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# Footloose and fancy-free in FinTech? Internationalization strategies of born regional and born global firms in the European financial service sector

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## Abstract

Due to economic globalization and technological advancements, businesses are increasingly required to navigate complex international markets. One type of firm that has emerged in response to these trends is the born global, which initiates foreign activities almost from the very start. While these startups expand their reach by pursuing pro-active internationalization strategies, it is unclear whether startups creating the FinTech revolution also belong to this category. This study investigates five key components of the internationalization strategies of European FinTech startups: the speed and scope of internationalization, the drivers of internationalization, international market selection, the mode of market entry, and the challenges involved in internationalization. While born globals use a systematic approach to international market selection and entry, European FinTechs use a quasi-systematic and opportunistic approach to searching and seizing their geographical markets. Their common approach includes quickly going beyond their home base to adjacent markets, followed by gradual experimentation and substantive growth in their home region, and becoming born-regional firms (with some evolving into born-global firms later).

**Keywords** Born global firms · Born regional firms · Country selection · Entry · Europe · Fintech startups · Financial services · Internationalization · Strategies

## Abstract in German

Aufgrund der wirtschaftlichen Globalisierung und des technologischen Fortschritts müssen sich Unternehmen zunehmend in komplexen internationalen Märkten

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zurechtfinden. Eine Art von Unternehmen, die als Reaktion auf diese Trends entstanden ist, ist die Born Global, die fast von Anfang an ausländische Aktivitäten initiiert. Während diese Startups ihre Reichweite erweitern, indem sie proaktive Internationalisierungsstrategien verfolgen, ist unklar, ob Startups, die die Fintech-Revolution schaffen, auch zu dieser Kategorie gehören. Diese Studie untersucht fünf Schlüsselkomponenten der Internationalisierungsstrategien europäischer Fintech-Startups: die Geschwindigkeit und den Umfang der Internationalisierung, die Treiber der Internationalisierung, die internationale Marktauswahl, die Art des Markteintritts und die Herausforderungen der Internationalisierung. Während geborene Globals einen systematischen Ansatz für die internationale Marktauswahl und den Markteintritt verwenden, verwenden europäische Fintechs einen quasi-systematischen und opportunistischen Ansatz bei der Suche und Eroberung ihrer geografischen Märkte. Ihr gemeinsamer Ansatz besteht darin, schnell über ihre Heimatbasis hinaus in angrenzende Märkte vorzudringen, gefolgt von schrittweisen Experimenten und substantiellem Wachstum in ihrer Heimatregion und der Entwicklung zu born-regionalen Unternehmen (wobei sich einige später zu born-globalen Unternehmen entwickeln).

## Contributions of the paper

While there is a substantial amount of research available in the field of innovation, growth, and internationalization in the financial service sector, only a few scholars have examined the emergence of the FinTech industry in general and in Europe in particular. This study investigates the internationalization processes of (European) FinTech startups (FTS) and examines whether they can be considered as born globals (BGs).

## Research question and purpose

The following research question is explored in this paper: How do European FinTech startups internationalize? This study investigates five key components of the internationalization strategies of European FinTech startups: the speed and scope of internationalization, the drivers of internationalization, international market selection, the mode of market entry, and the challenges involved in internationalization.

## Methodology

Our study applied the concept of BGs and examined whether its working definition was still valid and appropriate or needed revision and improvement. A qualitative research approach based on multiple cases was used. The study included 16 cases of European FTS, derived from different FinTech categories and at different stages of their development.

## Database/information

The empirical cases were created based on semi-structured interviews with the founders and senior managers of FTS and complemented with information from industry reports, newspaper articles, company websites, and other secondary sources.

## Results/findings

While born globals use a systematic approach to international market selection and entry, European FinTechs use a quasi-systematic and opportunistic approach to searching and seizing their geographical markets. Their common approach includes quickly going beyond their home base to adjacent markets, followed by gradual experimentation and substantive growth in their home region, and becoming born-regional firms (with some of them evolving into born-global firms later).

## Limitations

Due to its exploratory nature and the comparatively small number of cases, the external validity and the generalizability of the study are limited. Future research could include firms from more European countries, other trading blocs, and related industries to arrive at more generalizable findings across Internet startups. Performance data, regulatory impediments, and best practices of FTS were not key but future studies could analyze why some country selection and entry mode strategies are more effective than others and what the underlying reasons are for these input and output differences.

## Theoretical implications and recommendations for further research

Our findings suggest that the choice for a particular market is made opportunistically and strategically. Initially, foreign expansion of FTS is based on where demand pops up, followed by the subsequent decision to test these waters further and widen geographical coverage. Strategic choices are made that deepen the market presence through foreign direct investments and acquisitions. Future research should investigate whether this process of sequential acquisitive internationalization, as identified in European FinTechs, is prominent in other new Internet-based industries.

## Practical implications and recommendations

European FTS quickly and frequently enter target markets by pursuing a low threshold entry strategy using a universal website and only increasing commitment by setting up local domains once demand materializes. They target new business customers in new geographical markets via localized websites and seek to establish close

relationships with business partners and customers. Some set up country teams and local subsidiaries, extending geographical expansion for that purpose at a later stage.

## Public policy recommendation

While BGs use a systematic approach to international market selection and entry, the results of this study show that European FTS take a quasi-systematic and opportunistic approach in searching, seizing, and entering their geographical markets. Their common approach includes quickly going beyond their home base to neighboring markets, testing the waters in their trading bloc expanding intra-regional, and becoming BR firms (with some of them growing into BGs at a later stage).

## Introduction

The large-scale diffusion of the Internet has greatly facilitated conditions for small firms and born globals (BGs) to internationalize (Gabrielsson & Gabrielsson 2011; Loane 2006; Hennart 2013). Due to the inherent scalability of their business models, with completely digitized products, internationalization is often an intuitive next step for many Internet-based startups to grow their businesses (DeYoung 2005). Because of the large-scale IT-system adoption, several key sectors are now experiencing a value chain disaggregation with new online platforms. For example, the financial services industry is now fundamentally being transformed through digitization and new entry (Boot 2017). Trusted third parties, such as Google, Apple, and Amazon, and Facebook, are increasingly becoming a direct point of contact for customers in handling some of their basic financial services. This FinTech revolution (Economist 2015) also offers new business opportunities for innovative small and young firms, tentatively called FinTech startups (FTS), revolutionizing digital payments, online wealth management, and crowdfunding.

Enabled by advances in information technology, demand among business and residential customers, and changes in the regulatory environment, these new entrants are now offering financial services directly to consumers (Chuen & Teo 2015). Compared to traditional financial service providers like banks and insurance companies, FTS aim to deliver products and services that are more user-friendly, efficient, transparent, and automated (Dorfleitner et al. 2017). Reinforced by substantive venture capital investments, the FinTech industry has become extremely dynamic and fast-moving. For instance, the UK FTS Revolut raised another \$500 m among investors in a new financing round, on top of \$336 m raised previously (FT 2020). Moreover, as user behavior across North America and the European Union (EU) is becoming increasingly standardized, FTS act as challenger banks (neo-banks), effectively seizing market opportunities for similar products and services (Lu 2017). While most FTS are still establishing themselves in their home market, firms like Adyen (from the Netherlands) and Stripe (originally from Ireland) have grown considerably and are now global players.

