) can be met on the side of home or host governments, consumers or the general public in the foreign market. The costs associated with discriminatory behaviors may reflect political hazards or consumer ethnocentrism. Therefore, discriminatory costs focus on the challenges of acquiring external legitimacy (Eden and Miller, 2004).

According to Zaheer and Mosakowski (1997) and Mezias (2002), there are two independent ways to reduce the degree of liability of foreignness. One of them is by reducing the uncertainty of the host customers and the other one is by understanding the host market better (by gathering knowledge).

Previous research on how foreign companies are responding to the challenges of LOF suggest several ways of overcoming it, including: entry mode choices; incorporation of local executives in decision making process; learning about and adapting to local environment; ensuring greater product variety and being connected to a relevant business group; acquiring market-based resources in the foreign market (for example skilled employers and a better supplier base) (Maruyama and Wu, 2015).

Summing up section 2.1, we learned what is the definition of a new venture and what are the main challenges connected to new venture's internationalization. The theoretical background for LON and LOF were presented in order to understand the concepts in detail and later on, to examine how those liabilities can be overcome.

2.2 Network perspective on internationalization

It is also interesting to look at theories about network perspective on internationalization and networks. It will help to explain what is an internationalization process of a firm and what it consists of, the definition of networks and its characteristics, what are different theoretical perspectives and also outline the previous research related to those concepts. Therefore, this part will lay down the foundation for our understanding of networks and internationalization.

2.2.1 Past research on network perspective and internationalization

According to Andersson (2000) previous research in internationalization of companies uses two main notions: economic research and process models. In the first one, the focus is on factors that lead to company's internationalization. Examples of most recognized models in economic research notion are internalization theory (Buckley & Casson, 1976), the eclectic paradigm (also called OLI paradigm) (Dunning, 1988) and the transaction-cost theory (Hennart, 1982). Opposed to economic research notion, process models focus on explaining the process of company's internationalization. Scholars within this notion distinguish three dominant views: stages, contingency and network (Fletcher, 2001).

One of the most prominent and recognized stage models in international business literature is the Uppsala Internationalization Model (Johanson and Vahlne, 1977), which shows the internationalization of a firm as a process of continuous commitment and international engagement enabling to gain knowledge about the foreign market. The model explains, that a company will increase their involvement in a foreign market gradually, by small steps, because of lack of experience and understanding of the market. Company's commitment and resources in the foreign market increase progressively, as more experience is gained. The theory also introduces the term of "psychic distance", which describes factors like language, culture, political system, economic development, etc., and states, that the firm is more likely to enter a new market, when those factors are more similar to the company's domestic market (Johanson and Vahlne, 2001).

Contingency theory's main argument is, that no broad set of strategic choices is right for all firms (Robertson & Chetty, 2000). It also states the importance of interactive relationship between a company and the foreign environment. The progress in internationalization relies heavily on a broad range of market-specific and company-specific characteristics (Fletcher, 2001).

Lastly, network theory's main assumption is that a company can't be looked at as an individual, but it needs to be analyzed in relation to other actors in the foreign market, because of its reliance on resources managed by other actors (Johanson & Mattson, 1988). Business network is being described as various autonomous actors, connected to each other through relationships, that are flexible and can change with alterations of the environment. Network model explains internationalization process in four different situations, based on the level of market internationalization (high/low) and the level of company's internationalization (high/low). Firm's international situation can be viewed as: "early starter", "late starter", "lonely international" or "international among other" (Johanson and Mattson, 1988).

Moreover, the importance of network was also acknowledged by creators of Uppsala internationalization model (Johanson and Vahlne, 2009), who in their revisited version of the model stated, that "*the business environment is viewed as a web of relationships, a network, rather than as a neoclassical market with many independent suppliers and customers*" (Johanson & Vahlne, 2009). The authors of the model suggest that the company's challenges and opportunities are more and more a matter of relationships and network specificity, rather than country specificity. Another observation is, that new knowledge is developed in relationships. Revised Uppsala model states "*that markets are networks of relationships in which firms are linked to each other in various, complex and, to a considerable extent, invisible patterns. Hence, insidership in relevant network(s) is necessary for successful internationalization, and so by the same token there is a liability of outsidership*" (Johanson & Vahlne, 2009).

Internationalization is undertaken to strengthen a firm's position in the network, rather than to overcome various barriers (as seen in traditional view). As a result, existing business relationships, which help to identify and exploit opportunities, have a big impact on the specific geographical market a company is entering, and also on which entry mode to use (Johanson and Vahlne, 2009).

Similarly, to the original version of the Uppsala model from 1977, the revised business network model (**figure 2**) consists of state variables and change variables. The variables affect each other, state affecting the change and vice versa. The model presents the increasing process of learning, as well as trust and commitment building. A higher level of knowledge may have a positive or negative impact on trust and commitment building (Johanson and Vahlne, 2009).

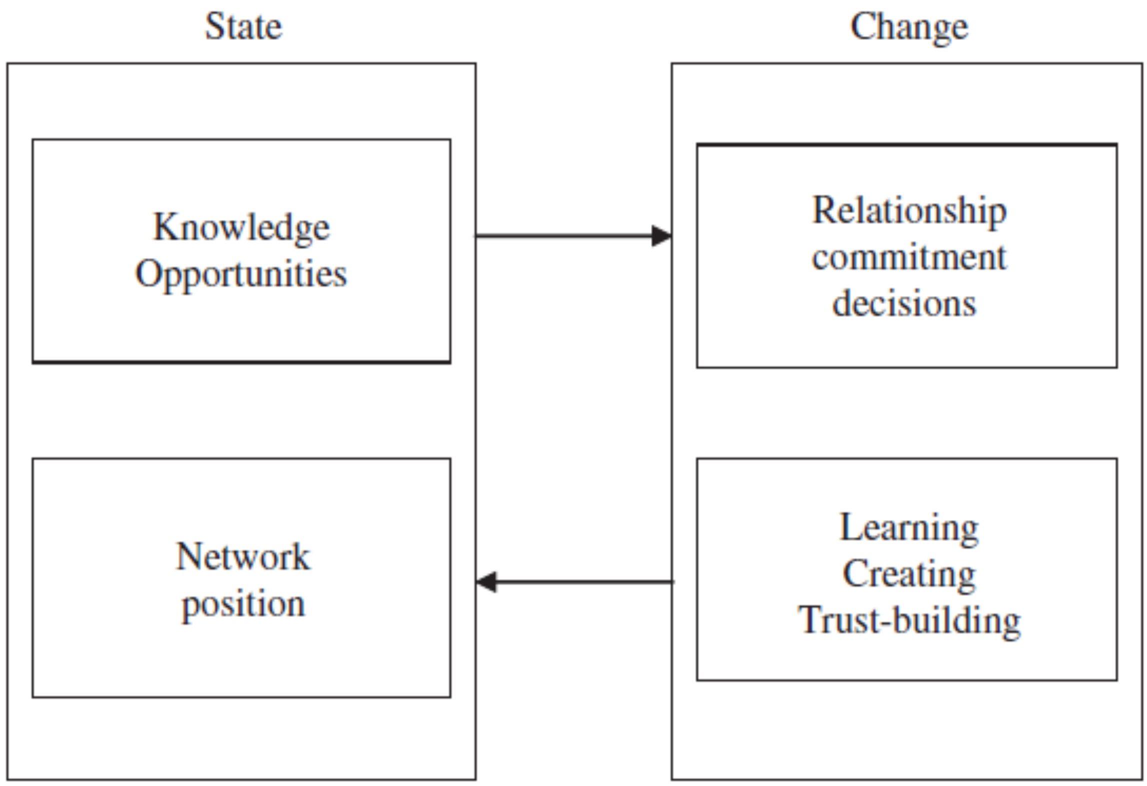

Figure 2 - The business network internationalization process model (Johanson and Vahlne, 2009)

2.2.2 Network types

The concept of network is used in various ways in order to describe connections between people or organizations (Slotte-Kock and Coviello, 2010). Originating from sociology, network theory developed into three separate approaches: business network, social network and lastly, entrepreneurial network approach.

Mentioned in previous sub-chapter, the business network approach focuses on networks among organizations (Johanson and Vahlne, 2009). From that point of view, companies are often participating in many business relationships and operate in networks of connected relationships, called business networks. The connection means that the exchange in one relationship is linked to exchange in another one. As the cooperating companies become more and more linked and interdependent, they adjust and integrate their resources in order to create new knowledge, which enables them to introduce new products and develop new markets. According to Forsgren et al (2015) revised Uppsala model (also known as business network model) is affected by network research, specifically the social exchange theory (Cook and Emerson, 1978) and the concept of network embeddedness (Granovetter, 1985). One of the most important arguments of the model of Johnson and Vahlne is that overcoming liability of foreignness and therefore becoming embedded in a relevant network (becoming an insider), leads to successful internationalisation. This perspective is similar to findings of Ciravegna et al (2014), who concluded that companies that actively recognize their initial customers in foreign networks may have much quicker and thorough internationalization process.

Research in entrepreneurial network approach have shown how important the social context is when it comes to networks (Slotte-Kock et al, 2010). It is important to include social network approach, as when it comes to new ventures, network ties of the organization are often the ties possessed by entrepreneur who starts the venture. According to Ellis (2011) the business network model of internationalization was looking only at interactions between organizations, ignoring very important social exchanges of individual entrepreneurs. As entrepreneurship is established in the social context, it involves social interactions that impact individual entrepreneur’s perspective on possible business opportunities and accessibility of resources (McKeever et al, 2014). By looking at the networking process of entrepreneurs with focus on type, locality, strength and importance of network ties, it is possible to understand the social context of internationalization more clearly. It is pointed out by Jack and Anderson (2002) how entrepreneurs embed themselves in social networks for example, taking part in fundraising events or social club meetings, in order to get access to resources they need and to overcome structural holes in their networks. It has been shown that both previous business networks and social networks of an entrepreneur affect the internationalization process of new ventures, as they are enabling entrepreneurs to find foreign market opportunities (Ellis, 2011).

2.2.3 Network tie strength

There are many perspectives mentioned in research when it comes to strength of a network tie. Scholars mention characteristics such as: closeness, trust, mutual respect or commitment. Granovetter (1973) describes the strength of a tie as a mixture of time, emotional intensity and intimacy, and mutual services that distinguish the tie. However, it is argued that the use of duration and frequency in order to measure the strength of a tie can be confusing (Mardsen et al, 1984).

For the purpose of this study researchers decided to use the definitions taken by Söderqvis and Chetty (2013). A strong tie is described as "close, based on trust, mutual respect, commitment, deep knowledge and experience of each other". Similarly, a weak tie is defined as "a superficial tie not yet based on strong trust, where the parties do not know each other well and are not emotionally close" (Söderqvis and Chetty, 2013).

When talking about strong and weak ties, it is worth to mention Granovetter (1973) findings, which state that connections in a single group are usually perceived as strong ties, whereas linkages between different groups are seen to be weak ties. Moreover, Granovetter developed the strength of weak ties theory stating that weak ties are more advantageous compared to strong ties, as they enable information to move in an easier and faster way and influence much wider audience. Lastly, it has been found that weak ties tend to provide non-redundant data because they are moving in circles outside of one's own inner circle. This creates a possibility to access information dissimilar from the one that is normally received and therefore, creates a *"possible mobility opportunity"* (Granovetter, 1973).

The work of Levin and Cross (2004) also distinguish another type of a weak tie, specifically *"trusted weak tie"*. The concept combines the benefits of strong and weak ties and is said to provide the most useful knowledge of all, as trusted weak ties are more likely to provide beneficial non-redundant information.

The overall of all existing network ties are considered to have a great value for entrepreneurs and are described as social capital. The definition of social capital is "the sum of the resources, actual or virtual, that accrue to an individual or a group by virtue of possessing a durable network of more or less institutionalized relationships of mutual acquaintance and recognition" (Bourdieu and Wacquant, 1992, 119). The magnitude of one's social capital is dependent on the size of their network, and the extensiveness of the social capital of each of the network ties within one's network. Lastly, it is also argued that in order to have a strong network position and maintain and establish these ties, work and effort are required (Bourdieu, 1980).

2.2.4 Network tie locality

According to scholars (Andersson et al, 2013; Boehe 2013) company's internationalization can be influenced by the location of a network tie. Network ties can originate from domestic or international background, and even though most of the research focuses on international ties, domestic network with high international experience may also provide valuable information for companies who want to internationalize.

By working with entrepreneurs with international experience, less experienced firms can gain knowledge and enter new networks, which will help them to boost their internationalization process. Valuable skills connected to how to create and maintain international ties (which are considered to be more complex) can also be gained from domestic network. Sharma and Blomstermo (2003) state that some entrepreneurs are following their domestic customers with international experience, consequently entering foreign markets and internationalizing. Domestic ties may also be a source of financing company's internationalizing process and according to Manolova et al (2014) wide variety of these network ties positively influences internationalization success.

