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______________________________________________________________
Eric Pettersson                                            Johan Uppström
Abstract

Due to strong growth in the virtual business environment, online internationalization has become a topic of high interest. This makes it necessary for firms providing software online to carefully investigate and understand barriers and differences in countries before entering them. Further, companies expanding abroad face a variety of differences compared to their home market, which has to be carefully understood in order to succeed internationally and to avoid misinterpretations.

This thesis took a qualitative approach and was based on six semi-structured interviews with open-ended questions, all performed with CEOs, founders or managers with explicit knowledge in the online internationalization phase of their firms. The insights from the interviews acknowledge which differences and barriers the firms faced and how they perceived them. The outline and result of the study were based on the four dimensions of cultural, administrative, geographic and economic challenges.

The result showed that the cultural and geographic dimensions were barely perceived as barriers by the firms, the administrative dimensions moderately, whereas the companies clearly perceived the economic dimensions as barriers in their internationalization processes. Additional findings of the study were the importance of cultural leadership, hierarchies & decision-making processes, high-density clusters and pricing strategies.

Keywords: Online internationalization, Internationalization Barriers, Online service providers, Software as a Service, Born digital, Psychic distance, Psychic distance paradox, Virtuality trap, CAGE.
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1.0 Introduction
In the following chapter, a short background behind the software industry is presented, together with concepts that firms operating here often face. Additional topics discussed is problem formulation, purpose, research question, delimitations and definitions.

1.1 Background
As the world gets even more connected and internationalized, the importance of a strong corporate strategy increases significantly for organizations looking to reap maximum outcome in their online businesses (Yoo, 2014). Although companies selling services online have been around for a while, even more firms offering digital solutions directly or early after they start their business, defined as born digitals, are being brought to the market and are thereby shifting the view of international expansion from the physical context to the virtual (Vadana et al. 2019). Several of these born digitals host’s and offers virtual cloud-based software over the internet, such as enterprise resource planning programs or customer relationship systems as their main product, a concept defined as software as a service (Watson, 2009; Microsoft, 2019).

The software as a service market is still growing (Gartner, 2018) and therefore it is important for firms operating in this industry to have clear strategies for their online growth (McKinsey, 2014). Several international expansion theories and models have been constructed and developed over time, with one of the most recognized being the Uppsala model developed by Johanson and Vahlne in 1977. Further, when internationalizing to new markets, it could be argued that attention should be paid towards psychic distance, being referred to as differences across countries in factors such as language, cultures and the way of conducting business (Johanson & Vahlne, 1977; Johanson & Vahlne, 2009). Even though the Uppsala model takes psychic distance between countries in mind (ibid), the Uppsala model has been questioned on its impact on the digital business environment, in that it might have a hard time adapting to today's virtual business climate (Coviello, Kano & Liesch, 2017).

Furthermore, it is important for companies to stay competitive through the increasingly growing internationalization and digitalization era, mainly to keep one’s position in the market (Business Sweden, 2016). The competition of operating in a virtual environment is rather harsh, and the software as a service market can thus be seen as a complex industry for those not involved or familiar with it (Lemkin, 2018; Brandall, 2017). Additionally, the software as a
service market is expected to reach a total global value of 125.52 Billion USD in 2019 (Statista, 2019). This is complemented with an expected compound annual growth rate of 21.20% for the entire software as a service industry up until 2023 (Reuters, 2019).

1.2 Problem Formulation

Research on international expansion by software platform firms are currently in shortage, and this opens up for further interesting research (Stallkamp & Schotter, 2019). It is argued for by Sinkovics, Sinkovics and Jean (2013) that internet has made organizational internationalization even more feasible, but although progress in the field has been achieved there is still limited research on the viability of internet to reach export markets. Additionally, Wentrup and Ström (2019) argue that there is a lack of research on the internationalization process of online service providers, creating additional interest in the topic. Pezderka and Sinkovics (2011) further argue that there is limited research available on firms involved in active online internationalization, being the concept of intentionally choosing to go abroad online.