Although FTS have become an essential part of today's financial services industry, a literature review shows that the international expansion of these Internet-based startups is still under-researched (Knight & Liesch 2016). While there is a substantial amount of research available in the field of innovation, growth, and internationalization in the financial service sector (Frenz et al. 2005; Grant & Venzin 2009), only a few scholars have examined the emergence of the FinTech industry in general (Haddad & Hornuf 2019; Hornuf et al. 2021) and in Europe in particular (Gomber et al. 2017; Zavolokina et al. 2016).

This study investigates the internationalization processes of (European) FTS and examines whether they can be considered as BGs. This leads us to the following research question: How do European FinTech startups internationalize? We use a qualitative research approach based on multiple cases, which is especially appropriate for research questions concerning the "how" and "why" of a certain phenomenon (Eisenhardt & Graebner 2007). As the concept of BGs was recently identified as conceptually stretched (Welch et al. 2016), our case-based study applies the concept and examines whether its working definition is still valid and appropriate or needs revision and improvement. The empirical part of the study includes 16 cases of European FTS, derived from different FinTech categories and at different stages of their development. The literature review serves to identify the most important components of firm internationalization. The empirical cases are created based on semi-structured interviews with the founders and senior managers of FTS, and complemented with information from industry reports, newspaper articles, company websites, and other secondary sources.

This paper is structured in the following way. First, we present a literature review of the main theories relating to BGs and the internationalization process of Internet startups. Next, we provide background information on the emerging FinTech industry and its categories. We then discuss the qualitative research method and the design of our study and examine the findings of the case studies. In the final section, we conclude from the conducted cross-case analysis.

## Born globals in Internet-based industries

The phenomenon of BGs is closely associated with the concept of international new ventures (McDougall et al. 1994; Oviatt & McDougall 1994; Hennart 2013), which is a broader term that describes how new firms with limited resources exploit opportunities that are beyond their domestic markets to derive a competitive advantage (Knight & Cavusgil 1996, 2004; Rennie 1993). In the past, small and young firms internationalized incrementally and through different stages, gradually deepening their knowledge and resource commitments to neighboring markets. Now, new firms can build foreign operations and compete overseas almost from inception. Especially in recent years, BGs have been emerging in sizeable numbers worldwide (Knight & Liesch 2016). Factors that have propelled the rise of BGs include revolutionary technological, social, and economic changes worldwide, such as globalization, the rise of the Internet, and other communication innovations (Rialp et al. 2005).

BGs can draw on firm-specific capabilities (e.g., having a global mindset and vision, superior resources, and/or better knowledge about foreign markets) and may capitalize on their early internationalization effort through sizable economies of scale and a growing geographical scope (Knight & Cavusgil 1996, 2004). A born global strategy with substantive foreign sales and presence in many markets in less than three years after establishment includes comparatively high risks of failure. It requires a high initial resource commitment, addressing liabilities of newness, smallness, and foreignness (Zahra 2005).

Unlike the fast and focused internationalization process of BGs, the building of foreign operations by many startups is mostly opportunistic, reactive, iterative, and serendipitous (Fletcher 2004; Kiss et al. 2020). Rather than carefully planning and scripting their growth and expansion effort, first-time internationalizers are more successful when they improvise and effectively deal with the surprises in processes involving foreign market selection and entry (Bingham 2009). Decision-making about internationalization by small and young firms is likely to be personalized, involving ad hoc choices and short-term reckoning based on individual perceptions, assumptions, and prejudices (Buckley 2006). Lack of international business experience in the founding team and shortage of management time leads the startup to take short cuts without a proper evaluation of alternatives, little international scanning, and with making mistakes in their expansion efforts.

In their internationalization process, BGs must find a trade-off between speed, staging risks, and experimentation (Buckley 2006). They must exploit profitable market opportunities immediately by pursuing a simultaneous globalization strategy, exploiting economies of scope in knowledge realized by a sequential strategy, and coping with uncertainties about the state of the market and the cost of collecting strategic information. In their mapping of the global reach of business activities of startups over time, Gupta and Govindarajan (2004) distinguish three globalization strategies: slow globalization as a measured and cautious pace of internationalization; acquisitive globalization when a slow start in the home market is followed by the acquisition of similar startups and imitators in foreign markets; and pre-emptive globalization when an early start is followed by a sequential approach to market entry, allowing the firm to learn from early moves and to accumulate resources and capabilities as it expands.

Another recent contribution to the BG literature is the identification of born regional firms (BRs) whose internationalization efforts are confined to a specific geographic region, trading block, or (sub)continent (Javalgi et al. 2010; Lopez et al. 2009; Maciejewski & Wach 2019; Sui et al. 2013). There is a big rift between firms leaving their home market and those fully integrated into the global marketplace. This semi-globalization space includes firms operating solely in their home region (or in their host region) or in only two trading blocs (Rugman & Verbeke (2004, 2007). Most international companies are not global firms with extensive penetration in foreign markets worldwide but are regionally based with a broad and deep presence in their (sub)continent (Rugman & Verbeke 2004, 2007). By gradually broadening their international activity by entering the markets of adjacent countries and initially sticking to their home region, these BRs face lower risks and require fewer resources to diminish the liabilities of newness and foreignness.

Such an intra-regional expansion has significantly lower liabilities of foreignness than an interregional expansion (Rugman & Verbeke 2007). Lopez et al. (2009) noticed the proliferation of BRs in the Latin American software market, where they shipped their software from Costa Rica to other Spanish-speaking countries in South and Central America, ignoring the most strategic market, the USA. With only a few BGs that had started exporting almost immediately after their creation, most could be considered BRs. Firms with a higher initial resource base, subsequently reinforced through higher initial performance, may be more likely to pursue a born global rather than a born regional approach. This headstart will give them more strategic options and the minimum capacity to operate in more foreign countries than firms with a lower performance.

The Internet has become strategically significant for SMEs and startups because they can now distribute their products in multiple geographical areas without requiring sizeable investment in the local infrastructure (Luo et al. 2005). Moreover, the Internet can provide a way to leapfrog the conventional stages of internationalization and reduce the importance of psychic distance (Prashantham & Berry 2004). Three resources are important in Internet-enabled internationalization: creating an online reputation, developing online technological capabilities, and building an online brand community (Reuber and Fischer 2011). BGs have quickly adopted Internet-based sales channels (Gabrielsson & Gabrielsson 2011). Although they were already exhibiting higher internationalization before the widespread adoption of the Internet, the Internet accelerated globalization even more and removed some of the difficulties attached to the liabilities of foreignness, smallness, newness, and outsidership (Bell & Loane 2010; Johanson & Vahlne 2009; Yamin & Sinkovics 2006; Zahra 2005). In their study of 35 Finnish BGs using the Internet as the main sales channel, Gabrielsson and Gabrielsson (2011) showed that, on average, these firms had already internationalized after 19 months.

A new type of startup emerged through the Internet: firms that embrace Internet technologies, work with an e-business format from the outset and distribute their products and services through websites or online marketplaces (Loane et al. 2004). The Internet enables these startups to experiment relatively cheaply, for example, by switching business models or testing in different countries or regions (Stampfl et al. 2013). Another distinctive characteristic of these Internet startups is the scalability of their business models. In this case, scalability can be understood as a company's ability to exploit economies of scale and increase revenues faster than the corresponding cost base (Hallowell 2001). Scalable businesses present huge growth opportunities and are especially interesting to venture capitalists looking for their next investment (Fernhaber & McDougall-Covin 2009; Park & LiPuma 2020).