On the other hand, domestic network ties can also have a negative impact on internationalization for a small entrepreneur, as some of the larger domestic partners may be focused on home market and prevent international efforts (Boehe, 2013). Some of the practices used by domestic network partners may also not be beneficial for internationalization and therefore will slow down the learning process, causing the need to unlearn old and not useful routines (Sharma and Blomstermo, 2003).

The characteristics of the company's international network ties are said to determine how fast the firm will internationalize (Andersson et al, 2013; Oviatt and McDougall 2005). The research shows that companies who internationalize fast, often have already existing international network, which provides them with useful knowledge and resources and therefore boosting the process (Sharma and Blomstermo, 2013). Andersson et al (2013) also states, that company's international network ties are more useful than domestic market ones.

2.2.5 Importance of network ties

Network ties, despite small amounts of financial investment, are said to provide access to capabilities that improve the success and competitiveness of the firm (Slotte-Kock et al, 2010). The more embedded company becomes, the more it interacts with its partners, becoming more aware of each other's skills and resources, and being able to combine them in order to create new knowledge or reach new foreign markets (Johanson and Vahlne, 2009). Moreover, the credibility of the company's network enables it to build its own reputation and gain access to new partners and valuable resources (Zimmerman and Zeitz, 2002). Being a part of different networks gives entrepreneurs access to new technology, information about opportunities and market knowledge (Johanson and Vahlne, 2009).

Lastly, being embedded in relevant networks gives opportunity for customer feedback, that enables a company to improve its product and tailor it to the market needs. Network ties are also formed in order to acquire finances to fund company's international expansion (Manolova et al, 2014). Apart from that, the ties with universities and research institutes are often established in order to gain technological knowledge and innovate (Partanen et al, 2011).

2.2.6 The role of networks in early internationalizing firms

In their systematic review Bembom and Schwens (2018) gathered sixty-one journal articles on the role of networks in the cross-border expansion of early internationalizing companies, in order to investigate how early internationalizers use networks to overcome their resource deficits in various phases of internationalization process. The authors of the review differentiated network's content (type of exchanged resources), governance (fundamental mechanism for resource exchange), and structure (the network patterns that specify the amount and variety of exchanged resources). This classification is based on the research of Hoang and Antoncic (2013) and is said to capture research exchange of new ventures by the use of networks that are essential for early internationalizing firms to overcome their lack of resources (Slotte-Kock et al., 2010). In order to capture different stages of internationalization distinction between pre-entry and post-entry phases of internationalization has been made. Pre-entry phase describes the time before the company's first internationalization event, including pre-founding and legal founding, whereas post-entry phase talks about the time after the first internationalization event (Jones and Coviello, 2005).

For the purpose of this thesis, some of the findings (mostly with focus on pre-entry phase of internationalization) from Bembom and Schwens systematic review will be presented in sub-chapters below.

2.2.6.1 Network content

It is found that in pre-internationalization phase, companies are exchanging physical and financial resources for various reasons such as: initial founding (Coviello and Cox, 2006), product development agreements (Coviello and Munro, 1997), and financing of their organizational development (O'Gorman and Evers, 2011). One of the examples can be study of Coviello and Munro (1997), which found that undercapitalized new ventures were establishing product development arrangements with their network partners especially when product development happened to be capital intensive. Another example shown by O'Gorman and Evers (2011) highlighted how the right network partners were able to provide financial capital for new venture's technical and marketing investments. On the other hand, in post-internationalization phase, firms are more focused on maintaining their independence and therefore, the exchange of financial capital is less frequent (Coviello and Cox, 2006). However, because of some new venture's human and financial limitations, the help of network is sometimes being used in order to establish foreign sales offices (Mort and Weerawardena, 2006).

In the pre-internationalization stage, companies often lack highly skilled employees with expert knowledge needed for successful product development and growth in foreign markets (Cardon, 2003). Nevertheless, new ventures frequently struggle with attracting highly skilled employees (Barber et al, 1999; Cardon, 2003) and are forced to use network ties to get the attention of potential employees, who obtain informal information about the venture by the use of networks (Leung et al, 2006; Shane and Cable, 2002).

It is largely unknown in the literature whether network contacts pay off in terms of the exchange of financial capital for pre-internationalization phase of early internationalizing new ventures. However recent research introduces crowdfunding as a new way of funding new venture's equity. It enables entrepreneurs to present their business ideas to a wide audience of capital providers by the use of social media platforms, and then provide them with equity shares or other benefits in exchange for the funding (Belleflamme et al, 2014). As new ventures struggle to attract funding from their home environments, crowdfunding is said to be particularly suitable because it enables international visibility and increases the number of potential investors. Crowdfunding is also said to increase the probability of gaining access to stable base of capital that can enable further expansion in the future. According to Mollick (2014) the success of crowdfunding is heavily influenced by entrepreneur's social network.

Intangible resources from new venture's network such as knowledge, information and advice about opportunities, information about market and entry-mode choice, and legitimacy are playing an important role in early internationalization. It is found that early internationalizers in their pre-entry internationalization phase gather market, marketing and technology knowledge from their network partners. In order to overcome their lack of experience in international markets and build the export capacity, new ventures search for foreign market knowledge among their network contacts (O'Gorman and Evers, 2011). Combination of market and technological knowledge leads to development of knowledge intensive products aimed at specific foreign markets (Mort and Weerawardena, 2006). Research focused on post-internationalization phase also indicates positive effects of foreign market knowledge exchange between network partners, leading to rapid internationalization and increased competitiveness abroad (Coviello and Munro, 1995).

Moreover, scholars argue that internationalizing new ventures are lacking resources in order to conduct comprehensive research on foreign markets on their own, but they can gather it from their network partners (Mort and Weerawardena, 2006).

Network relations are also said to influence new venture's search, evaluation and use of opportunities on foreign markets in the pre-internationalization stage. Manolova et al (2010) highlights how important entrepreneur's personal and company's networks are when it comes to exploration of international opportunities. The findings indicate, that entrepreneur's personal network is helping new ventures in searching for opportunities, however, it is not always the case with the company's newly created inter-organizational network. Moreover, research shows that business contacts are essential in identifying opportunities on foreign markets and create an ability to reach already established distribution channels (Coviello and Munro, 1995). In addition, networks may provide piggybacking situations (Coviello and Munro, 1997). Lastly, studies also focus on assessment and exploitation of opportunities. Evald et al (2011) state that social networks impact entrepreneur's ability to use the foreign opportunity. After new venture's entry into the international market, relevant network ties offer additional opportunities enabling entering multiple markets (Park and Rhee, 2012).

There is little research about early internationalizing new venture's selection of foregin market, entry-mode and legitimacy. Most prominent studies show the influence of the company's most important business partners (Coviello and Munro, 1995, 1997), the entrepreneur's social network (Vasilchenko and Morrish, 2011) and personal and professional ties (Evers and O'Gorman, 2011) when it comes to new venture's choice of a specific foreign market and the mode of entry. Studies also indicate that new ventures in pre-internationalization stage gain legitimacy by their network relationships (Pettersen and Tobiassen, 2012).

2.2.6.2 Network governance

Researchers consider trust as an important factor for internationalization enabling resource exchange between partners (Blomqvist et al., 2008). Initial trust building may be difficult for early internationalizing new ventures. Therefore, it is worth examining the factors that can help its development. The research highlights various determinants such as similarities between network partners (for example shared vision, mutual interests), network partner's skills (complementary skills, managerial skills), and external factors like intense market competition, which makes network partners join forces (Blomqvist et al., 2008; Freeman et al., 2010). However, despite the importance of trust in the pre-internationalization stage, present research lacks detailed knowledge of how new ventures can build trust quickly. Scholars focus on commonalities of firms in network that may speed up the trust-building process, such as network partner similarity (Robson et al., 2008), common location and dependency (Gainey and Klaas, 2001), and potential for a future relationship (Fulmer and Gelfand, 2012).

2.2.6.3 Network structure

According to Coviello (2006) early internationalizing venture's network size has a low value at the beginning and increases over time. In initial stages of internationalization, new ventures aim at exploitation of existing network relations rather than look for new ones (Sasi and Arenius, 2008). In later stages, when companies notice the depreciation of their initial network ties, they pursue new relationships (Prashantham and Dhanaraj, 2010).

In the pre-internationalization stage, entrepreneur's strong network ties enable access to tacit knowledge and reliable information about foreign markets, therefore, increasing the chances of internationalization. Kiss and Danis (2008) state that strong ties are especially important in international markets, where new ventures have to deal with institutional voids. However, research also mentions negative aspects of strong ties for early internationalizing new ventures, as they may provide less innovative resources and are expensive to establish (Han, 2006). Contrarily, weak ties are said to provide new ventures with more diverse information (Kiss and Danis, 2008), which enables access to newer and more innovative resources from various network ties, and therefore, increases new venture's internationalization speed (Han, 2008; Kiss and Danis, 2008).

Concluding section 2.2, the theoretical understanding of internationalization process was presented, specifically with a focus on the network perspective on internationalization, in order to set a background and explain the way in which the internationalization process will be looked at. Then, the concept of network and its characteristics were shown to understand its theoretical background and individual components. Lastly, the theory about the role of networks in early internationalizing firms was presented, in order to better understand the connections between different aspects of network characteristics and how they relate to various aspects of the internationalization process of a new venture. This section will help in connecting the concepts of virtual embeddedness and internationalization of a new venture as both of those concepts are presented in relation to networks and their characteristics.

2.3 Internet-enabled internationalization

This section will present the theory about virtually embedded ties and virtual embeddedness, and how they can benefit new ventures. It will help to understand definitions and characteristics of those concepts, and in what way new ventures are affected by it. The theory in this section will be later used in order to answer the main research question.

2.3.1 Virtually embedded ties

When talking about the effects of the Internet and information technologies on internationalization and interorganizational ties, it is worth mentioning the work of Fowler et al (2004) who in their research paper established a new term - “virtually embedded ties”. The concept originates from concepts of embeddedness (the ways in which economic activities are embedded in a context of economic and social structures), socially embedded ties (economic relationships established by direct, social ties between the actors involved) and arm’s length ties (economic relationships between otherwise unconnected actors).

According to the authors of the presented paper, socially embedded ties and arm’s length ties may be too limited to describe technological and social conditions that are existing in today’s economy. The cause of it is said to be greatly improved access to rapid, low cost sources of information and communication, together with globalization of many industries, that transformed the ways in which the economic activities are embedded. For example, by the use of websites and communication tools companies can: increase the efficiency of their activities (such as promotion of new products, creation of new selling channels, reduction of costs, decrease in distribution time, improved customer service, creation and management of business network, acquisition of market data); transform company's organization schema (learning about new technologies and their application, experiment with new organizational structures, manage customer relations); redefine the way in which the organization works (ability to apply new business models, new possibilities regarding the products). Therefore, with the right application, the Internet is a useful tool which accelerates the internationalization process (Kos-Labedowicz, 2013).

To address the changes presented above, Fowler et al. are developing a new form of embeddedness - "virtually embedded ties". "*Virtually embedded ties are interorganizational linkages that are initiated and maintained through electronic technologies and that provide distinctive solutions to the same problems with exchange relationships that are addressed by socially embedded ties*" (Fowler et al, 2004). Examples of virtually embedded ties are connections acquired through web-based professional platforms, discussion forums, web-based direct sales/auctions, web or newsgroup-based customer support and other electronic linkages. The term "interorganizational linkages" includes also entrepreneurs personal ties that are often very important for new ventures.

2.3.1.1 The components of Virtually Embedded Ties

Virtually embedded ties are distinguished from other inter-actor ties relying on electronic forms of communication by addressing the same exchange related problems as socially embedded ties. The problems, key components of socially embedded ties and key components of virtually embedded ties are presented on the Table 1.

Exchange-Related Problems Ineffectively Addressed by Arm's-length Ties	Key Components of Socially Embedded Ties	Key Components of Virtually Embedded Ties
Opportunism	Trust	Transparency
Uncertainty	Exchange of fine-grained, proprietary information	Widespread sharing of private and public information
Complexity	Joint problem solving	Community-based problem solving

Table 1 - Components of embedded ties that deal with problems in exchange relationships (Fowler et al., 2004).

The first problem faced by both socially and virtually embedded ties is a risk of opportunism from the trade partners. In socially embedded ties the main solution to this risk is the development of trust, however, in virtually embedded ties it is possible by increased transparency. The virtual-based relationships are associated with information systems, in which the opportunistic incidents can be reported to a wider community (for example: the Internet discussion forums, newsgroups, e-mail lists or rating services) and therefore provide reliable information about potential partners. It is also emphasized that these systems enable free flow of information that encourages honest exchange of information about the practices and products of a specific company. Moreover, actors are more likely to report dissatisfaction, rather than satisfaction and therefore reputational costs of opportunism are very high. While for socially embedded ties the cost of opportunism is connected to damage of a specific, long-term relationships, for virtually embedded ties opportunism may cost a firm's reputation and later ability to develop new ties with consumers, suppliers or partners (Fowler et al., 2004).