When companies expand internationally, it is important to remember the concept of psychic distance, being differences across countries in for example the economic situation and language (Johanson & Vahlne, 1977; Johanson & Vahlne, 2009). Firms believing that the psychic distance in a new country is low whereas it is much higher than they first thought faces the psychic distance paradox, in believing a new market will be easier to enter than it actually is (O’Grady & Lane, 1996). Furthermore, an important challenge that could be faced when expanding online is the virtuality trap, meaning that the offered services do not comply with the new markets demands and status quo (Yamin & Sinkovics, 2006). An example of companies falling victims for the virtuality trap is firms that just make straight-off copies on their software services in terms of translation, and thereby perceive countries as more similar to their home market than they actually are (ibid).

To conclude, the ambition with this thesis is to investigate how organizations that operate online with software as their service acted in their internationalization processes, which barriers they faced and how they handled them to succeed in new markets.
1.3 Research Question and Purpose

Based on the background and problem formulation, the following research question is formulated:

**Research question:** Which differences and barriers did online service providers face when actively internationalizing online to new markets, and how did they perceive them?

The purpose of this thesis is to examine if and how firms offering software as a service, with a specific focus on online service providers, perceived barriers and differences throughout their active online internationalization process. Attention will also be given to whether connections can be drawn from the gathered data towards psychic distance, the psychic distance paradox and the virtuality trap.

1.4 Delimitations

The companies of choice will be those providing products for business to business (B2B) internationally. Thereby, this thesis will not involve companies having products that are used privately by individuals, i.e. the end consumers (B2C). The companies purchasing the products will be the end consumers of the product, but this will still be referred to as B2B. This thesis does not aim to measure or quantify the importance of the barriers and differences, but rather to investigate and analyze what is being perceived as barriers and differences by online service providers in their online internationalization process.

1.5 Definitions

“Online service providers” will from now on be referred to as “OSPs”. This means companies that provide their customers with digital products directly over the internet. (Wentrup, 2016; Taddeo & Floridi, 2016). Companies offering this usually have their products in the cloud, and customers can access the software from anywhere, such as with cloud-based customer relationship management system (ibid).

“Software as a service” will from now on be referred to as “SaaS”. This refers to products that are completely digitalized and thereby consists of software that are provided over the internet (Watson, 2009). Examples of these are products ranging from customer relationship management systems to language translation services (Gold et al. 2004; Choudhary, 2007).
2.0 Literature Review

In this chapter, previous literature and research are presented, with focus on the software industry and internationalization models. The ambition is to assist the reader in understanding the topic.

2.1 Software as a service and born digitals

Traditional software firms offer purchasable products with new updates coming out every 2nd or 3rd year, a software method called perpetual licensing model (Ge & Huang, 2014). However, a new trend within IT licenses is the concept of software as a service (SaaS). This model of IT system takes a different shape in that it provides companies with the possibility to rent a software service for a certain amount of money paid occasionally (Gold et al. 2004; Choudhary, 2007). This benefits customers in the sense that instead of being forced to invest a large amount of money after every new update, they can instead pay on a rolling basis, being an advantage for companies with low cash-flow (ibid).

Additional benefits with being a consumer to SaaS companies over the traditional licensing models are the adaptability that can be achieved, in that the provider of the services can easily change and program the consumers specific accounts to meet the needs of their organizations, with only a small increase in price (Gold et al. 2004). Furthermore, since everyone using the software simply rents it, the entire responsibility of the hardware and the service hosting falls on the producer (Ge & Huang, 2014). This generates an economies of scale model since one set of servers are shared among all users, thus removing the need for individual hosting servers at each company's office (ibid).