In a review of the key literature in the domain of BGs, Welch et al. (2016) identified seven attributes: early instigation of internationalization (precocity), small size, competitive advantage and outstanding performance as a motive, the effective use of resources outside one's home country, the intensity of internationalization (sale of outputs outside one's home market), geographical spread (operations in multiple countries), and technology orientation. Drawing upon this pre-selection of attributes, we identified five key components of the internationalization strategies of BGs:



speed and scope of internationalization, drivers of internationalization, international market selection, market entry, and challenges involved in internationalization.

## Speed and scope of internationalization

BGs tend to embark on fast and dedicated internationalization, skipping certain stages of the traditional Uppsala process model (Johanson & Vahlne 1977; Knight & Cavusgil 1996). Consequently, they do not begin to export incrementally from a strong domestic market base but enter several foreign markets simultaneously shortly after they have been founded (Rialp et al. 2005; Zucchella et al. 2007). Despite the name, few BGs are actually “born” global. Generally, they begin internationalizing two to three years after inception (Bell et al. 2003; Knight & Cavusgil 1996; Rennie 1993). Oviatt and McDougall (2005) found that international new ventures also serve a larger range of countries almost immediately after their establishment, with operations often spread widely across the globe.

Internet-based business models facilitate many aspects of entering new markets. Web-based product or service distribution allows businesses to enter different countries and regions without the extra costs of acquiring local infrastructure, such as branches (DeYoung 2005; Luo et al. 2005). Internationalization is easier with internet-based business models and completely digitized products. These factors lead to a rapid rate of internationalization among Internet startups, on average less than two years after inception (Loane et al. 2004; Loane 2006).

## Drivers of internationalization

Founder characteristics strongly influence the internationalization choices of BGs (Knight & Liesch 2016). In particular, the global vision of the founders, which stems from their international business experience and background, is often stated as the main trigger for their early internationalization efforts (Gabrielsson et al. 2008; Luo et al. 2005; McDougall et al. 1994). Their desire for international expansion generally results in higher international involvement for their firms (Crick & Spence 2005). Cannone and Ughetto (2014) also discovered that the network and relationships built by the entrepreneur are key drivers of early international expansion. These relationships facilitate international activities and help overcome greater geographic and psychic distances since trust and commitment have been built among the actors. Likewise, these networks also facilitate the acquisition of knowledge about target markets. Besides, a narrow product scope, fast product obsolescence, limited domestic demand, and outstanding organizational competencies are additional factors that drive BGs to internationalize early (Bell et al. 2003; Crick & Spence 2005; Rialp et al. 2005). Also, domestic investors may propel the startup to scale up its business and go overseas to target and find new customers and attract foreign investors (Makela & Maula 2008). High-quality local venture capitalists will improve the cross-border readiness of the new firm and initiate several rounds of co-investments by international venture capitalists.

In previous research, founders of Internet startups have been identified as the main driver of internationalization and have been shown to exhibit similar characteristics to BG founders. In the cross-national sample of eight Internet startups studied by Loane et al. (2004), all founders and managers displayed a high level of global orientation and played an important role in the internationalization process. They were willing to take risks to capitalize on the opportunities offered by internationalization. Even though the young firms in the sample had limited organizational experience, a knowledgeable founding team was shown to compensate for this and to play a major role in attracting venture capital. Likewise, the founders' global personal and business networks were equally important for the internationalization efforts of their firms (Loane et al. 2004).

## International market selection

BGs generally take a planned internationalization approach (Bell et al. 2003, 2001; Oviatt & McDougall 1994; Schwens & Kabst 2011). In terms of market selection, traditional companies previously focused on markets that were socially, psychologically, and/or geographically close to their home market (Johanson & Vahlne 1977). In contrast, BGs do not focus on specific geographic regions but rather on targeting specific customer groups, which might be in countries with a high psychic distance (Bell et al. 2003; Madsen et al. 2000). Personal and business networks are often deciding factors when choosing target markets (Madsen et al. 2000; Rialp et al. 2005). Evidence has emerged that knowledge-intensive BGs frequently focus on lead markets, including the USA, Europe, and Japan (Bell et al. 2003).

Regarding market selection, Loane et al. (2004) found that Internet startups tend to follow lead markets for their niche offerings, and certain companies demonstrate client followership. Rothaermel et al. (2006) also investigated the issue of market choice among US Internet firms and found that country risk, cultural distance, and uncertainty avoidance decreased the likelihood of entering international markets, whereas individualism and masculinity increased it. Moreover, the infrastructure for e-business in the target market, consisting of technology supportiveness, Internet usage rates, and regulatory infrastructure, is an important factor in firms' market choice (Luo et al. 2005).

## Market entry

A review of the literature shows that BGs use various market entry strategies, including licensing, exporting, alliances, joint ventures, distributors, agents, acquisitions, and subsidiaries (Bell et al. 2003; Cavusgil & Knight 2015; Crick & Spence 2005). However, it is unclear which entry mode is the most common among BGs. According to Bell et al. (2003), a networked approach and alliances are frequently used when firms are founded or shortly after. When doing this, BGs work closely with their foreign partners to plan and execute marketing and sales activities. This is in line with McDougall et al. (2003), who found that BGs generally operate through

more distribution channels than traditional ventures. Moreover, Madsen et al. (2000) and Rialp and Rialp (2007) found that BGs were more reliant on local partners and exporting due to their lack of resources.

The choice of entry mode for Internet startups depends largely on the nature of their business model. Many products and services provided by Internet firms are information goods and can be distributed solely via the company's website (Kotha et al. 2001). Choosing the appropriate entry mode is of high strategic importance. In certain cases, Internet startups consciously decide to use a single universal website, for example, a pan-European website in English to serve their customers in all the countries they operate. Some Internet startups use multiple modes of market entry. These can include a combination of direct online exporting via agents and license/franchise agreements.

## Challenges involved in internationalization

Smaller firms face significant challenges to internationalization because of resource constraints. Loane et al. (2004) demonstrated that a lack of human resources, financial constraints, knowledge gaps, and little or no management experience make it more difficult for them to expand internationally. Similarly, Freeman et al. (2006) identified three major constraints BGs face when internationalizing: a lack of financial and knowledge resources and economies of scale, and risk aversion. Uner et al. (2013) identified governmental barriers and unfamiliar regulatory procedures as the main challenges.

Stampfl et al. (2013) identified legal restrictions, localized marketing, and differences in customer preferences as factors that inhibit internationalization for Internet startups. While finance is often stated as a barrier to international expansion in SME and BG literature, Loane et al. (2004) showed that not all the Internet startups interviewed felt the lack of available finance to be a barrier. Growth-oriented Internet startups whose founding team already had a significant track record of success seemed to be able to attract (corporate) venture capital with relative ease (Fernhaber & McDougall-Covin 2009; Park & LiPuma 2020).

## The FinTech context

In the past, high barriers have protected banks and insurance companies from the entry of new competitors. Since the 2008 global financial crisis, regulators have realized that customers should have more choice and that barriers to entry should be lowered (Gulamhuseinwala et al. 2015; Lee & Shin 2018). Along with this regulatory shift, technological advances in fields such as big data and blockchain have propelled the rise of new FTS (Chuen & Teo 2015; Zhang et al. 2015). They offer customers alternative financial products and services, from money transfers to financial planning. Dorfleitner et al. (2017) categorized FTS into four types based on their main area of activity:

- *Financing*: FTS providing private and business customers lending, credit, and crowdfunding services.
- *Asset and wealth management*: FTS offering investment products from large institutional investors to individuals by robo-advisors and online wealth managers. This category also includes new deposit brokers offering customers daily or fixed-term deposits in other countries.
- *Payment*: FTS offering payment solutions, including innovative payment technologies for sales desks or web portals, payment options for use on mobile devices, wallet solutions, money transfer solutions, peer-to-peer payment applications, and virtual (or crypto-) currencies.
- *Other*: FTS offering insurance services, search engines, comparison websites, etc.