The second risk is associated with uncertainty and information shared between actors. While arm's length ties are said to provide minimal information sharing, typically limited only to information necessary to complete the exchange, socially embedded ties ensure more insightful fine-grained information, which would not normally be revealed to others because of its strategic or operational value. Sharing of this kind of information is said to decrease uncertainty, especially when it comes to strategic and operational plans of partners in socially embedded ties. On the other hand, virtually embedded ties are different from both of the types mentioned before. Virtually embedded ties are characterized by “widespread information sharing that is relatively detailed and includes both private and public information” (Fowler et al., 2004). Information shared by virtually embedded ties is said to be associated with electronic, largely textual character, and therefore, leads to more efficient creation, transmission and storage of information than face to face interactions. The types of information that are dominating in virtually embedded ties consist of both public (already available) and private (based on one’s own experience). Fowler et al. (2004) argue that this widespread sharing of public and private information lowers the risk of uncertainty by “increasing organizational actors’ abilities to forecast and plan, not so much with respect to the moves of specific actors, as with socially embedded ties, but in terms of broader events and trends in the industry or markets served” (Fowler et al., 2004). Another advantage of virtually embedded ties is connected to the ability of virtually embedded actors, who often engage in widespread search and comparison of information. Considering a very low cost of forming virtually embedded ties, decisions can be made based on a wide variety and large number of virtual connections.

Lastly, the third problem connected to exchange that both socially and virtually embedded ties are addressing is complexity. While socially embedded ties are facilitating joint problem solving, where partners work together in order to address issues that can be solved more efficiently and effectively by joint consideration and action, virtually embedded ties do it in a slightly different manner. “*Virtually embedded ties solve problems that stem from complexity not through dyadic cooperation, as is typical of social embeddedness, but through community-based cooperation*” (Seidel & Stewart, 2000). Community based problem solving can be seen for example in situations, where companies face problems with technical equipment, that they can describe on a forum or a website of a manufacturer or a reseller that hosts discussion forum for customers. By the use of experience and expertise of other actors and their varied contributions, the problem can be solved, and the quality of a product is increased. Even though the actors who actively contribute in community based problem solving are not expecting payment or any exchange in return, they are often gaining widespread reputation much faster than could be achieved by “word of mouth” mechanisms and therefore turn it into economic benefits (for example in the form of new partnerships) (Fowler et al., 2004).

2.3.1.2 Virtually embedded ties, Virtual Teams and Online Communities

In order to differentiate and see its relationship to other, similar concepts it is worth mentioning virtual embeddedness in relation to terms of virtual team and online community.

Virtual teams are described as interdependent groups of people using technology in order to communicate and collaborate across space, time and organization boundaries (Baker, 2002). The main difference between virtual team and virtually embedded tie is that virtual teams are created as a social group for a specific amount of time, while virtually embedded ties are understood as potentially “one off” connections (Fowler et al., 2004). What is important in this difference is the role of trust: in virtual teams “task-based trust” among team members is being developed, whereas in virtually embedded ties trust is replaced with transparency, as those ties are developed on ad-hoc basis and may be one-time relation.

Research of online communities has largely focused on the processes that form ongoing social relationships and common cultural characteristics and values within the virtual space (Preece, 2000). The main difference in relation to virtually embedded ties, pointed out by Fowler et al. (2004), is that in online communities the economic aspect is not the focus of the interaction, whereas in concepts of virtually and socially embedded ties the main point is that they facilitate the economic action. Online communities are therefore seen more as electronically facilitated social ties, where trust plays a role similar as in traditional non-virtual relations.

2.3.2 Virtual Embeddedness

Following their work on virtually embedded ties, Morse, Fowler and Lawrence (2007) established the concept of virtual embeddedness and continued with the research in this area. Specifically, Morse et al. (2007) examined how virtual embeddedness impacts new venture survival and what is really relevant for this thesis: how the concept of VE helps overcoming liability of newness.

Virtual embeddedness is understood as “establishment of interorganizational connections through the use of electronic technology (especially Internet-based technologies such as the Web)” (Fowler et al., 2004). The term combines the ideas of structural embeddedness and virtuality. Modern technology enables creation of interorganizational ties more quickly and cheaper compared to physically based ties. New ventures can use virtual embeddedness in a variety of ways such as: electronic data interchange, web-based direct sales, web auctions, web or newsgroup-based customer support, and other electronic linkages. By using those tools new ventures can relatively quickly embed themselves in a wide network that includes a large number of potential customers, suppliers and complementors who acquire easy access to the new firm and its activities through advertising, search engines, or online communities (Morse et al., 2007).

2.3.2.1 The distinctiveness of Virtual Embeddedness

Morse et al. (2007) specify two main characteristics that are differentiating virtual embeddedness from traditional forms of embeddedness.

Firstly, virtual ties are said to be highly focused and likely to lead to separate, specialized relationships that are narrower or more targeted in scope. In comparison, traditional forms of embeddedness are often overlapping and consist of multipurpose ties, most commonly because of the high cost of developing and maintaining new ties. The efficiency and low cost of electronic ties enables new ventures to develop and manage a much greater number of individual connections and therefore, not needing to rely only on already existing relationships. New and focused connections can be developed as the need arises (Morse et al., 2007).

Secondly, the context of economic activity connected to virtual embeddedness is considered more global and less personal than in traditional forms of embeddedness. Virtual space associated with virtual embeddedness is not limited by a physical space, which makes it possible for members to connect with others even halfway around the world. Moreover, Morse et al. (2007) argue that this kind of connection creates to embeddedness that is broader and more cosmopolitan in its context.

2.3.2.2 The effects of Virtual Embeddedness on Liabilities of Newness

In their work Morse et al. (2007) examined the relationship between virtual embeddedness and each of the four source mechanisms connected to liability of newness: the need to create roles and systems, the instability of trust relationships among strangers, the lack of social capital, and the lack of economic capital. Sources of liability of newness connected to specific benefits of virtual embeddedness are presented in Table 2.

Benefits of Virtual Embeddedness for New Ventures

Sources of liabilities of newness	Benefits of virtual embeddedness
Need to create roles and systems	Reduces the need to create new roles and systems by facilitating access to and the acquisition of external skills, services, and systems
Lack of trust-based relationships and legitimacy	Provides a substitute for trust through a widespread dissemination of information regarding the reliability of trading partners
Lack of social capital	Facilitates the creation and management of interorganizational ties
Lack of economic capital	Increases access to a greater range of potential capital providers

Table 2: Benefits of virtual embeddedness for New Ventures (Morse et al., 2007)

Need to create roles and systems

Morse et al. (2007) show that becoming virtually embedded can overcome the need to create roles and systems in two ways. First, virtually embedded ties enable new ventures to locate individual or organizational service providers much easier compared to traditional ties. Second, the services needed can frequently be acquired and delivered through the use of virtual connections. Web-based commerce gave easier and wider access to relatively specialized skills. Online job search platforms enable firms to reach an extensive number of potential employees, moreover other websites allow access to a variety of services such as accounting, consulting or financial services. Virtual connections can also assist in outsourcing process for new ventures. Essential organizational activities such as human resource management, accounting, marketing, or even manufacturing can be purchased through web-based platforms and therefore, new ventures have a possibility to focus only on developing its core competencies. Opportunities mentioned above reduce the need for creation of roles and systems and in many cases enable new venture to fulfill its services to customers faster and more efficient than when developing the skills needed internally. In conclusion, Morse et al. (2007) propose that "*Virtual embeddedness facilitates new ventures' access to and acquisition of external skills, services, and systems.*" (Morse et al., 2007).

Lack of trust-based relationships and legitimacy

New ventures can overcome the lack of trust-based relationship and legitimacy by virtual embeddedness specifically, by providing substitutes for trust through a rapid and widespread distribution of information about their trading partners. Based on the research showing the potential of alternative mechanisms to overcome trust-based challenges, Morse et al. (2007) argue that technology-based trust substitutes have a big potential. Even though Internet based relations may seem not as trustworthy as face to face relationships, they often are associated with information system-based alternatives such as rating systems on auction sites or customer testimonials (in a variety of sources). Those systems are characterized by transparency associated with the exchange relationship, the speed of distribution of the information about the potential trading partners, and an easy access to the information needed. All those features enable development and distribution of reputations much faster compared to traditional way of interacting. Therefore, Internet based information systems are said to act as substitutes for trust-based relationships by reducing risks connected to interorganizational relationships. What is more, the cost and efficiency of Internet based information systems is much higher than other trust substitutes such as contractual safeguards or hierarchical controls (Morse et al., 2007).

Combination of Internet-based systems and cultural values associated with the Internet give new ventures strong alternative to trust relationships and may help to overcome both: new venture's lack of legitimacy and its exposure to opportunism. By increased transparency of exchanges, the risk of dealing with strangers is lowered for both sides. To sum up, the following proposition is made. "Virtual embeddedness provides a substitute for trust through widespread dissemination of information regarding the reliability of trading partners" (Morse et al., 2007).

Lack of social capital

Virtual embeddedness may facilitate the rapid and efficient formation of new connections and therefore help new ventures to overcome the lack of social capital. According to Morse et al. (2007) virtual embeddedness facilitates specifically ties connected to sustained growth. The speed and efficiency of creating virtual connections helps new ventures to develop a network of weak links that leads to overcoming structural holes and therefore, the growth of the company. While virtually embedded ties are not as rich as ties made in traditional ways, specific character of those weak ties allows new ventures to organize network-based resources in order to survive and grow. Morse et al. (2007) come up with two propositions: "*Virtual embeddedness increases the number of interorganizational relationships available to new ventures*" and "*Virtual embeddedness increases the speed with which a new venture can establish interorganizational relationships*" (Morse et al., 2007).

Lack of economic capital

Morse et al. (2007) state three key reasons why lack of economic capital can be overcome with the use of virtual embeddedness.

Firstly, opportunity of virtual embeddedness enables new ventures to rapidly acquire effectiveness associated with network forms organizations, in a way that "*resources can be gained and competitive advantages realized without incurring the capital investments of vertical integration*" (Larson, 1992, p. 78).

Secondly, being embedded in virtual space makes it easier to be seen by potential investors and present the information they need to make an informed investment choice. A wide variety of information about the new venture, that in different circumstances would not be so easily accessible, is available for potential investors.

Thirdly, virtual embeddedness enables faster and easier access to a bigger number and wider range of capital providers. The Internet platforms where new ventures can present their businesses to angel investors or venture capitalists, or crowdfunding platforms help connect widely distributed networks of entrepreneurs and capital providers, and therefore, create more opportunities for equity funding to emerge.

The speed and efficiency of virtually embedded ties, which are highly focused and global, also increased access to sources of funding that require personal contact and relationship building. New ventures are now able to search for capital not only in their close geographical location, but all over the world. Additionally, Internet based debt financing institutions may also offer better conditions compared to traditional banks and therefore help new ventures to acquire capital. Web-based information and application processes also helped to make other important forms of capital such as government grants more accessible. Considering all of the above, it is argued that "*Virtual embeddedness increases new ventures' access to economic capital.*" (Morse et al. 2007).

By showing that virtual embeddedness responds to all four sources of liability of newness, Morse et al. (2007) sum up their propositions into final concluding proposition that states "*All other things being equal, the degree to which a new venture is virtually embedded will increase its likelihood of survival.*" (Morse et al. 2007).

Concluding section 2.3, we learned what is the definition of virtually embedded tie, its components, and how it relates to socially embedded tie and arm's length tie. Then, the concept of virtual embeddedness was explained. Lastly, the theory about the effects of VE on LON was shown. It is important to understand presented concepts and their characteristics in order to relate them to LOF and internationalization process of new ventures.

Summarizing chapter 2, we presented definitions and theory about: new venture, new venture internationalization, challenges connected to NV internationalization (LON and LOF), internationalization process, network perspective on internationalization, network, the role of networks in early internationalizing companies, virtually embedded ties, virtual embeddedness, and VE effects on LON. While some of the definitions were presented in order to set a background and overall understanding of concepts, the theory about networks was introduced in order to understand in detail and find the relation between internationalization of new ventures and virtual embeddedness effects on NVs.

3. HYPOTHESES

In this master thesis we argue that based on the theory presented in the literature review section, virtual embeddedness may facilitate new venture's internationalization process. In this chapter the thinking process behind the reasoning will be explained and specific hypotheses will be developed together with their theoretical justification, in order to answer the main research question.

First, when looking at the internationalization process of new ventures (and companies in general) in the international business literature, we decided to look at this phenomenon from network perspective. In this approach the company is looked at not as an individual, but in relation to other actors in the foreign market (Johanson and Mattson, 1988). One of the most recognized internationalization models in international business literature - The Revised Uppsala Internationalization Model (Johanson and Vahlne, 2009), describes the business environment as a web of relationships, a network, rather than as a neoclassical market with many independent suppliers and customers. Therefore, further on in our reasoning we are focusing on different aspects of new venture's (or entrepreneur's) network in order to examine virtual embeddedness influence on internationalization process.

Secondly, when examining the internationalization process of new ventures, we focus on the biggest challenges that companies are facing when it comes to internationalization as well as their sources. After analysing the literature, we conclude that there are two main liabilities connected to being new on the foreign market and as a company in general, and academic literature describes them as liability of foreignness and liability of newness. It was shown by Morse et al. (2007) how virtual embeddedness can help new ventures to overcome liability of newness. In a similar fashion, further on in this chapter specific sources of liability of foreignness will be presented in order to present how benefits of virtual embeddedness may help with overcoming this liability.