Continuing upon SaaS firms, Vadana et al. (2019) state that born digital are companies that were digitalized from the start of the company or early after the inception. Characteristics of these companies are that their business model can aid for a higher degree of digitalization, which according to Vadana et al. (2019) will ease the process of new market entries. However, all born digitals are not international from start but the entire value chain has a digitalized approach (ibid). A classification of born-digital companies across two domains is presented below in Figure 1, with the two top boxes visualizing the position of born-digital firms (ibid). The model is complemented to include industry examples of companies.
2.2 Online internationalization of firms

Online internationalization is a concept which is defined as business transactions that take place in the virtual domain across national borders and can be divided into two different types of value chains (Yamin & Sinkovics, 2006). The first one is when the value chain contains services and products that are digitalized and distributed online, with examples being software, music and online banking (ibid). The second is when the value chain contains products and services that are not digitalized but can be sold online, for example cars and computers (ibid).

Further, to better understand online internationalization, Yamin and Sinkovics (2006) state that there is a difference between default online internationalization and active online internationalization. The concept of default online internationalization is when firms become international through unplanned sales, whereas companies in the active online internationalization group use the virtual domain as a driver to perform business in countries abroad (Ibid). According to Yamin and Sinkovics (2006), active online internationalization can be considered more time compressed in comparison to a traditional internationalization process.

2.3 Barriers in the internationalization processes

When expanding online to new markets, several obstacles have to be considered with some of the main concerns being psychic distance, the psychic distance paradox and the virtuality trap that firms could face in their internationalization process (Yamin & Sinkovics, 2006).
Johanson and Vahlne (1977; 2009) argue that psychic distance refers to differences and barriers between countries faced by companies looking to expand their businesses abroad. This would in practice constitute that firms looking to understand new international markets would have an easier time doing so with countries where they perceive a low degree of psychic distance, i.e. they are similar to each other in factors such as language and regulations (ibid). However, O’Grady and Lane (1996) argue that when countries are physically close to each other, firms might perceive that the psychic distance is low, whereas it might be significantly higher than one might first think. This will make the internationalization process more complex than the firm's first thought, a concept defined as the psychic distance paradox (ibid). Complete ignorance of these differences towards the new country, even if it is physically close, could cause an unsuccessful internationalization process for the firms. (ibid).

Since the above description of psychic distance is a rather broad issue in over-all internationalization processes, Yamin and Sinkovics (2006) have developed a separate concept when this occurs within online internationalization, defined as the virtuality trap. The concept of the virtuality trap builds on the psychic distance paradox, in that it draws parallels to that organizations tends to believe that what has worked in one country, such as their home country, will work in an identical way when entering a new market (ibid). This could for example be that the firms only translate their homepage, marketing campaigns or services straight off, and believe that the new market works similar to the old one, and thereby trust their experience based on previously conducted business too much (ibid). Common issues faced by companies in the virtuality trap is that the new market is not responsive for the expansion due to that the company’s homepage or service are not adapted towards the traditions or status quo in the new market (ibid).

2.4 Internationalization frameworks for distant markets

To study the effect of distance in the online internationalization process for OSPs, different frameworks, theories and models exist. For example, one of the most prominent theories is the Uppsala model, developed by Johanson and Vahlne (1977) and constantly updated over the years, with the latest version published in 2017 (Vahlne & Johanson, 2017). In the Uppsala model, resources commitment and experiential learning are seen as possible factors to decrease
the liability of outsidership and psychic distance for firms through a stepwise internationalization process (Johanson & Vahlne, 2009; Vahlne & Johanson, 2017).

Additionally, Pezderka and Sinkovics (2011) used Dunning’s (1980; 2001) OLI framework when they studied risks in active online internationalization for SMEs when they entered distant markets. To clarify, the OLI framework consists of three sections, being Ownership advantages (firm size, experience, assets, differentiation), Location advantages (market potential) and Internalization advantages (perceived international risk) (ibid).