Many FinTech business models share important attributes which enable them to harness financial technology to create added value for customers, including a low-profit margin, an asset-light business mode, scalability, and innovative products and services (Chuen & Teo 2015). Numerous FTS are rapidly reshaping the future of the financial services industry and have invested heavily in customer acquisition and marketing strategies to create greater awareness for their products (Gulamhuseinwala et al. 2015). Banks and other established financial service companies are watching nervously as more and more FTS continue to bring innovations to the market.

A survey of 101 founders and investors confirms that FTS mention regulatory hurdles as their biggest impediment to growth (Silicon Valley Bank 2017). Regulatory barriers to innovation include inappropriate legislation on data storage, privacy/protection, and digital identity authentication (PWC 2017). Different jurisdictions implement different measures (Christiansen et al. 2018). In the EU, regulations in the financial sector still differ markedly from country to country, and each FinTech niche has its own regulations. For example, FTS operating in the robo-advisory field must obtain a license in each member state. Some individual member states have also issued additional guidance through their local regulators (e.g., the Netherlands drafted new legislation concerning robo-advice) (Clifford Chance 2017). In contrast, peer-to-peer lending is largely unharmonized at the EU level, and regulations vary widely among member states.

However, it is important to stress that regulation is not always intended to impede. Federal and national regulators across Europe have started implementing regulations that may encourage entry and innovation in financial services (Clifford Chance 2017). An example of a new regulation that supports financial innovation and benefits the consumer is PSD2, the updated payment service directive for the EU. This new directive obliges banks to give third-party providers, like the data giants Google, Amazon, Apple, and Facebook, but also other new entrants, access to their customer accounts through open application program interfaces (APIs). It thus enables third-party providers to build and offer services on top of a bank's data and infrastructure, offering new opportunities for FTS (Hellström, 2017). Despite the high expectations of PSD2 services in Europe, the new service providers are on a slow start with their new financial products, facing a lack of trust from prospective customers and a lack of cooperation of the incumbent banks (NRC Handelsblad

2024). A recent study in the Netherlands showed that most Dutch customers were not willing to share their payment data. Only 25% were willing to share them with other banks, and less than 2% were open to data sharing with non-banks (DNB 2020).

Recently, more and more FTS have been embarking on foreign expansion. International expansion has become particularly attractive, especially for FTS in the volume-led areas of FinTech such as payments, robo-advisory, and money transfer (Jefferies 2017). For example, Bunq, a Dutch FTS established in 2012, is active in 30 European countries (with subsidiaries in seven countries) and is now entering the U.S. market, targeting European expats (FD 2023). Another motivation for FTS to internationalize is to make themselves more attractive to international investors (e.g., Sweden-based FTS iZettle was acquired by PayPal in 2018). The nature of the business models used by FTS means that clones can enter the market at any time. For example, with the necessary resources, it is possible to set up a new peer-to-peer payment application or crowdfunding platform like those already available on the market relatively easily. FTS can hardly protect their business model from being copied. However, they can work toward gaining scale and becoming a strong brand in the market, making it more difficult for potential competitors to steal their market share.

Various factors shape the internationalization patterns of FTS. First and foremost, the highly scalable business models can be easily transferred to new geographies as products are solely offered online, thus potentially increasing the speed of internationalization (DeYoung 2005). This often reduces the need to set up subsidiaries and branches locally. Moreover, FTS often focus on a few activities in contrast to banks' very complex business models. This makes it easier for them to duplicate these activities in a different geographical market. For these reasons, and because agile startups are not burdened by large headcounts and legacies, it would be intuitive to believe that FTS have an easier time expanding overseas than their larger incumbent counterparts (Jefferies 2017).

Nevertheless, severe barriers to internationalization remain. These include a fragmented regulatory landscape (even within Europe) and resource scarcity (Jefferies 2017; Silicon Valley Bank 2017; WEF 2017). FTS are not directly supervised or examined by a European banking regulatory agency (Deloitte 2017). However, they are subject to broader regulatory objectives, such as safeguarding financial stability, prudential safety and soundness, consumer protection and market integrity, and market competition and development (innovation). In addition, regulatory barriers concerning data storage, privacy, and digital identity authentication also act as hurdles to innovation and internationalization. Especially at the national level, the financial markets are strongly concentrated and heavily regulated, with several regulatory agencies supervising specific financial markets and protecting consumers. For example, after thorny money laundering issues, UK financial market regulators forced FTS pioneer Revolut to appoint new senior executives to its board to strengthen its international supervisory capabilities (FT 2022a).

Another important barrier to internationalization for FTS is the lack of resources, management experience, and foreign market knowledge. During their launch, FTS usually face a lack of capital, labor and capabilities. Expanding into new geographies

means less time, effort, and fewer resources are available for running and extending the business (Jefferies 2017). In their ambitious effort to seize business opportunities in their home market and abroad, and speed up internationalization, some FTS, like Stripe and N26, are backed by well-known business angels Peter Thiel and Elon Musk and the venture capitalists of Sequoia Capital, Valar Ventures, and Andreessen Horowitz. Others like Bunq and Revolut receive investments from the private equity firms such as Pollen Street Capital and DST Global. Regular banks have also shown an interest in the FTS community by acquiring or forming alliances with them (e.g., ING buying Payvision and HSBC partnering with Tradeshift). It is expected that further collaboration between established banks and new FTS will be beneficial for both (Hornuf et al. 2021). FTS can then obtain better access to a broader customer base and to superior knowledge in dealing with financial regulations, subsequent access to a banking license and improve their digital services. Banks can benefit from innovative and better ways to provide financial services and give them exclusive rights to use specific technical applications or licenses.

## Methods

As research on the internationalization of Internet startups and FTS is still in its infancy, we adopted an exploratory and qualitative research design. Although qualitative research is generally less precise and accurate than quantitative research, it is the most suitable choice in our situation, given our goal to apply the BG concept in a newly emerging industry (Eisenhardt & Graebner 2007). Since the concept of the BG firm is considered to be stretched and possibly in need of revision and improvement, new qualitative case-based research could be used to redefine and reconstruct it (Pratt 2009; Welch et al. 2016). To carry out such an examination of a key concept, the internal coherence of the research design is essential, ensuring a tight fit between the research question, data collection and data analysis, findings, and the eventual theory development and contribution (Howard-Grenville et al. 2021; Pratt 2009). The cases of this study had to be carefully selected, especially concerning the constitution of its attribute and membership sets (Welch et al. 2016). We applied subgroup sampling to ensure a certain level of comparability across the results and included only European FTS from the larger population of global Internet-based ventures and FTS.

Furthermore, the investigated and compared cases should reflect the internal heterogeneity of the population under study. They must qualify as an FTS and fall into one of the four specified FinTech categories (financing, asset management, payment, and other). In addition, the case firms must be headquartered in Europe and come from different parts of this region. We also selected FTS covering different stages of their internationalization process for our sample. Although our study focuses on FTS that have already internationalized, we included some companies that were about to internationalize and a few firms that had failed in their international expansion to improve the study's overall robustness.