Next, after introducing the concept of virtual embeddedness we focus on specific benefits that are associated with companies being virtually embedded. As presented in the literature review (Morse et al., 2007) virtual embeddedness and its benefits can help new ventures to overcome liability of newness and therefore increase their chances of survival. In this thesis, with the same pattern of reasoning we would like to argue that the same can be said for liability of foreignness and in consequence increase chances of successful internationalization for a new venture. Table 3 presents sources of liability of foreignness and corresponding benefits of virtual embeddedness.

Benefits of Virtual Embeddedness for New Ventures	
Sources of liabilities of foreignness	**Benefits of virtual embeddedness**
Coordination costs of international business	Reduces the coordination costs of international business by facilitating access to and the acquisition of external skills, services, and systems (relevant to the foreign market)
Unfamiliarity with the foreign environment culture	Reduces unfamiliarity with the foreign environment culture by facilitating access to and acquisition of external knowledge about the foreign market and culture
Lack of information networks, legitimacy and political influence in the host country	Facilitates the creation and management of interorganizational ties, that may provide relevant information about the host country

Inability to appeal to nationalistic buyers and other stakeholders	Increases access to a greater range of potential buyers and capital providers from the host market (who are more open to foreigners)

Table 3 – Sources of liability of foreignness, self-made based on Zaheer (1995) and Morse et al. (2007)

Coordination costs of international business

One of the first mechanisms of liability of foreignness is connected to coordination costs of international business. Travelling, transportation and coordination costs associated with foreign market activities are often too high for new ventures to overcome and in result discourage them to continue on their internationalization path.

We argue that virtual embeddedness may potentially lower some of those costs in at least three ways. Based on the work of Morse et al. (2007), first, virtual connections and web-based commerce can make it easier for companies to identify and locate individual or organizational service providers relevant to the specific market. Second, some of the required services can often be hired and delivered through virtual connections. Lastly, thanks to web-based platforms bringing wider variety of offers (for example for transportation of goods) new ventures can lower their costs by choosing the most beneficial offer.

According to Kaplan and Sawhney (2000) thanks to Internet-based business environment, a wide variety of relatively specialized skills became more accessible to a broader spectrum of companies. Online professional job-search/networking platforms (like for example Linked-in) allow new venture to search for thousands of offers from a specific area or globally and in result, we argue that it makes it more accessible for new ventures to acquire services or knowledge needed to operate on the specific foreign market.

The efficiency and low cost of electronic ties allows new ventures to develop and manage much bigger network and therefore not needing to rely only on already existing relationships. Moreover, virtual ties are characterized by high level of focus and more narrow, targeted scope (Morse et al., 2007). We argue that this could facilitate the ability to outsource relevant foreign market activities, and as a result lower the costs of international business.

3.1 Hypothesis 1

Virtual Embeddedness may reduce costs of international business by facilitating access to and the acquisition of external skills, services, and systems relevant to the foreign market

Unfamiliarity with foreign environment culture

Another mechanism behind the liability of foreignness is an unfamiliarity with foreign environment culture. It is associated with “lack of roots” in the foreign environment, lack of understanding of the culture, social environment and political environment.

We argue that this liability can be minimised or overcome by acquisition of external knowledge about the foreign environment and culture through virtual connections. Johanson and Vahlne (2009) state that the more embedded the company becomes, the more it interacts with its partners, becoming more aware of each other’s skills and resources, and being able to combine them in order to create new knowledge or reach new foreign markets. We argue that virtual embeddedness can bring similar results (as also argued by Fowler et al. 2004). Moreover, because of efficiency and low cost of virtual connections, we think that virtual embeddedness may be developed faster and cheaper compared to traditional way. Examples of how new ventures can acquire knowledge about the foreign market can be as simple as the use of relevant discussion forums, government websites (e.g. Danish Business Authority web page about doing business in Denmark provides extensive information about rules and necessary requirements to do business in Denmark) or professional social media platforms (e.g. on Linked-in platform where virtually embedded new venture can reach out to potential business partner from specific foreign market and, if potential partner is interested in cooperation, learn about certain characteristics of the market).

O'Gorman and Evers (2011) in their research found that new ventures search for foreign market knowledge among their network contacts. Moreover, Coviello and Munro (1995) indicate positive effects of foreign market knowledge exchange between network partners, leading to rapid internationalization and increased competitiveness abroad. Lastly, scholars emphasize that internationalizing new ventures often lack the resources to conduct comprehensive research about the foreign market, and therefore gather it from their network partners. We argue that by being virtually embedded it may be easier for new venture to develop bigger network, especially of weak network ties that are associated with access to more diverse, non-redundant information that according to Han (2006) and Kiss and Danis (2008) leads to increased internationalization speed.

3.2 Hypothesis 2

Virtual Embeddedness may reduce unfamiliarity with the foreign environment culture by facilitating access to and acquisition of external knowledge about the foreign market and culture.

Lack of information networks, legitimacy and political influence in the host country

The third mechanism behind liability of foreignness is associated with lack of information networks, legitimacy and political influence in the host country. Possible causes of those obstacles are lack of trust among local customers and partners and the need to tailor the product or service to the specific market.

We argue that potential to be virtually embedded gives new ventures at least two ways to deal with the obstacles mentioned above. First, virtual embeddedness may provide the substitute for trust in form of better transparency (Morse et al. 2007). Second, as already mentioned in justification of previous hypothesis, rapid and efficient establishment of external connection relevant to specific foreign market may provide relevant knowledge needed to tailor the product or service to the foreign market.

The rapid and widespread dissemination of information associated with the Internet environment enables new ventures to become more transparent and therefore more trustworthy. As shown in the literature review (Morse et al, 2007) by the use of online rating platforms, reviews or discussion forums, new ventures can build their reputation relatively faster and with lower cost than compared to traditional ways. As a consequence, we argue that virtually embedded new ventures may build new interorganizational ties in the new market easier and therefore lower risks associated with lack of networks, legitimacy and political influence.

3.3 Hypothesis 3

Virtual Embeddedness may facilitate the creation and management of interorganizational ties, that may provide relevant information about the host country.

Inability to appeal to nationalistic buyers and other stakeholders

Last mechanism connected to liability of foreignness is an inability to appeal to nationalistic buyers and stakeholders.

We argue that being virtually embedded may help in overcoming this liability by being able to reach a much wider audience and also avoid nationalistic behaviour, which is relatively rare when it comes to Internet-based environment (which is associated with global and more cosmopolitan approach).

A study about online consumer ethnocentrism and international social media marketing conducted by Widjaja et al. (2014) found that the relationship between the level of consumer ethnocentrism and foreign product marketing is insignificant, as in social media "what is local inevitably becomes global" and therefore, enables foreign companies to benefit of global marketing channel through social media regardless the consumer ethnocentrism level (Widjaja et al. 2014). By the use of online platforms new ventures are allowed to reach a wide number of potential clients at a lower cost. One of the examples can be a use of online crowdfunding platforms, which enable entrepreneurs to present their business ideas to a wide audience of capital providers by the use of social media platforms, and then provide them with equity shares or other benefits in exchange for the funding (Belleflamme et al. 2014). Crowdfunding ensures international visibility and increases the number of potential investors.

3.4 Hypothesis 4

Virtual Embeddedness increases access to a greater range of potential buyers and capital providers from the host market.

Summary Relationship

In our attempt to justify each of the hypothesis presented in this chapter we argue that virtual embeddedness may reduce the impact of mechanisms behind the liability of foreignness. Through the use of virtual connections, acquisition of external knowledge by the use of virtual ties, development of transparency (substitioning trust), rapid and efficient establishment of external connections relevant to specific foreign markets and ability to reach a wider amount of potential partners, new ventures that are able to use virtually embedded ties in an efficient way may be able to overcome the threats of being foreign. All of the arguments mentioned above lead to our summary hypothesis.

3.5 Hypothesis 5

All other things being equal, the extent to which the new venture is virtually embedded will increase its likelihood of internationalization.

In conclusion, in this chapter four hypotheses were developed together with the reasoning behind their creation, and an attempt of theoretical justification. Lastly, fifth (summary) hypothesis was developed. The hypotheses serve as an answer to the research question and will be later on tested. Further on, findings and the results of the testing will be analysed and discussed.

4. METHODOLOGY

A master thesis research can be conducted in various ways. *“Methodology is a mode of thinking, but it is also a mode of acting. It contains a number of concepts, which try to describe the steps and relations needed in the process of creating and searching for new knowledge” (Arbnor & Bjerke, 2009).* That is the reason why this chapter will present our methodological considerations as well as our paradigmatic approach for the present research.

The methodology chapter will begin with a discussion about the philosophical/theoretical viewpoints in relation to our analysis, followed by epistemological decisions. Researchers will present their standpoint about reality, followed by the research approach, research design as well as data collection methods and research quality.

In order to ease the process of writing and understanding this methodology, the framework of Kuaka (2012) (Four levels of methodological understanding) will be used as a guideline.

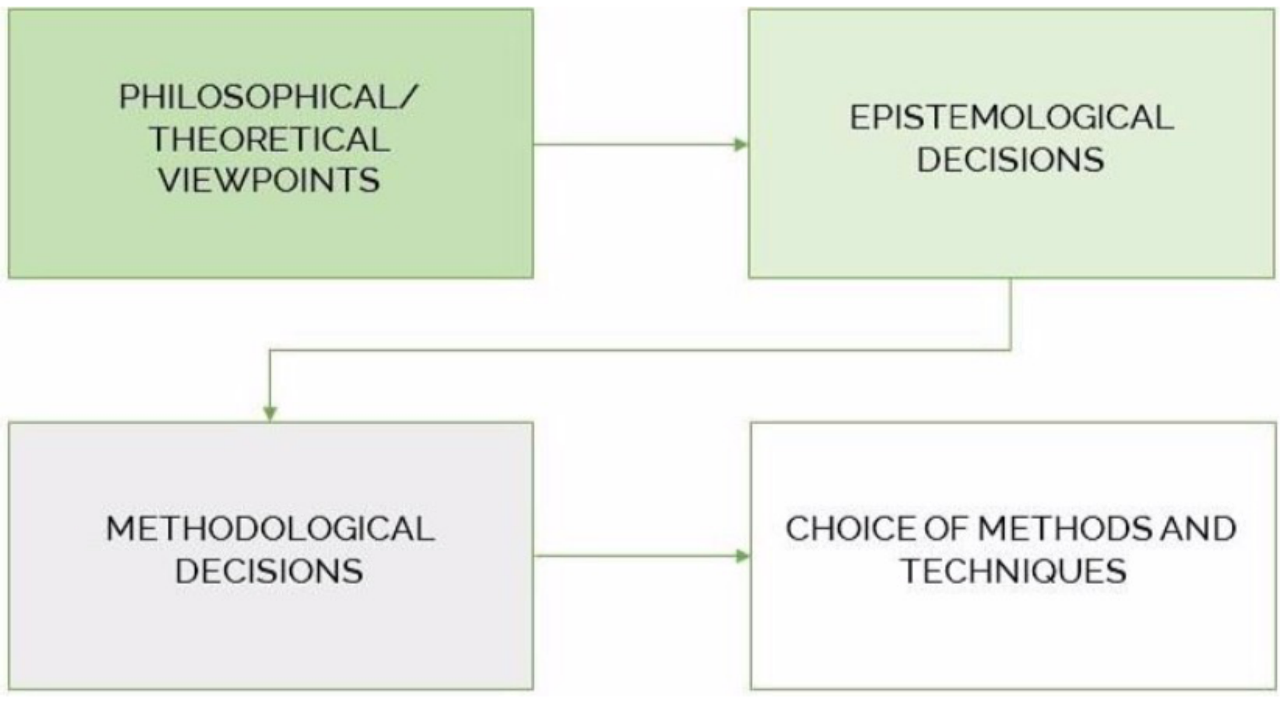

Figure 3 - Four levels of methodological understanding. (Kuada, 2012)

4.1 Philosophical Viewpoints

The main decision that researchers have to make when they conduct scientific research, is connected to expressing their philosophical assumptions and their research positioning. According to Hammersley, (2011) all research should rely on philosophical assumptions.

The concept of philosophical assumptions has been discussed in the literature by different authors such as: Burrell and Morgan (1979); Thomas Kuhn (1996); Arbnor and Bjerke (2009); Creswell (2014) as well as Bryman & Bell (2015) among others. All these authors have named the philosophical assumptions in different ways such as: paradigms; worldviews; ultimate presumptions as well as philosophical assumptions;

According to Arbnor and Bjerke (2009) the selection of philosophical assumptions will have a huge impact on the choice of research questions; research design selection as well as the data collection methods. The literature argues that researchers with different worldviews are subject to offering different perspectives about the same social problem. Thus, the choice of research, research design selection and data collection methods will be affected by the authors' assumptions and values (Kuada, 2010). When a group of researchers conduct an analysis, they should create a common understanding of the phenomenon studied, ask the right questions in regard to the phenomenon, as well as finding out the most suitable way to answer the question under research and interpret the conclusion (Kuhn,1996).