The individual cases were based on interviews with senior executives (e.g., founder, CEO, or high-level manager) who were actively involved in the FTS's early

internationalization process. We conducted nine interviews with the founders or co-founders of the FTS and seven with CEOs or other senior executives actively involved in the firm's internationalization process. These investigative interviews were aimed at tracing events, explaining choices, and revealing inside experiences and learnings (Langley & Meziani 2020). They were complemented with industry reports, newspaper articles, information from company websites and press releases, and other relevant material. These secondary sources, on top of the content and insights from the interviews, provide an effective means for data triangulation and increase the reliability and validity of the data. Table 1 provides an overview of the final list of the cases and participants of the study and their key characteristics. Two companies preferred to remain anonymous. We refer to these as FinTech X and FinTech Y throughout the analysis.

We operationalized the five components identified in the literature review in the interview guide:

- *Speed and scope of internationalization*: The speed of internationalization in the field of international entrepreneurship focuses on the time between the founding of the company and the first foreign market entry. The scope describes the extent of a firm's international operations (Oviatt & McDougall 2005; Taylor & Jack 2013) and can be assessed from two perspectives: the number of markets entries and the percentage of turnover derived from those international markets (Kuivalainen et al. 2007; Oviatt & McDougall 2005).
- *Drivers of internationalization*: Drivers of internationalization can be defined as the factors that lead a firm to go international. These drivers can be grouped into two main categories: extrinsic and intrinsic (Van Tulder 2015). Extrinsic drivers refer to specific home- or host-country considerations in the motivation to internationalize. Intrinsic drivers refer to motivations that stem from the company itself.
- *International market selection approach*: The concept of market selection refers to the choice of the country into which the company wants to expand its business activities. Andersen and Buvik (2002) present three approaches. In a systematic approach, the company uses a formalized decision process to analyze the potential of target markets. In a non-systematic approach, countries are selected using rules of thumb, and in the relationship approach, selection is based on client or business partner followership. A hybrid category includes companies switching from one approach to another or creatively combining them. Underlying the international market selection approaches are specific firm-, market- and country-specific criteria (Andersen & Buvik 2002). Firm-specific criteria include, for example, the vision of the founder and the reach of the firm's network and its culture. Market-specific criteria include market size, competition, regulation, cost of operating in a certain market, and country-specific criteria include macro-economic, political, and cultural indicators.
- *Market entry mode*: Andersen (1997) defines market entry mode as an institutional arrangement for organizing and conducting international business. Common market entry modes include exporting, licensing, joint ventures, or wholly owned subsidiaries. For fully digitized products, such as those offered by FTS, a localized website,

**Table 1** Characteristics of cases and participants

Case no	Company	Founding date	Launch date	Head- quarters	FTE	Category	Competitive advantage	Clients	Years to IE	Active in countries	Percent- age foreign revenues	Interview partner
1	Spotcap	May-14	Sep-14	Berlin, DE	120+	Financing	Accessibil- ity	B2B	0	6	100%	Managing director
2	Hubokee	Dec-16	Jan-18	Paris, FR	2	Financing	Customer experi- ence	Hybrid	n.a	1	0%	Co-founder
3	Creditshelf	Oct-14	Sep-15	Frankfurt, DE	33	Financing	Accessibil- ity	B2B	n.a	1	0%	Head of Corporate Clients COO
4	Viventor	Oct-15	Feb-16	Riga, LV	8	Financing	Accessibil- ity	Hybrid	0	6	100%	COO
5	N26	Aug-14	Jan-15	Berlin, DE	320	Asset man- agement	Cost leader- ship Operational excellence	B2C	0	17	Not dis- closed	Head of Internation- alization
6	Raisin	Oct-12	Dec-13	Berlin, DE	100+	Asset man- agement	Cost leader- ship Accessibil- ity	Hybrid	2	31	Not dis- closed	Head of Internation- alization
7	Vaamo	Apr-13	Sep-14	Frankfurt, DE	20	Asset man- agement	Cost leader- ship Accessibil- ity	Hybrid	n.a	1	0%	Co-CEO & Co-founder
8	AAAcceell	Sep-14	Mar-15	Zurich, CH	26	Asset man- agement	Operational excellence	Hybrid	<1	3	15%	Managing partner & Co-founder



**Table 1** (continued)

Case no	Company	Founding date	Launch date	Headquarters	FTE	Category	Competitive advantage	Clients	Years to IE	Active in countries	Percentage foreign revenues	Interview partner
9	ETFinatic	Jan-14	Feb-16	London, UK	15	Asset management	Cost leadership Accessibility	Hybrid	<1	32	66%	CEO & Co-founder
10	Fintech X	Dec-09	Dec-10	Berlin, DE	141	Payments	Operational excellence Cost leadership	B2B	5	5	5%	MD & Co-founder
11	FinTech Y	Sep-14	Apr-15	Luxembourg, LU	60	Payments	Cost leadership Customer experience	Hybrid	0	4	Not disclosed	Founder
12	Lemon Way	Oct-07	Oct-07	Montreuil, FR	90	Payments	Accessibility Cost leadership	B2B	0	28	66%	Chairman
13	PayPro	Jan-15	Jan-16	Barcelona, ES	6	Other	Cost leadership	Hybrid	0	Globally	Not disclosed	CEO & Co-founder
14	OpenClaims	Aug-15	Mar-16	Amsterdam, NL	16	Other	Cost leadership Customer experience	B2B	n.a	1	0%	COO & Co-founder

**Table 1** (continued)

Case no	Company	Founding date	Launch date	Head-quarters	FTE	Category	Competitive advantage	Clients	Years to IE	Active in countries	Percentage foreign revenues	Interview partner
15	Wefox	Nov-14	Sep-15	Berlin, DE	150	Other	Cost leadership Operational excellence	Hybrid	0	3	60%	CEO & Co-founder
16	Pandat	Jul-09	Nov-11	Paris, FR	16	Other	Customer experience	Hybrid	3	4	5%	CEO & Co-founder

i.e., one developed specifically for the country or region, and local customer service can be used to enter a foreign market (Burgel & Murray 2000; Kotha et al. 2001). However, with English being Europe's most widely spoken language, a universal website in English can also be used to enter new markets.

- *Challenges involved in internationalization*: Previous research on BGs entering new markets has identified two broad areas of challenges: (1) internal challenges, such as financial limitations and lack of network and (2) external challenges, such as industry and country-specific challenges (Shaw & Darroch 2004).

With interviewees' consent, each interview was audio-recorded and the recordings were then transcribed. We used a three-staged coding approach to distil the crucial information from the data collected. (Corbin and Strauss 1990) and used the ATLAS.ti software for the in-depth analysis. In the first-order analysis, the interviews were coded very closely to the actual wording used by the informants to maintain integrity. This resulted in many first-order concepts. In an intermediate step, we identified similarities and differences among the many concepts to reduce and cluster the concepts into several categories. This process was iterative, meaning that certain concepts were re-coded or merged during the process. In the final step of selective coding, selected some core categories (Corbin & Strauss 1990), which were then summarized in a data matrix to condense the major findings in a visual format (Miles et al. 2013).

We used the primary data and information from the interviews for a within-case analysis to gain familiarity with the data and identify preliminary themes (Eisenhardt 1989). We examined each case firm in detail and specified findings relating to all five elements of the firm's internationalization strategies. The subsequent follow-up cross-case analysis allowed us to explore initial impressions more deeply and draw novel findings from the data. For this purpose, we grouped the categories identified for each internationalization component during the coding process in over-arching themes to help create a more systematized model of the internationalization strategy of FTS. We also compared the internationalization components across the different FinTech categories, internationalization stages, and in terms of successes or failures, eventually leading to new insights into the similarities and differences between the cases.