The phenomenon that is researched in this paper is represented by the impact that virtual embeddedness has on new ventures' likelihood of internationalization. In this way researchers will be able to better understand if virtual embeddedness helps new ventures, or not when they internationalize.

The assumptions made by the researchers for this paper are based on different internationalization theories such as: Liability of foreignness, Network theory as well as Liability of newness .The researchers are focusing on understanding different theoretical aspects which can be controlled by new ventures and improve their internationalization likelihood, as well as aspects on which new ventures don’t have a high degree of control, but should be known or taken into consideration.

Considering the purpose of this research, the authors tried to assure the data objectivity and validity by focusing on secondary data that contains mainly objective viewpoints, but at the same time, different papers with subjective nature were also used. ***Therefore, the choice of philosophical assumption for this paper is represented by critical realism, which was mentioned for the first time by Guba and Lincoln (1994).*** Their framework became popular and it was acknowledged by many researchers as being suitable for multiple domains of study such as marketing (Easton, 2000) as well as international business Morais (2011).

Where does critical realism stand?

	Positivism	Postpositivism	Constructivism
Ontology (what is the nature and form of reality?)	Naive realism Reality is assumed to exist.	Critical realism Reality is assumed to exist but only imperfectly apprehendable.	Relativism Not one reality but realities that can be apprehendable in the form of mental constructions.
Epistemology (what can be known?)	Objectivist « Replicable findings are true »	Objectivitiy is an ideal. « Replicable findings are probably true »	Findings are « value-mediated ».
Methods (how to acquire knowledge?)	Experimental and manipulative (laboratory settings)	Inquiry in natural settings Triangulation as a way of falsifying.	Transactional inquiry requiring a dialogue btw the inquirer and the subjects of the inquiry

Figure 4 - Critical realism philosophical assumption (Guba and Lincoln, 1994)

As the framework suggests, critical realism is a stance positioned between positivism and constructivism, which makes it a post-positivist approach. According to Wildemuth (1993), postpositivism is “a central pluralism” which is the balance for the positivist and constructivism / interpretivism approaches. He emphasizes that the focus of postpositivism is to research problems that the majority of people have and announcing the conclusion that the majority decided as acceptable (Fischer, 1998).

Even though the post positivist stance strives for research exploration, it is different than the positivist research because it points out that the “absolute truth” cannot be found. (Guba and Lincoln, 1994). Post Positivist researchers do not agree with the idea of seeing the world as it is, but they consider most human beings to have biased observations (Trochim et al., 2016). Therefore, postpositivism emphasizes that objectivity can be the approach or end goal, but researchers can’t reach it perfectly due to bias.

Critical realism is not meant to disprove the idea of native realism, but rather to understand a research from multiple dimensions (Guba and Lincoln, 1990). Post positivism critical realists admit that errors can be made at any level and that every theory is revisable, while results can be altered during time.

There are multiple reasons why critical realism was chosen as the main paradigm for this thesis. First of all, the reasoning behind our choice of paradigm is backed by the fact that the project researches internationalization challenges which enables the authors to ***build upon explanatory theories*** such as new venture internationalization, LOF, LON as well as Network theory and use them in the real life cases with a critical approach.

Secondly, researchers decided to choose critical realism as the main philosophical assumption because ***it allows the authors to access its’ interpretive dimension***. (Sayer, 2000). The interpretive dimension is needed because the study mixes different aspects of new venture LOF and LON and their impact on new venture internationalization process. Therefore, researchers seek to add insightful data to the existing theory about new venture internationalization with the focus on LOF and LON, by examining different case studies and decision makers from those companies. Aspects such as costs, networks, processes and customer behaviour will be included. When so many aspects are considered we cannot be truly objective. Therefore, in order to have a well built perspective and understanding of our analysis, the interpretive dimension was necessary.

We consider that our analysis can have errors and the outcome of our analysis is not always understood in the same way by all people. It was important for us that the paradigm chosen takes into consideration the **human aspect** , perception and experience because all of our theories are based on actors.

According to Kuada (2010) and Saunders et al. (2009) ***ontology*** refers to the assumptions about the nature of reality as well as the form of reality. According to Guba and Lincoln (1994) critical realism implies an objective world, independent of our knowledge in which reality cannot be fully understood due to the fact that it presents unobservables structures.

Critical realism claims that virtually embedded new ventures can face internationalization challenges regardless if they acknowledge their existence or not because of the unobservable structures. This idea raises a question mark for new ventures' in terms of their ability to face those challenges. Are they prepared to face new challenges? Will they be able to take advantage of the effects of virtual embeddedness so they could increase their likelihood of internationalization?

According to (Sayer, 2000) critical realism reality can be empirical (or the experienced reality) as well as actual reality (which is not based on the individuals' knowledge)

A critical realist ontology has major implications in whether the individuals involved in the process of new ventures' internationalization see those challenges real and they are implicated in those challenges, or they see those challenges socially constructed.

4.2 Epistemological decisions

According to (Kuada, 2012) the ***epistemological considerations*** are related to understanding the nature of knowledge - *"how do we know what we now"* as well as what we consider to be the truth. Burell and Morgan (1979) emphasize that epistemology debates how individuals understand the world and communicate knowledge. The critical realism implies an epistemology in which objectivity is an ideal, and in which replicable findings are probably true. Errors can occur. The critical realist researchers understand that everything they know about reality comes from their own perception about the world / worldview.

In analysing the effects of virtual embeddedness on new ventures likelihood of internationalization, researchers took a modified dualist perspective and they consider that findings are probably true with focus on objectivism. Therefore, reality in our research exist independently of our perceptions.

The critical realist researchers understands the nature of knowledge based on three main concepts: domain of real, actual and empirical. (Morton, 2006). According to Morton, (2006), the idea of empirical domain covers all observable experiences faced by virtually embedded new ventures in their process of internationalization. The domain of actual covers all the actual events and mechanisms that really happen when new ventures internationalize. The domain of real covers all the mechanisms behind the actual events that happened.

The implications of how epistemology impacts this project are characterized by neutrality and objectivity in our attempt to examine how new ventures can increase their likelihood of internationalization. But, researchers are aware of the fact that it is impossible to be completely objective. That's the reason why we consider that a small degree of interpretivism is present throughout the research.

4.3 Methodological Decisions

The paradigms of Arbnor and Bjerke (2009) are describing the link between ultimate presumptions that researchers have, and the practical use of the various methodological techniques explained further on this research.

According to Abnor and Bjerke (2009) there is a total of six overlapping paradigms which are positioned between the objective and the subjective perspective of the researchers.

The six paradigms got divided in three main dimensions: analytic approach; system approach and actors' approach; The following graph positions the paradigms in terms of objectivity / subjectivity and explains each position.

O1	O2	O3	SO1	S1	S2
Reality as a concrete phenomenon that conforms to law and is independent of the observer	Reality as a concrete determinin g process	Reality as mutually dependent fields of information	Reality as a world of symbolic discourse	Reality as a social construction	Reality as a manifestation of human intentionality
The Analytical Approach: O1, O2 & O3					
	The System Approach: O2, O3 & SO1				
		The Actors Approach: SO1, S1 & S2			

Table 4 - The six overlapping paradigms (Arbnor and Bjerke 2009)

We are not going to describe each approach but rather focus on the method chosen for this research. ***The system approach*** was chosen as the methodological ideology for this project, because researchers see the world as a system created by integral elements. We consider that in order to answer our problem formulation, each integral element of networks, virtual embeddedness, LON, LOF as well as internationalization has to be discussed and understood. Furthermore, the subsystems of those integral elements are to be distinguished and connected.

According to Arbnor and Bjerke (2009) the researchers' purpose is to understand how changes in one specific element within the system influences the other elements. For example, researchers need to understand how a change in networks or technology influence the new ventures' process of internationalization and what other elements are influenced, as well as how.

The system approach is assuming an objective reality which is seen by researchers as their main path. But this approach adds the subjective dimension of an unpredictable environment which could be influenced by actors. We considered this approach suitable because within our analysis we make reference to new ventures' which are controlled by actors that can have a subjective behavior.

The objective reality in the system approach is created with the help of paradigms O2 and O3: reality as a concrete determining process and reality as a mutually dependent fields of information. The subjective-objective perspective is created through the means of paradigm SO1 - reality as a world of symbolic discourse. Please see graph below for better understanding.

Paradigm O2	Paradigm O3	Paradigm SO1
Reality as a concrete determining process	Reality as mutually dependent fields of information	Reality as a world of symbolic discourse
Systems Approach		

Table 5 - The System Approach (Arbnor and Bjerke, 2009)

4.4 Choice of methods and techniques

4.4.1 Research approach

4.4.1.1 Inductive vs Deductive

The research approach explains how scholars are collecting, analysing and interpreting the data. When the authors are choosing their research approach they have to think if they are trying to test a theory or generating a new one from the data collected. According to Wilson (2014), two main methods are used when considering the research approach: inductive and deductive.

For this project researchers have chosen the ***deductive research approach*** due to the fact that we are trying to test theory. Therefore, in regard to this project the inductive method will not discussed. I explain the reasoning of my choice of approach further on.

Gulati, (2009) has defined the deductive research approach as a *"reasoning from the particular to the general. If a causal relationship or link seems to be implied through a particular theory or case study, it might be true in many situations. A deductive design might test if these relationships or links obtain on more general circumstances"*

According to Bryman & Bell, (2015) the deductive research approach is a six step procedure which involves: an analysis of the literature existent; creating a conceptual framework or hypothesis based on the literature reviewed; collecting the primary data; illustrating the findings; Accepting of rejecting the hypothesis as well as reviewing the theory. For this project researchers started with collecting and analyzing the literature existent on LOF, LON, internationalization, virtual embeddedness and networks. After the literature review, researchers created hypotheses which present what impact virtual embeddedness has on the likelihood of new ventures' survival. After hypotheses, the researchers collected primary data through means of semi-structured interviews and test if the hypotheses match the case interview. At the end researchers reject or confirm the theory, as well as review it.

The following is a visual representation of our research approach. The graph is created based on the process of deduction by Bryman & Bell (2015).

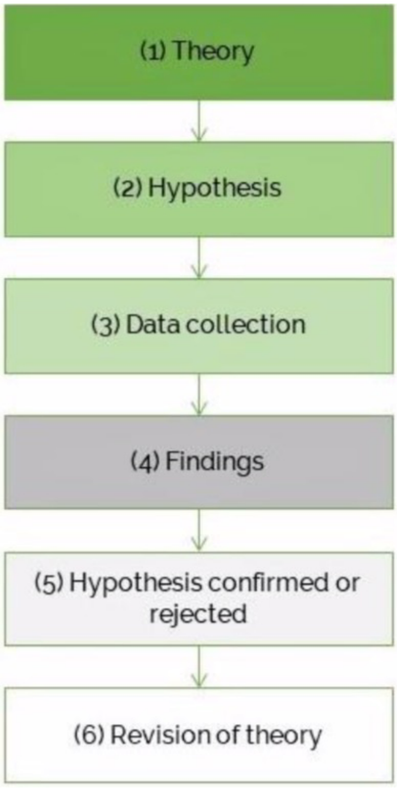

Figure 5: Deduction Process (Bryman & Bell 2015)

In the world of researchers, it is known that the deductive research approach is mainly used in combination with quantitative data. On the other hand, the inductive approach is more suitable for qualitative data. Bryman & Bell (2015) emphasizes that ***"this issue is not always as evident as presented"***

4.4.1.2 Qualitative vs Quantitative

In terms of data collection methods, Creswell (2014) identified three main categories: qualitative, quantitative and mixed research types. The mixed research approach implies a combination of quantitative and qualitative data. The most suitable data collection method for every project is the one that considers and matches the purpose of the research. (Silverman, 2013). The reasoning behind this affirmation is related to the idea that each type of research question (How, What) requires a different data collection method.

The researched topic for this paper is concerning virtual embeddedness and how new ventures can increase their likelihood of survival in the process of internationalization.

Qualitative interviews are created with the purpose of gaining a better understanding, by focusing on the perceptions of the actors involved. (Ghauri et al. 2010). Therefore, we found the ***qualitative data collection method*** as the most suitable for this paper.

Researchers have used the qualitative data collection methods because the topic analysed involves many aspects that are used for answering the research question such as actors, networks, culture and so forth. Therefore, we consider that by collecting descriptive knowledge and *"individual perceptions, attitudes, beliefs"* was the most suitable way to answer our research problem. (Julian & Ahmed, 2012)

*The qualitative approach was chosen becaus*e it gives the researcher the power to better understand the way by which the internationalization decision maker (Valentin Nicoara) perceives the challenges, steps and what this process involves. Therefore, researchers could easily understand the perspective of the interviewee (Silverman ,2013).

The researched topic is highly influenced by human or management decisions, that being the reason why we needed to opt for a qualitative research which can include those aspects. New thoughts and individual views were understood.

Another reason why we have chosen the qualitative approach is because our end goal was to come up with a descriptive solution to our problem.

Az Doz (2011) emphasizes that "*Qualitative research is uniquely suited to opening the black box for different processes inside an organization related to how, who and why of individuals as well as collective organized processes"* This research method unveils a lot of context about organizations and that's the reason why we use it.

4.4.2 Research Design

According to Creswell (2014) the research design of a paper is very important because it controls the data collection methods as well as analysis. The research design has a huge impact on the way scholars reach their conclusion and ensure that the research question is answered. (Yin, 2003) . There are different research designs such as experimental, longitudinal, cross-sectional as well as the case study. Each of them has positive and negative aspects. (De Vaus, 2001).

Considering the numerous ways in which scholars can design their research papers, for this paper, researchers have used the ***case study research method***, created and developed by Robert Yin.

Researchers wanted to explore in depth the phenomena studied (Internationalization of new ventures) and therefore this method was the most suitable.

According to Welch et al., (2011) this method is the most used in analysing qualitative data, as it has the ability to generate theoretical insights. T*he case study research method was chosen because we wanted to conduct qualitative interviews and understand the interviewee perceptions in regard to different aspects of the phenomena studied.*

Ying (2003) advices that in choosing the research design three main points have to be considered: a) type of research question; b) the level of control that authors have on the events; c) the direction in which the research is pointed: contemporary or historical.

One of the reasons why we have chosen the case study research method is related to the fact that it has a very narrow focus. Understanding the internationalization of Stifler - a new venture, through the eyes of a decision maker was the end goal. Other research designs, such as longitudinal, experimental or cross-sectional wouldn't have been a good fit for our research, because we would not be able to get such detailed information that could create a descriptive conclusion which would have enough facts to approve or reject our hypothesis and / or develop the actual literature review.

Based on the guide created by Robert Yin, the case study method has to be used when the researchers answer "how" or "why" questions. Our research is concerning "*How does virtual embeddedness affects the likelihood of new venture internationalization?".* Yin (2003) emphasizes that the case study method is a good fit when the research is concerning contemporary issues. Therefore, the method is a good fit because our research topic is very actual, as it involves virtual embeddedness and an actual new venture. Easton (2010) emphasized that the case study research method goes hand in hand with the critical realism philosophical view, which is also a great point for our design.

According to Yin (2003) an important aspect is to think and conclude about the number of case studies that are going to be researched. He emphasizes that better and more robust results can be achieved if the amount of case studies is bigger, but there is no correct number. For this analysis we have selected only ***one case study***, due to time pressure.

The advantage of using a single case study, is represented by the fact that researchers can dig very deep and create compelling findings. Even though, we had a single case study we argue that our research would have had a different outcome if we were able to conduct a greater number of case studies.

The selection criteria for our case study company has the following requirements:

- the company has to be virtually embedded;
- It has to be a new venture;
- It has to be international or in the process of internationalization;

Researchers posted on different groups on Facebook in order to find companies that match the above criteria and used the ideology of convenience sampling in order to select the most suitable case company for the research.

4.4.3 Data Collection Methods

We have chosen the semi structured interviewing technique because it is the only possible way to obtain comprehensive data from the decision makers of Stifler. Therefore, we were able to better understand how they think, what is driving their will and actions, as well as how they make decisions in regard to the internationalization process of Stifler. Considering the fact that the company doesn't have a lot of information on their website, the semi-structured interviewing choice was the smartest one, as we could ask a lot of questions and gather internal data that could help us in concluding the research.

The interviewee chosen in our case study was a decision maker for the internationalization process, which made it easier for us to answer our problem formulation as these informant had in-depth understanding of the internationalization process, challenges faced during the process and so forth.

Researchers have created an interview guide that was split into five different sections with questions related to the company at first and then narrowed down to internationalization, networks, virtual embeddedness and overall LOF and LON. The semi structured interview approach was the most suitable approach as we could also ask in depth questions about specific topics that have a high impact on our research. The interview was conducted in English.

According to Yin (2003) there is a total of six different sources of data that researchers can use. Those sources of data are documents; archival records; interviews; direct observations; participant observant as well as physical artefacts. In order to create a robust and reliable research paper Yin (2003) advises the usage of as many data sources as possible.

The following table presents the six data sources with their strengths and weaknesses.

Source of evidence	*Strengths*	*Weaknesses*
Documentation	-can be reviewed repeatedly -contains exact names, references, and details -broad coverage	-can be difficult to find -biased selectivity -access can be limited
Archival records	-same strengths as documentation -usually very precise	-same weaknesses as documentation -accessibility
Interviews	-focus directly on case study topic	-bias as a result of bad articulated questions -interviewee gives want he/she wants to hear
Direct observations	-reality contextual	-cost -time-consuming -selectivity
Participant observation	-insightful into interpersonal behavior	-bias due to participant-observer's manipulation of events
Physical artifacts	-insightful	-selectivity -availability

Table 4 - Data sources with strengths and weaknesses (Yin, 2003)

For this research we have used documentation as the main source of secondary data and interviews as primary data.

4.4.3.1 Secondary Data

For the case study research method, documentation is the most popular source of data collected. This is happening because researchers can use references and include details that can be reused in further research by raising questions in relation to the subject researched.

Researchers have used secondary data for describing the company case description. The data was gathered from the company's website (Stifler.ro / eu).

4.4.3.2 Primary Data

Primary data is represented by original or first-hand data that researchers are gathering through means of interviews, direct observations or participant observation (Yin, 2003).

Primary data for this research was collected through the means of semi-structured interviews. Considering that the research was based on a single case, the amount of primary data was reduced to a single interview. In order to answer the research question, the authors have structured the interview questions in a systematic way, which is supposed to help the interviewee to easily follow the interview process.

Primary data was collected from different reliable databases such as: Google Scholar, ScienceDirect, ProQuest as well as ResearchGate. We have used different search keywords such as: virtual embeddedness; new venture; internationalization; LOF; LON and networks. By collecting different articles with different opinions researchers managed to gain a good understanding of the literature used in this paper and at the same time maintain the reliability of the data.

4.4.4 Quality of the research

Every research paper should be of high quality. The two most prominent quality assessors in social sciences are ***validity and reliability***. (Bryman & Bell, 2015).

4.4.4.1 Validity

The validity concept is concerning the credibility of the research. It questions the truth of the topic researched. Are we sure that our interpretations are real and valid?

When researchers are using secondary data as in our case (theories about LOF, LON, virtual embeddedness, networks and internationalization), questions about the validity of this data should be raised. Therefore, in order to ensure the validity of the data collected, researchers included and analysed the most prominent papers in the field. By doing so, all theoretical findings from the case studies kept an objective view with the sole purpose of giving an unbiased conclusion.

Apart from the primary data used, researchers have been doing semi-structured interviews. Myhre, (2017) emphasizes that when conducting semi structured interviews it is possible to collect qualitative data which is liable to subjectivity, because the interviewee can present his own subjective and biased understanding, rather than an objective view. In order to assure the reliability of the paper, researchers will keep an objective view by creating a systematic interview approach which helps the interviewee to stay on track.

Furthermore, the lack of researcher's experiences in conducting interviews can be seen as a negative influence for the reliability of the study. In order to cope with that researchers have tried to create a close relationship with the interviewee which would maximize the reliability of the study.

4.4.4.2 Reliability

Reliability is concerning the possibility of repeating the results of the research. (Bryman & Bell, 2015). This paper consists of numerous theories that were researched by other authors and demonstrates the relationship between new ventures' virtual embeddedness and internationalization.

The objective stance that is kept on most levels of this research is also a good supporter for reliability, because the authors have low influence on the researched environment. We strive for showing a true picture of the phenomena studied. Comprehensive research and the use of multiple academic sources also assures the reliability of this paper in terms of theory.

However, the case study research method is not suitable for generalizations of the conclusions neither for replicability. The purpose of this research was to create a rich understanding of the case presented rather than to repeat the outcome of our conclusion.

5. ANALYSIS AND DISCUSSION

In this chapter first the overview of the case study will be presented. Then, the findings (first hand and secondary data) will be analysed and discussed. At the end of this chapter findings will be summarized.

As the main focus of the research is to examine how VE affects the likelihood of new venture's internationalization, the relevant hypotheses were created and now will be tested. In order to examine four main hypotheses, the themes are developed based on the sources of LOF. Each hypothesis is built upon the specific source of LOF and connects to corresponding benefits of VE. The themes developed are: (1) Coordination (activity-based) costs, (2) Unfamiliarity hazards, (3) Relational hazards, and (4) Discrimination hazards. Each theme will be first presented with relevant data collected, and then interpreted and discussed underneath. The last summarizing hypothesis will be analysed and discussed in relation to four previous hypotheses.

5.1 Case description - Stifler

Stifler (Amis Ecommerce SRL) is a limited liability company and an ecommerce platform designed to sell accessories. The accessories they are selling are phone covers for different types of phones; speakers; auto accessories; external batteries; chargers and adaptors; headphones; video camera; kick scooters and other types of accessories. (Stifler.ro or Stifer.eu)

Stifler was started in 2015 because of their owners love for iPod. They started taking their ipods wherever they were going, and they had the feeling that the ipod had to be protected with a case. But it had to be a high-quality product that can match the high standards of the ipod. That's how the idea of Stifler was born. Today they are not only selling ipod covers, but all other accessories mentioned earlier.

Stiflers' mission is to offer their customers a variety of high-quality accessories which fits perfectly with their customers' lifestyles and their gadgets. They core values stand for high quality; elegance and usability. Every accessory sold by Stifler comes with a warranty certificate as well as great return policy of 35 days.

From inception in 2015, Stifler had a turnover of 57.000 RON and grew up organically each year as it follows: 2016 - 505.665 ; 2017 - 2.059.793; 2018 - 4.101.939; and 2019 - 6.705.009; Their net profit varied each year as it follows: 2015 - 44.632; 2016 - 185.550; 2017 - 294.968; 2018 - 147.051; 2019 - 380.181; All the numbers are expressed in RON. The following graphs summarize the turnover as well as the net profit of Amis Ecommerce SRL.

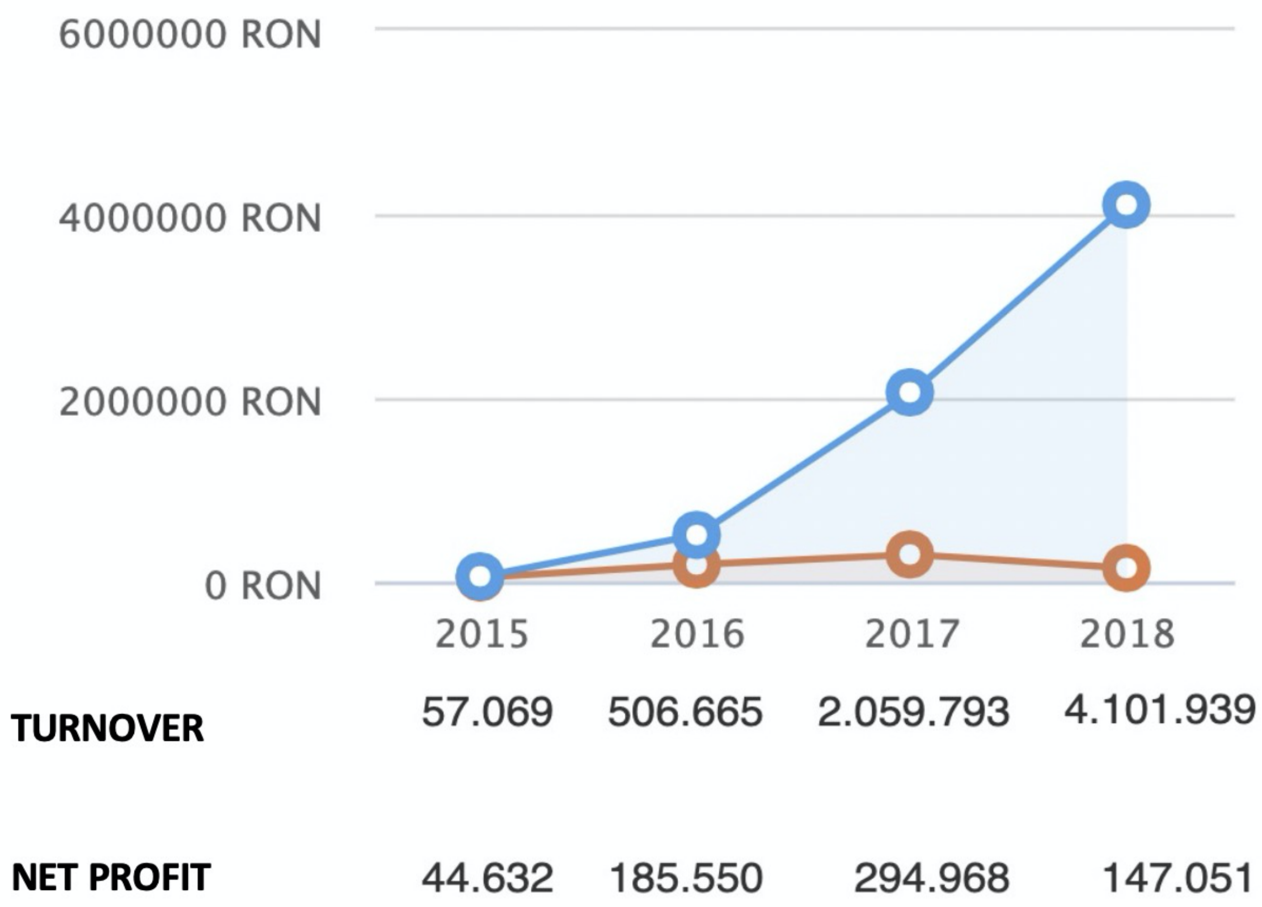

Figure 6 - Own creation with data retrieved from wwww.termene.ro (Financial reporting website)

Stifler has been present in different markets as it follows**:** Romania, Hungary, Austria, Germany, Croatia, Slovenia, Slovakia and Chech Republic. Currently they operate in Romania as well as in Hungary. The company has a physical office and fulfilment center in

Romania, and a fulfilment center in Slovakia, while on the other countries they are present only virtually. (Interview)

According to Valentin Nicoara (the interviewee), Stifler employs eleven persons which are working full time “We have eleven people which are working at the office”, as well as two other people which are working remotely. Furthermore they outsource some collaborators in order to do translation work, editing and small tasks related to the maintenance of the website as well as fulfilment work.