## Empirical findings

This section draws upon the within-case analysis of the 16 FTS. All key data and empirical findings were incorporated into a data matrix for subsequent investigation and cross-case analysis.

## Speed and scope of internationalization

For some of the case companies, internationalization took place at a very early stage. Seven FTS internationalized immediately at launch, and another two firms did so within their first year in business. Only three companies took longer than a year to embark on their international expansion. Four companies had not yet

internationalized at the time of the interviews but were planning to do so shortly. All twelve FTS that had begun to internationalize, did so on average less than a year after the firm was launched.

The scope of internationalization can be approximated by the percentage of turnover from foreign markets, and the number of countries entered. Five of the firms derived more than 50% of their foreign revenues from customers outside their home market. In two cases, 100% of revenues came from foreign markets, as these companies did not operate in their home country. Three firms currently made less than 20% of their revenues in foreign markets, and four could not disclose their foreign revenues, mainly due to restrictions imposed by investors. Among the FTS that were able to disclose this information, the average revenue from foreign markets represented 52% of their total revenues.

Four case companies were active in fewer than five countries. Three companies operated in five to ten markets; five had internationalized to more than ten foreign markets and six had entered more than one foreign market at the same time. On average, the FTS that had internationalized were active in 13 countries (excluding PayPro, which was active globally). Most of these target countries were in Europe, and only two firms (PayPro & Lemon Way) had entered markets outside Europe. In 2020, Raisin expanded beyond Europe by acquiring the US-based FinTech company Choice Financial Solutions. Lemon Way entered the African but was no longer active in the African market as its entrance had failed.

## Drivers of internationalization

Seven firms were motivated to internationalize due to some form of limitation in their home market. Viventor (Latvia) and FinTech Y (the Netherlands) did so due to small domestic market constraints. ETFmatic and PayPro internationalized because they targeted a niche market: “financial nerds” with previous investment knowledge and people using cryptocurrencies. Lemon Way, Spotcap, and Viventor internationalized because they had an unsuitable domestic market. Stringent local regulations, high competition, and a lack of demand for the product made immediate internationalization imperative for success. For six of the firms, the internationalization driver was linked to scalability. Lemon Way, Spotcap, and Creditshelf viewed internationalization as a means to reach scale and expand their business. Wefox and vaamo reported that by expanding beyond their home country, they could prove the scalability of their business model to investors, thereby making it more attractive and increasing the valuation of their companies. OpenClaims cited reaching scale and proving scalability to investors as motivations for internationalizing as soon as possible.

In another six instances, the European or global vision of the founders and managers was a driver of internationalization. In three cases, this vision was anchored in the company’s mission. Raisin’s goal is to provide savers across Europe with the best interest rates. N26 aims to offer the best banking experience in Europe. Hubokee wants to revolutionize crowdfunding and believes that the Internet enables the firm to have a global reach. For ETFmatic and Spotcap, the global vision was

closely linked to their business model. Lemon Way's European vision stems from the fact that the company needs to operate on a European scale to succeed as a payment institution. For five of the firms, internationalization can be linked to the driver of opportunism. Four of these five companies (N26, vaamo, Lemon Way, and FinTech Y) internationalized because entering additional countries required little effort, either from a regulatory or an operational perspective. For the fifth, AAccell, identifying market inefficiencies led to an opportunistic decision to enter a specific foreign market.

## International market selection

Among the case firms, there was a clear tendency to use a non-systematic approach to international market selection. Eleven FTS chose their foreign markets based on several selection criteria and rules of thumb in a non-formalized decision process. Two companies, Viventor and FinTech X, showed a relationship approach by following their clients or business partners to other countries. OpenClaims was interested in internationalizing its business and had started a formalized decision process to analyze the potential of various European target markets. Wefox switched from a non-systematic to a systematic approach and were using a hybrid approach. Only one firm, PayPro, operated globally without having deliberately selected countries in which it wanted to operate.

In terms of market selection criteria, six firms indicated market size as a decisive factor in entering foreign markets. In five of these cases, this was related to the product-market fit. Also, factors that perceptibly reduced the amount of effort needed to enter a certain country were often influential in the decision process. These included a favorable regulatory environment (six firms) and a common language (five firms). Another important variable was the expected profit potential, i.e., the profit margin the company expected to achieve in a foreign market. Three firms mentioned this as a criterion. Four mentioned industry characteristics, and three referred to the competitive landscape in a certain country. Lastly, relationships often play a role in selecting target markets. Three FTS chose international markets based on their network, three on their partnerships, and another three on client followership.

## Market entry mode

At the time of the interviews, seven firms distributed their products and services via localized websites. Four had entered foreign markets with a translated website from the start, and three companies (N26, Raisin, and Lemon Way) waited for demand to materialize before switching from a universal website to localized versions. Five of these companies (N26, Spotcap, Raisin, wefox, and FinTech Y) also complemented their local online presence with international customer service in the local language. Besides, wefox and FinTech Y set up local subsidiaries in every market to be closer to business partners and obtain local market knowledge. Spotcap entered all of its foreign markets except for Spain via subsidiaries. Lemon Way set up local offices

in its largest and most important markets, and Raisin acquired a company in the UK to prepare for potential future regulatory changes that might result from Brexit. Hubokee has not yet internationalized but has already set up translated websites to prepare for imminent market entry.

Six firms operated in all their foreign markets solely via a universal website. Viventor, PayPro, and ETFmatic made this conscious decision because English was widely used among their target customers. Due to low online traffic, AAAccell and FinTech X did not set up localized websites. Their customers are mainly targeted via other sales channels, such as trade fairs. Pandat only operates a French domain, as all its foreign markets are French-speaking countries. After the successful expansion into the UK via an acquisition, Raisin took the same approach to expand into the US market, characterized by a different regulatory system for financial services, by acquiring Choice Financial services.

## Challenges involved in internationalization

Seven FTS indicated that differences in local regulations were a major impediment to their international expansion efforts. Even within the EU, a lack of harmonization in certain fields still forces companies to look at each country's regulations separately. Both FinTech X and Lemon Way identified differences in the know-your-customer process across countries as a challenge. FinTech X also needed to familiarize itself with local dunning process requirements. Differences in tax laws were one of the main impediments for vaamo, and different contract styles, securities, and collateral made internationalization more cumbersome and costly for Creditshelf. For Raisin, the license required and how interest rates are stated presented a challenge. Hubokee's management needed to take different consumer protection laws into account. Lastly, Viventor faced difficulties because the local state authorities in Latvia had not yet agreed on the rules and regulations for peer-to-peer lending marketplaces.

Six firms mentioned resource scarcity as a challenge to internationalization efforts. Although N26 obtained a huge sum to build up a presence in the US market, Wefox, AAAccell, and Hubokee said that finding funding from suitable investors was difficult. Similarly, FinTech X was constrained by a lack of funding, as venture capital was not widely available when the company was founded in 2009. ETFmatic cited the cumbersome process of setting up a subsidiary, translating documents, and hiring lawyers as a challenge—both from a financial and a labor perspective. Creditshelf ultimately abandoned its international expansion efforts due to the high costs of entering its chosen foreign markets. Early 2024, the company was still struggling and applied for protective shield proceedings.

The involvement of various partners represented an internationalization challenge for five case firms. Wefox and vaamo named finding suitable local partners, such as a founding broker or partner bank, as a challenge. Hubokee and FinTech Y stated that dealing with different partners impeded their internationalization process. Pandat had to give up its internationalization attempt in Germany and Italy due to a lack

of cooperation from its partner banks, who were unwilling to translate crucial documents into the local languages.