Stifler is operating only in the online environment, which makes it very easy for them to internationalize in different markets. According to Valentin Nicoara the company goal for the next five years is to “expand in all countries in Europe”. (Interview)

The company uses Shopify (an online ecommerce platform) as their main tool which makes it really easy for them to integrate orders; products; payments; deliveries as well as marketing and customers tracking without coding knowledge - “Shopify is very easy to use, no coding knowledge required” - (Interview)

The business procures the products which are being sold from two main partners in China. All the products are being shipped to Romania or Slovakia in bulk and afterwards, from those countries they are being sent to all the other markets.

5.2 Analysis

5.2.1 Theme 1 Coordination (activity-based) costs.

In this theme the data relevant to challenges (or opportunities) connected to coordination costs of international business (for example transportation and communication costs, trade barriers or costs associated with foreign exchange transactions), as well as data describing how the case company is responding to those, will be presented.

Theme (1) Data

First information connected to the coordination costs of international business for Stifler was a mention of e-commerce online platform used for international (and domestic) sales. According to interviewee the platform is “very easy to use and does not require coding knowledge”. Early in the interview when asked about the online focus of the company interviewee stated “it is much easier this way, if it would be an operational (interviewer interpretation: physical) business, it would not be possible to expand so easily to other countries” (Interview, 2020).

Going abroad was also connected with a need to hire additional employees (part time) in order to translate the content of the sales webpage and work as a customer service. For the purpose of finding service relevant to a specific foreign market, Stifler used two online platforms for part-time “freelance” job offers - “Upwork.com” and “Freelancer.com”. The interviewee mentioned one example of a part-time employee who did some translation mistakes, that were noticed later on and corrected by a new “freelance” employee. In order to coordinate (and track/control) the work of a freelance employee Stifler uses software called “desktime” that monitors activity of employees’ screen. The interviewee stated that when internationalizing “We don’t hire people full-time” (Interview, 2020), which according to them lowers their risk in the process of going abroad.

Early in the interview, another issue was mentioned. The company met a difficulty related to foreign exchange transactions. Specifically, no physical bank wanted to open an account in Croatian currency. Stifler found an alternative in services of an online bank. Moreover, two online money transfer platforms - “TransferWise.com” and “TransferGo.com” were mentioned as a way to deal with refunds internationally.

Further activity connected to costs of international business is marketing. Stifler main (and only) way of marketing is online social media marketing - they use targeted advertisements on social media platforms “Facebook.com” and “Instagram.com”. Comment section on the Facebook.com serves also as a place where customers can interact with the company (ask about specific products or complain about the order).

Lastly, when asked about the costs of freight/shipment, the interviewee mentioned that “sometimes people reach out to us by email with offers (couriers and shipping companies) as they know about us from other people, they will reach out to us when they know we are doing big volume” (Interveiw, 2020).

Theme (1) Discussion

First example of how Stifler may lower the coordination costs of international business by the use of virtual embeddedness is the use of the online e-commerce platform Shopify.com that is used for sales. Even though the case company described is only oriented in digital space, compared to other ways in which they could potentially sell their products (for example having physical shops or using sales agent), web sales seem like the most cost-effective way. By being embedded in a virtual space the company was also able to find a relevant for a foreign market service (sales platform Shopify.com), that enables to reach the chosen foreign market, is easy to use and doesn’t require specific (programming/”coding”) knowledge. This example would be confirming one of the claims of Morse et al. (2007) that stated that web-based commerce (and virtual connections) can make it easier for companies to identify and locate individual or organizational service providers relevant to the foreign market (Morse et al., 2007). The interviewee also seems to be convinced that in his specific case it would not be possible to expand their business abroad in any other way (than use of online sales platform like Shopify), which is consistent with Kaplan and Sawhney (2000) who claim that the Internet-based business environment enables a wide variety of relatively specialized skills more accessible to a broader spectrum of companies. However, this example can also be seen as very specific, dependent on a company’s and entrepreneurs’ digital orientation, preferences and experience.

Another way of lowering operational costs of doing business abroad was a mention of other online platforms used for a part-time freelance work - Upwork.com and Freelancer.com. Besides confirming the claim mentioned in the paragraph above (about identifying and locating relevant service providers) this example is also consistent with the claim of Morse et al. (2007) saying that some of the required services can often be hired and delivered through virtual connections. However, based on the experience of the key decision maker from Stifler, it may be observed that hiring employees through virtual connections may come with its risks (a mention of an employee who made translating mistakes) and additional activities (for example monitoring software “desktime” used for monitoring employee’s activity). On the other hand, the interviewee mentions another benefit of working with freelance employees through virtual platforms - it lowers their risk (cost) when entering a new international market.

The case company was also challenged with another example of cost connected to international business related to foreign exchange transaction. Having problems with opening an account in foreign (Croatian) currency using traditional banking services, Stifler was able to find an alternative solution - online bank which provided them with wider offer and enabled to solve the problem. This example confirms another claim of Morse et al. (2007) stating that web-based platforms often bring a wider variety of offers and therefore, new ventures are able to lower their costs by choosing the most beneficial option. The interviewee also mentioned two online money transfer platforms TransferWise.com and TransferGo.com, that help the company in refund processing. However, we did not gather enough information in order to evaluate whether the use of those services is a way of reducing transfer or monetary exchange costs connected to international business.

Another example of a cost connected to operating internationally is marketing. The interviewee mentioned the use of two social media platforms - Facebook.com and Instagram.com for the purpose of advertising towards customers relevant to a specific foreign market. This example can also yet again confirm the claim of Morse et al. (2007) about web-based commerce providing service providers relevant to a foreign market - in this case advertising (marketing) service offered by those 2 social media platforms.

Last cost mentioned was associated with the cost of freight and shipment of products. Stifler’s representative described an example of couriers and shipping companies reaching out to the company with potential (more beneficial) offers by email, supposedly caused by common network contacts talking about Stifler doing big volume deals. However, we lack enough data in order to examine whether those connections were virtually embedded and if it can be seen as a benefit of virtual embeddedness.

Based on the interpretation of data assigned to the first theme of the analysis, we argue that the evidence tends to confirm **Hypothesis 1**: Virtual Embeddedness may reduce costs of international business by facilitating access to and the acquisition of external skills, services, and systems relevant to the foreign market.

5.2.2 Theme 2. Unfamiliarity hazards.

In this theme the data relevant to challenges (or opportunities) connected to firm specific costs associated with firm's unfamiliarity with and lack of roots in a local environment and culture (for example the costs of acquiring the knowledge about the foreign market), as well as data describing how the case company is responding to those, will be presented.

Theme (2) Data

First aspect mentioned connected to unfamiliarity was not being able to understand (for translation purposes) and speak (for customer support purposes) the foreign language. Stifler coped with it by hiring freelance part-time employees as mentioned in the previous theme. Language barrier was also mentioned in relation to cooperation with suppliers from China, however, "it was not causing any problems" (Interview, 2020). When asked about local (national) culture, the interviewee replied that they never considered it (except from the language). However, the interviewee brought up one example of the importance of knowing about national (local) holidays as they may be used as an opportunity (in order to sell specific products at a certain time), however the example was from the domestic market.

Another topic relating to unfamiliarity with a foreign environment was the marketing research. The interviewee mentioned two examples. First, the company analysed statistics form social media platform Facebook.com, "On facebook you can target people based on the device used, for example if they use iPhone 8, you know how many iPhone 8 phones are in the specific country and then you can estimate the market size. We did that to all the countries and based on that knew what to expect" (Interview, 2020). Second, Valentin Nicoara also mentioned the use of online report called "Internet Trends report" published every year, where they can learn: how big the market is, how many people are using the Internet, how many are using smartphones, how much money they spent online, do they buy locally or internationally. However, the interviewee also admitted "Normally we don't do much planning, we just launch and see how it goes… because it's easy" (Interview, 2020). Lastly, the ability to follow statistics about company's customers via web sales platform "Shopify" was also mentioned.

A country specific feature related to customer's payment preference was also mentioned. Stifler mentioned that in certain countries customers prefer "cash on delivery" payment method and that is important to know in order to adjust the payment system. Stifler learned about it before entering the Hungarian market, however, we don't know how this knowledge was acquired. Further on, one example from Czech Republic was mentioned. Because of long courier delivery times, 25% of all the packages were not being picked up. The interviewee mentioned about the situation being possibly related to distance to fulfilment center, however, the exact reason was not found out (Interview, 2020). Lastly, there were incidents in Hungary, where customers were asking for a monetary refund by post, due to potential lack of a bank account, which the interviewee found rather surprising.

Lastly, the interviewee also mentioned about learning about a new fulfilment center (that the company found more effective) from their network partner "We are in touch with e-commerce people online that have their own shops. I found out about this fulfilment center from my Hungarian guy from a facebook group, that is where we meet people, talk to them and exchange the information" (Interview, 2020).

Theme (2) Discussion

First aspect of unfamiliarity associated with foreign market culture that was mentioned by the interviewee was related to language. As sales platform had to be translated according to a specific foreign market, the company found relevant skills through virtual connections (facilitated by freelancing web platforms). This would seem to confirm the claim of Morse et al. (2007) stating that virtual embeddedness may lower the costs of acquisition of external knowledge about the foreign market and culture (and in this specific example - culture).

Another aspect related to unfamiliarity with a foreign environment talked about by the interviewee was marketing research. Two examples of marketing research were mentioned - analysis of statistics available through online social media platform Facebook.com and a report “Internet Trends report”. Based on those sources being accessible through virtual space, company’s managers were able to estimate some characteristics of a new foreign market before entering, therefore lowering risks connected to unfamiliarity. This example once again confirms the claim of Morse et al. (2007) about virtual embeddedness potentially lowering the costs of acquisition of external knowledge about the foreign market and culture (and in this specific example - market knowledge). It is worth mentioning another interesting finding related to marketing (foreign market) knowledge - the interviewee stated that usually they do not do much planning, as the costs of internationalising abroad through virtual tools is so low.

Three specific examples of challenges connected to country specific features, related to unfamiliarity, were also mentioned - about payment preferences, courier delivery time, and incidents of customers not having a bank account. However, we were not able to examine how or if the company dealt with those and whether virtual tools were used.

Last case mentioned that we found relevant for this theme, was finding out about a new fulfilment center from a virtually embedded network tie (from a facebook group). This example is consistent with claim of O’Gorman and Evers (2011) stating that new ventures search for the foreign market knowledge from their network contacts and claim of Coviello and Munro (1995) who said that foreign market knowledge exchange leads to increased competitiveness abroad.

Summarizing theme 3 discussion, based on the evidence provided by the case interview we confirm **Hypothesis 2**: Virtual Embeddedness may reduce unfamiliarity with the foreign environment culture by facilitating access to and acquisition of external knowledge about the foreign market and culture.

5.2.3 Theme 3. Relational hazards.

In this theme the data relevant to challenges (or opportunities) connected to costs resulting from the host country environment such as lack of information networks, political influence, and legitimacy of foreign companies, as well as data describing how the case company is responding to those, will be presented.

Theme (3) Data

The first aspect mentioned, regarding relational hazards was connected to the lack of trust among local customers and partners. In the same time Valentin emphasizes the need to build a reputation really fast - "You have to advertise a lot and it gets expensive, and very competitive, so you have to be very good, and more and more people are getting in, so it is getting even more competitive, but if you are good at what you do, it is fine, you have happy customers – it is fine". Based on his saying it is of utmost importance to advertise your product as much as possible, in such a way that the company and product will look good in the eyes of local customers as well as local partners.