Lastly, culture was reported to be an internationalization challenge in four instances. For Pandat and PayPro, dealing with different cultures presented a barrier to internationalization. Spotcap and Raisin identified understanding cultural differences when not located in a certain country as a challenge. Ultimately, Spotcap set up local subsidiaries to be closer to its foreign markets and to build relationships with its local partners.

### **Cross-case comparison: FinTech categories**

As already outlined, the FTS in our study all belonged to one of four FinTech segments: asset management, financing, payments, and others. We conducted a separate cross-case analysis for each submarket to address the possibility that the internationalization strategies might vary across these segments. Three of the five FTS specializing in asset management internationalized in part due to the European vision of the founders. In contrast, none of FTS in the payment or other submarkets stated this as a reason. In both the payment and the asset management segment, opportunism was commonly stated as a motive for internationalization. No founder in the financing or other category reported this as a motive.

The analysis also revealed that all five FTS in the asset management segment chose a non-systematic approach to international market selection. In contrast, the other two segments chose a different approach. Nonetheless, the non-systematic approach was most dominant across all segments. Concerning the factors influencing international market selection, FTS in the financing segment strongly emphasized a favorable regulatory environment. Three of the four companies in this segment mentioned regulation as the main consideration when deciding which markets to enter. Regulation was mentioned by three of the five firms in the asset management segment, whereas this was not mentioned as a factor by companies in the payment or in the “other” segment during the interviews. In the payment segment, market size and product-market fit were mentioned most frequently. Industry characteristics in the “other” segment were mentioned by three out of the four firms.

While no trends regarding the choice of market entry mode were discernible across all the FinTech segments, there were some differences in the perceived challenges of internationalization. Three of the four firms in the financing segment and two of the three firms in the payments segment stated local regulations as an impediment. However, most of the firms in the remaining two segments did not raise these regulations as an issue.

### **Cross-case comparison: stages of internationalization**

We also compared the firms across the various segments in terms of their stage in the internationalization process. Our sample included FTS at three different stages of internationalization: firms that had not yet internationalized ( $n=4$ ), firms that had

internationalized less than two years ago ( $n=3$ ), and firms that had internationalized more than two years ago ( $n=9$ ).

The analysis showed that FTS that had internationalized more than two years ago (N26, Raisin, Spotcap, and Lemon Way) frequently reported the European or global vision of the founder as a motive for entering additional markets. This motive was less common in the sub-groups of FTS that had not yet internationalized or had internationalized less than two years ago. Among the firms in this study—across all stages of internationalization—the non-systematic approach to selecting internationalization markets was the most used. In terms of international market selection criteria, FTS, which had internationalized more than two years earlier, repeatedly emphasized the importance of language, market size, and product-market fit. This applied to four firms. Two FTS that had not yet expanded stated that competition and expected profit potential were influential factors in encouraging them to do so shortly.

Regarding the chosen mode of market entry, the seven FTS that had not yet internationalized and those that had internationalized less than two years ago had not set up localized/translated websites or subsidiaries to date, with two exceptions. Viventor moved several of its business functions to its subsidiary in Barcelona as the parent company, FinTech Group, is located there. After winding down its operations early 2022, at the end of the same year, Viventor took the decision to initiate the voluntary liquidation of the Latvia P2P marketplace. Hubokee had already translated its website into French and German as the founder believed the content should be accessible to a wide audience from the beginning, especially to avoid costly rebranding efforts in the long run. Among the nine FTS which had internationalized more than two years ago, localized/translated websites were the norm. Seven firms had set up these local domains. The other two in this group had refrained from doing so for various reasons, including the target audience's familiarity with the English language and low online traffic (PayPro and AAAccell). In five instances, local subsidiaries had also been set up. Wefox and FinTech Y were operating offices in every market in which they were active. Spotcap, Raisin, and Lemon Way had established subsidiaries only in selected markets.

Among the four FTS that had not yet internationalized, three firms perceived local regulations as a big challenge and major impediment to internationalization (vaamo, Creditshelf, Hubokee). Creditshelf and Hubokee stated that resource scarcity presented a challenge, with international expansion temporarily put on hold. As they had not entered foreign markets before, they needed to dedicate resources to passporting their license and familiarizing themselves with local regulations such as taxes, contract, and consumer protection laws. OpenClaims also recognized that local data protection laws would potentially involve some minor changes to the process, but the founder was confident that these process elements could easily be changed and customized from the IT side.

### **Cross-case comparison: successes and failures**

Ten of the firms were successful in their internationalization whereas three firms experienced some failure. Creditshelf assessed a potential Benelux market entry with a local team but ultimately decided against doing so as the costs were deemed



too high. The company is now active only in the German market, and another attempt at international expansion is not on the strategic agenda. Pandat entered the German and Italian markets in 2014 by setting up localized websites, but the project was abandoned due to a lack of cooperation from its partner banks. As a result, the company is currently active only in French-speaking countries since this does not require the partner banks to translate documents. Lemon Way initially sold its mobile payments software to various banks in African countries but decided to exit those markets due to high payment defaults.

Because of Brexit, N26 withdrew unexpectedly from the UK market in 2020, leaving five million customers in the dark. The high-flying FTS was subsequently under scrutiny by the German financial regulator for poor anti-money laundering controls. After almost a decade, it withdrew from the US market in 2022. N26's co-founder Max Tayenthal recently commented on this, saying that the company should have given less priority to putting flags in more countries and to global expansion and instead should have prioritized expanding its financial services and products: "Should we have built trading and crypto, instead of launching in the US? In hindsight, it might have been a smart idea" (FT 2022b). In 2018, the N26 neobank started to prepare a public listing and but it saw its growth hamstrung by German regulatory oversight and executive churn.

The cross-case analysis shows that successful firms used diverse approaches to select their target markets whereas all "failing" firms used a non-systematic approach. Also, five successful FTS stated that regulation was a major factor in influencing country market selection, whereas no firms in the failure category mentioned regulation. They mentioned market size, product-market fit, and language as the most common factors. Although firms in the failure category did not mention regulation as a factor influencing international market selection, local regulations were named as a challenge for internationalization in two of the three cases. Resource scarcity was the most frequently mentioned in the success category, followed by culture and local regulations.

## Discussion and implications

In line with the BG literature on resource scarcity being a major challenge for foreign expansion (Cavusgil & Knight 2015; Bell et al. 2001; 2003; Freeman et al. 2006), it was frequently mentioned by our FTS as a major challenge to internationalization. Among the FTS that had not yet internationalized, achieving growth and proving scalability were the issues of most concern. Like in most BG studies (Knight & Liesch 2016; Gabrielsson et al. 2008) and our study, the global (or more appropriate: European) vision of the FTS founders positively influenced international expansion.

Our analysis identified several drivers that motivated the firms to internationalize, including limitations in the home market (e.g., a small domestic market, a niche market for the product, or a domestic market with too much regulation or competition) and reaching scale and proving scalability to potential investors. Opportunism also played a role in several cases. International expansion was relatively easy for

some companies and involved little effort from a strategic, regulatory, and operational perspective. Analyzing the internationalization drivers across the four FinTech segments, FTS in the payment and asset management categories repeatedly cited opportunism and scalability as drivers for internationalization. This could be due to FTS's fully digitized products and a more harmonized regulatory environment across Europe. As the Head of Internationalization of N26 remarked during the interview: "For us, it doesn't matter if you are in Paris, Madrid, or Berlin when you open an account, also from an operational perspective."

Our case firms tended to use a non-systematic approach to international market selection. Most determined which markets to enter based on rules of thumb in a non-formalized decision process without considering all possible alternatives. BG researchers have identified that a niche strategy can trigger internationalization (Cannone & Ughetto 2014; Crick & Spence 2005). Although this niche may be small in the home market, on a global scale such a focused strategy targeting all the countries' niches provides almost exclusive access to premium customers. Many companies in our sample reported that relationships and customer followership strongly influenced international market selection. This criterion of customer followership has also been identified in studies on BGs and Internet-based startups (Loane et al. 2004; Madsen et al. 2000).

Moreover, market size was also frequently named as an influential factor regarding market selection, especially in the payment segment. While market size has not been discussed much in the BG literature, Rothaermel et al. (2006) already recognized its influence on market choice in their study of US Internet startups. These companies often operate on very low-profit margins and are hence driven to reach scale in large markets.

A favorable regulatory environment of the target market is a factor that has not been identified by scholars before, but frequently mentioned by the case firms. The regulatory environment was part of the market selection criteria, particularly for firms in the financing and asset management segments. As most FTS found out, the financial services industry is subject to stringent rules and procedures. While regulators have started to harmonize regulation in financial services across the EU, major national differences still exist in tax regulation and customer protection laws. These country-specific regulations were mentioned as the biggest challenge for resource-constrained startups to international expansion, especially for FTS that had not yet internationalized and by companies in the financing and payment categories.

In this study, we observed three different market entry modes. First, many firms used a universal website to enter new markets until enough demand had materialized and then increased their commitment by setting up local domains. This confirms a gradual process of deepening commitment and addressing the liabilities of newness, foreignness, smallness, and outsidership, as indicated previously in the stage theory of internationalization (Johanson & Vahlne 1977; 2009; Zahra 2005). Second, the FTS in our sample targeting a specific niche audience often did not set up localized websites at all, even after the business in certain countries had grown substantially. An exception to this is companies targeting highly educated niche customer groups, which generally operate one universal website only, even if a substantial business is derived from certain countries. Third, several firms entered target markets directly

using a localized website and a local subsidiary. It was especially the FTS that targeted business customers, either through a pure B2B or a hybrid business model, as they considered it necessary to be closer to their customers and business partners and obtain local market knowledge from the beginning.

This study also revealed that the market selection approach of European FTS is markedly different from that of BGs. While BGs tend to use a systematic approach to international market selection (Schwens and Kabst 2011), the results of this study revealed that European FTS commonly take a non-systematic approach. Psychic distance and market proximity were shown to influence market selection to some extent, as European FTS frequently consider the issue of a common language and shared culture, especially when initially entering neighboring markets that are geographically or culturally close to their home base (Johanson & Vahlne 1977). European FTS aiming to internationalize often pursue a market entry strategy by initially using the company's existing website to gauge interest. When showing promise, localized domains are set up to serve these markets better. Likewise, supportive international networks and relationships with customers and partners have been identified as important market selection criteria in previous BG research and this study (Madsen et al. 2000; Rialp et al. 2005).

Our analysis has shown that FTS internationalize rapidly. This is in line with previous research conducted on BGs, which has also shown their early and accelerated internationalization (Loane 2006; Rennie 1993; Knight & Cavusgil 1996). While BGs have been found to internationalize on average two years after inception (Rennie 1993; Knight and Cavusgil 1996), European FTS embarked on international expansion less than a year after launching their business. Moreover, the scope of internationalization among our FTS cases is very broad regarding countries' entry. Initially, they focus on European countries before expanding beyond their home region. On average, the firms were active in 13 (European) countries and derived 52% of their revenues from foreign markets. The firms frequently entered several markets within the EU simultaneously. Most of the FTS in our sample could be identified as BRs (or more precisely: Born European (BE) firms) (see also Maciejewski & Wach 2019). Similarly, Rugman & Verbeke (2004, 2007) found that in the domain of multinational enterprises, most of their business activities were also not global, but predominantly regionally based in one of the trading blocs.

In contrast to research by Oviatt and McDougall (2005), which indicated that BGs commonly serve a large set of countries, with operations often spread across the globe, only three of our case firms expanded beyond the borders of Europe. One became a true BG with worldwide presence, whereas the other two failed to enter new regional markets (e.g., the US and Africa) and eventually returned to their European home base. Small and young firms may enter new markets on their (sub) continent and become successful BR firms, with some establishing global operations and becoming BG firms. The population of BGs faces exits too, with former BGs becoming Born Again Regional firms with a single presence in one trading bloc. When their timing is right and their resource base is adequate, some will seek to re-enter the global marketplace and may eventually turn into Born Again Global firms (Bell et al. 2001). Despite their presence on the European subcontinent, several BR firms indicated that their ambition is to expand internationally and become

globally active. Most European FTS may ultimately prefer interregional diversification, extending across regions and continents. However, they are stuck with using intraregional diversification strategies, with the scope of their international activities confined to a relatively narrow range of countries within their home region (Patel et al. 2018; Sui et al. 2013; Lopez et al. 2009).

### Limitations of this study and future research

Although this study was designed and executed cautiously, it is subject to several limitations. The external validity and the generalizability of the conclusions are limited due to its exploratory nature and the comparatively small number of cases ( $N=16$ ). Hence, the conclusions of this qualitative research could be tested in a larger-scale quantitative study. This study is focused on the internationalization process of European FTS. Future studies could include firms from more European countries, other trading blocs (e.g., North America, South-East Asia), and related industries to arrive at universally generalizable findings across Internet startups. The findings derived from the 16 European cases could be compared to a larger group of FTS from the USA, China, India, and Brazil. By doing this, more will be known about whether our findings derived from a European sample are representative for a larger group of FTS and Internet-based firms. This study showed that large performance differences seemingly exist despite the fast international growth of the FTS in general and in our study. Performance data, regulatory impediments, and best practices of FTS were not key to our research, but future research could analyze why some country selection and entry mode strategies are more effective than others and what the underlying reasons are for these input and output differences.

Investigating the next stage of the emerging FinTech industry is also interesting. How will the current and the new FTS evolve in this dynamic market in the next three to five years and how will they defend their autonomy and expand their specific market niche (backed or not by venture capitalists in their efforts)? Future research could examine whether strategic partnerships with and acquisitions by mainstream financial institutions will become dominant. Finally, our findings suggest that the choice for a particular market is made opportunistically and strategically. Initially foreign expansion of FTS is based on where demand pops up, followed by the subsequent decision to test these waters further and widen geographical coverage. Finally, strategic choices are made that deepen the market presence by foreign direct investments and acquisitions. Future research should investigate whether this process of sequential acquisitive internationalization, as identified in European FinTechs, is prominent in other new Internet-based industries.

### Conclusion

This study shows that European FTS quickly and frequently enter target markets by pursuing a low threshold entry strategy using a universal website and only increasing commitment by setting up local domains once demand materializes. They target

new business customers in new geographical markets via localized websites and seek to establish close relationships with business partners and customers. Some set up country teams and local subsidiaries, extending geographical expansion for that purpose at a later stage. In terms of internationalization challenges for European FTS, this study identified a lack of resources and governmental regulations as main barriers. Cultural differences and the development of partnerships present common challenges during the internationalization process. While BGs use a systematic approach to international market selection and entry, the results of this study show that European FTS take a quasi-systematic and opportunistic approach in searching, seizing, and entering their geographical markets. Their common approach includes quickly going beyond their home base to neighboring markets, testing the waters in their trading bloc and expanding intra-regional, and becoming BR firms (with some of them growing into BGs at a later stage).

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