Valentin Nicoara mentioned that Information networks, are the key to keeping in touch and developing relationships with different players in the network. He also emphasizes the fact that Stiflers' business network connections are primarily made online. He concluded that information networks have a huge impact on the way in which he gets access to information as well as meeting foreign partners. · "We are in touch with e-commerce people online (that have their own shops). For example, I found out about this fulfilment center from my Hungarian guy from a Facebook group, that is where we meet people, talk to them and exchange information. Offline, I attended one trade show in Romania and it was pretty bad – people were way behind". Valentin opinion about building trust and relationships offline is not that good, as he states that "people were way behind".

Another aspect that Valentin mentioned is related to the information dissemination "sometimes people will reach out to us by email with offers (couriers and shipping companies, they know about us from other people, they will reach out to us when they know we are doing big volume". Also, when he was asked if he used his online networks for hiring people or getting a better price for a deal, he mentioned that once "I have a designer friend, that sometimes does design work for us, but other than that no. Just the websites"

In regard to information dissemination he also mentioned that "he has built SOPs - Standard operating procedures, video plus text" so "every time that I hire someone new, I just ask him to watch all the video. It is about 8 hours of video content and they know how to do the job".

Lack of trust is another aspect that was discussed with the interviewee which needs to be considered in this section. For example, when he was asked about how he is building trust & relationships with suppliers, he mentioned that "My partner is getting in touch with them all the time, yeah so if he is there every day and he is placing bigger and bigger orders, at some point they even gave us credit. So we can pay like two weeks after we get products".

Theme (3) Discussion

The first aspect to be discussed in this section is represented by the lack of trust among partners and customers. We argue that by being virtually embedded Stifler gets easy access to different information networks that play an important role in the process of building trust between partners, customers and creating transparency. So different information networks such as review websites, forums, Facebook and Instagram facilitate the trust building process for Stifler as Valentin would imply “You have to advertise a lot and it gets expensive, and very competitive, so you have to be very good, and more and more people are getting in, so it is getting even more competitive, but if you are good at what you do, it is fine, you have happy customers – it is fine”. The end goal of trust building is to have happy customers as he emphasizes, as well as partners. These aspects confirm the idea of Morse et. al, (2017) which implies that by using online rating platforms, reviews or discussion forums, new ventures can build their reputation relatively faster and with lower costs compared to traditional ways.

Apart from building trust, companies which are virtually embedded have better access to information networks that make it easier to build relationships as well as maintain those relationships online. Considering the fact that Stifler conducts business primarily in the online environment, we can argue that they collect the fruits of virtual embeddedness as much as they can. Valentin mentions that “We are in touch with e-commerce people online (that have their own shops). For example, I found out about this fulfilment center from my Hungarian guy from a Facebook group, that is where we meet people, talk to them and exchange information”. According to Valentin Nicoara , his partner is taking care of building trust relationships “My partner is getting in touch with them all the time, yeah so if he is there every day and he is placing bigger and bigger orders, at some point they even gave us credit. So we can pay like two weeks after we get products”. We can argue that the above claims go hand in hand with the claims of Morse et al. (2007) who emphasizes that virtually embedded start-ups can build interorganizational ties in new markets with lower risks as well as lower costs.

Based on the above points, researchers are able to confirm **Hypothesis 3**, as the literature reviewed findings are in accordance with the data gathered through the interviews. Therefore, we confirm that virtual embeddedness facilitates the creation and management of interorganizational ties, that provide relevant information about the host country. By being virtually embedded Stifler has better access to information networks which helps in building trust relationships, as well as lowering the costs.

5.2.4 Theme 4. Discrimination hazards.

In this theme the data relevant to challenges (or opportunities) connected to economic nationalism among host country stakeholders (for example political hazards or consumer ethnocentrism), as well as data describing how the case company is responding to those, will be presented.

Theme (4) Data

When asked about whether the company ever experienced any discriminatory behavior the interviewee could not recall any incidents connected to such. When elaborated, and asked about customer's preferences between buying locally and internationally, the representative of Stifler told us about very good conversion rates in Czech Republic (4%, which according to the interviewee is very high) and in Slovakia (2.5%, which was described as average) which in our understanding shows that customers are buying from a foreign company very willingly.

The company was never raising any capital outside. When asked about whether the company was taking any actions to raise capital, interviewee replied "we were never raising any capital from outside".

Lastly, the representative of Stifler also stated that the company's activity was never affected by politics (or at least not in his understanding).

Theme (4) Discussion

The evidence from the case company suggests that no consumer ethnocentrism incidents were experienced. The interviewee stated that in 2 foreign markets - Czech Republic and Slovakia, the conversion rates (a statistic explaining how many people who are visiting the page are purchasing a product) were higher than average (for Czech Republic) and average (for Slovakia) when it comes to e-commerce standards. That would imply that consumers were very willing to buy from a foreign company and according to the interviewee were not showing any sign of discriminatory behavior. This would be consistent with our claim stating that being virtually embedded may help in reaching a much wider audience and also avoid nationalistic behavior. At the same time, it confirms findings of Widjaja et al. (2014) who found no significant relationship between the level of consumer ethnocentrism and foreign product marketing through social media.

As the company was never raising any capital outside, it is impossible to evaluate our claim about virtual embeddedness potential for raising capital from foreign investors.

Lastly, in understanding of Stifler's representative, the activities of the company were never affected by politics. It would imply that the company never experienced any discriminatory behavior from foreign market authorities. Therefore, we are also unable to examine whether virtual embeddedness helps companies to avoid or limit political hazards.

Based on the evidence relevant to the theme 4, we partially confirm **Hypothesis 4**: Virtual Embeddedness increases access to a greater range of potential buyers and capital providers from the host market. However, only the first part of hypothesis saying about a potential for greater access to buyers may be examined, moreover to a limited extent.

5.2.5 Summary

Based on the evidence from the case company, after analysis and interpretation, we were able to confirm three of the hypotheses: hypothesis 1, hypothesis 2, and hypothesis 3. Last hypothesis (4) was confirmed only partially as we were not having enough data to confirm it completely.

Based on the evidence from the case study we found out that for Stifler company:

1. Virtual Embeddedness reduced costs of international business by facilitating access to and the acquisition of external skills, services, and systems relevant to the foreign market.
2. Virtual Embeddedness reduced unfamiliarity with the foreign environment culture by facilitating access to and acquisition of external knowledge about the foreign market and culture.

3. Virtual Embeddedness facilitated the creation and management of interorganizational ties, that provided relevant information about the host country.
4. Virtual Embeddedness increased access to a greater range of potential buyers.

Therefore, by confirming three hypotheses and partially confirming one, we are able to confirm summarizing **Hypothesis 5**: All other things being equal, the extent to which the new venture is virtually embedded will increase its likelihood of internationalization. Even though the case company is focused only on e-commerce, we believe that the example applies to the hypothesis 5 and we showed how different aspects of virtual embeddedness helped the company to internationalize and operate in the international environment.

6. CONCLUSION

This chapter will conclude the thesis by summarising the findings of the research in relation to the main research question stated in chapter 1.

In order to examine how does virtual embeddedness affects the likelihood of new venture internationalization, the authors of this thesis were answering sub-question: what impact does virtual embeddedness have on the liability of newness and liability of foreignness of new ventures?

After researching the literature and analysing the data from the case study, the findings were as follows:

1. Virtual Embeddedness may reduce costs of international business by facilitating access to and the acquisition of external skills, services, and systems relevant to the foreign market.
2. Virtual Embeddedness may reduce unfamiliarity with the foreign environment culture by facilitating access to and acquisition of external knowledge about the foreign market and culture.
3. Virtual Embeddedness may facilitate the creation and management of interorganizational ties, that may provide relevant information about the host country.
4. Virtual Embeddedness increases access to a greater range of potential buyers.

Based on the findings from the literature and the case study, we conclude that virtual embeddedness helps to minimise or overcome both - liability of newness and liability of foreignness. Therefore, we are able to answer the main area examined and conclude that:

All other things being equal, the extent to which the new venture is virtually embedded will increase its likelihood of internationalization.

7. LIMITATIONS

Researchers have managed to answer the research question proposed in the beginning, but during this process they have found out limitations which have to be explained further on in this chapter.

First of all, the time limitation had a huge impact on this research. We consider that a longer period of time would have improved dramatically the way in which this research was conducted as well as its outcome. Some implications of “bad timing”, were faced because the period in which researchers started the interviewing process and the analysis part of this project was the period of holidays, mainly December. Even though, researchers were planning to contact multiple companies and organize interviews, researchers have only managed to interview a single company.

That would lead us to the second limitation of this research: the use of a single case study. Even though the use of a single case study has its’ own advantages (as authors can dig deeper into the case), it has its own drawbacks as well - because by definition we are not able to generalize our findings. Therefore, what is concluded in this research might be seen as biased information. Based on our single case research, virtual embeddedness can improve the likelihood of new venture internationalization, but this idea cannot be generalized.

The third limitation is represented by the type of research chosen. According to (Creswell, 2014) by using purely qualitative methods can make the research to lack transparency. By mixing different research methods the authors can make their analysis completer and more transparent.

The fourth barrier faced in this project is represented by the lack of experience in conducting interviews, as well as the interviewee way of answering the interview questions. The interviewee had very short and precise answers which was a positive aspect, but many times he wasn’t elaborating on details, in spite of the interviewer effort to make him do that. We consider that a second or third interview would have given us more comprehensive answers, as we learned important lessons from our first trial.

The fifth limitation regards our choice of case study. We have used convenience sampling on the basis of first come, first analysed. Even though our choice of case study was based on specific criteria mentioned in the methodology chapter, some scholars might criticise it as being biased.

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APPENDIX

A1 – Interview Guide

Greetings -> Explaining the research topic -> Terminology -> Questions (I – VI)

I Company details - Stifler

Can you tell us a bit about your company?

What does your company do?

What problem it solves? What was the need in the market?

Who are your customers? In which countries you operate?

How many employees do you have?

In which direction is your company heading? (in terms of conducting business online / offline).

What are the proportions between online / offline?

Where do you sell your product and How?

Other relevant information about your company?

II Internationalization / Networks / Virtual embeddedness questions

When is the first time you decided to sell products / conduct business abroad? (internationalize) or was your company "born global" from the inception?

What impact does internationalization have on your company?

How does being present in different business environments affects you?

Where, when and how did your company internationalize? / In which markets is it present today?

What challenges did your company faced before internationalization / while and after this process?

Were there any specific actions or tools that helped you with the internationalization process?

How long the process of going into a new market usually lasts in your case? Was it a fast process / slow?

Was this process of internationalization / going into a new market primarily online / offline? Can you give some details of online / offline activities / processes?

What impact did internet (virtual embeddedness) had on your internationalization process?

What negative aspects / benefits does virtual embeddedness have on your start-up?

How do networks impact your company? What is their role?

How do you develop your network of customers / partners / suppliers in your company? Do you focus on offline or online networks?

III Coordination Costs

What resources do you usually use when you are internationalising into a new market?

What advantages / disadvantages does your company get when you are entering into a new market?

Do you use the internet technologies in your internationalization process? If yes how does it helps you? If not, what is your method for internationalization??

Coordination costs (labour and external skills, services and transportation and systems) are a big part of the going abroad process. How do you cope with them?

What impact does internet technology have on coordination costs?

What is your feeling / perception on coordination costs in regard to technology?

How do you track these costs? Do you involve technology? If yes what technology?

Do you use your networks in order to reduce coordination costs? If yes how do you involve your network ties? If not, why don't you involve them?

How do you identify / reach your most important network ties?

IV Unfamiliarity hazards

Do you believe in company culture? Are you a company with a strong culture / Are you developing a strong culture?

What role does culture have in your company?

How do you share the company's culture with the other team members?

Is culture relevant when you are internationalizing? (Your company culture as well as the countrys' of internationalization culture)

How do you get to understand the foreign culture of the country you are planning to internationalize into?

What factors related to the foreign culture impact / affect your internationalization process?

What tools do you use in order to better understand the culture of the market that you internationalizing?

What is the role of virtual connections (network ties) in going abroad / internationalization?

Do you use your network in order to gain knowledge about the market you are internationalizing? If yes how (online / offline)

What impact networks connections have on the internationalization process? Do they help?

V Relational hazards

How do you keep / manage your relationship with your network ties (connections)

How do you create a good image for your company in a new country / market?

How do you assess / measure the way in which local customers from a country where you are internationalized perceive your company?

How do you build trust with those customers? What tools you use in order to do that?

Do your network connections have any influence on your trust building process?

How do you assess the impact of foreign politics upon your business?

Where do you get information about the host countries? What technologies / platforms do you use?

Do politics play any role / have any impact on your internationalization process? If yes how do you cope with that? What actions you take?

How do you mitigate the risks of going into a new market? (Risk of lacking networks, politics, trust etc)

VI Discrimination hazards

How do you get a better understanding of the host country?

How do you approach / sell to nationalistic buyers?

What is your feeling on gaining capital/information from the host country investor? Is it a hard process?

Does virtual embeddedness broaden your opportunities in the host country?

What are the most important steps in the internationalization process in your opinion?

What would be the 3 positive and 3 negative aspects of virtual embeddedness in your opinion?

Wrap up

"If you're going to be wrong, at least be wrong in a way that stimulates further research"

Neil deGrasse