In addition to this, Lew et al. (2016) studied the influence of cultural distance on internationalization on high-tech firms and point out that some of the results in their study might have been affected by factors that they have not fully taken into consideration. The authors (Lew et al. 2016) therefore recommend further research on the cultural distance to include a more comprehensive view of the studied phenomenon and suggests Ghemawat’s (2001) CAGE framework as a possible source. The CAGE framework handles differences and barriers between distant markets and consists of four different dimensions, being Cultural, Administrative, Geographic and Economic dimensions (Ghemawat, 2001). Those dimensions are argued to affect internationalization and trade between different countries, and companies looking to expand to new markets are suggested to pay extra attention towards the potential impact that certain differences can cause (ibid). Below, each of these four dimensions is presented together with what Ghemawat (2001) describes as the attributes for each dimension, followed by a summarizing table at the end of this chapter.

2.4.1 Cultural Dimension
The definition of culture is broadly researched and varies substantially between different researchers, with some defining it as values and practices, and other as meanings, symbols and traditions (Swidler, 1986). However, throughout this thesis, the cultural difference will be referred to the attributes made by Ghemawat (2001), in that it includes language, religion, ethnicity and social norms. To clarify, cultural differences mainly emphasize the behavior and traditions of people living in a country. It puts focus on that companies looking to enter a new market must have control on a variety of factors such as the religious beliefs and ethnicity which could have a huge impact on what time at the day to conduct business etc. (ibid). Additionally, social norms, being the indirect rules and directions people usually encourage and live by, plays an important role in how companies are looking to approach potential customers (ibid). Lastly, a commonly faced cultural difference is the language spoken in the
target country, since it is argued that common languages could increase trade between countries with up to 200% (ibid).

However, language has to some extent been broken out and could be argued to represent a separate dimension (Marschan-Piekkari, Welch & Welch, 1999; Marschan, Welch & Welch; 1997). Despite that, this study will, as previously mentioned, consider language as an attribute in the cultural dimension as argued for by Ghemawat (2001).

2.4.2 Administrative Dimension

Administrative barriers are more framed towards governmental and political institutions and their regulations, together with historical epochs still of relevance (Ghemawat, 2001). For instance, it is known that previous relations to a country, both personal and impersonal, improve businesses for firms that look to expand to new markets (ibid). Other attributes to consider are political hostility, the host country’s governmental & economic politics, their national institutions as in banks and universities and laws & regulations (ibid). Additionally, having beneficial trade agreements or a currency that is common among the countries could improve trade with as much as 300% individually (ibid).

2.4.3 Geographic Dimension

The geographic dimension emphasizes the attributes of physical distance, the country size and if the countries have a common border, to mention some of the factors (Ghemawat, 2001). It is argued that increased physical distance between two countries decreases the easiness in doing business, being the same results achieved with countries that have poor transportation and communication infrastructure (ibid). Additional attributes in the geographic dimension are no access by river or sea and climate differences (ibid).

2.4.4 Economic Dimension

The economic differences between countries refer to attributes such as purchasing power & financial income and human- & infrastructural resources of companies operating there (Ghemawat, 2001). Regardless of a country's financial situation, poor or rich, they all prioritize to trade with other rich countries, which clearly shows that the higher GDP a country has, the more they engage in international trade, with a 1% improvement in GDP generating an increased trade across borders with as much as 0.8% (ibid). Overall, it is argued that firms facing similar economic situations in the home country as they do in the potential host country
finds it easier to do business there due to the smooth replicating-process of their business idea (ibid). Human resources in terms of recruitment and a well-educated population are also considered to be an important factor when entering new countries (ibid). An additional attribute brought up is the importance of obtaining good *information & knowledge* about the new market before expanding there (ibid). Further attributes in the economic dimension are *intermediate inputs* and *natural resources* (ibid).

### 2.5 Concluding remarks on the literature review

Based on the previous theory section a decision was taken to structure the study in accordance with Ghemawat’s (2001) CAGE framework. The reason for this was due to the fact that differences and barriers were in the center of attention in the CAGE framework (ibid). Even though OLI and the Uppsala model are possible frameworks to study international expansion, the CAGE framework was argued to better capture differences and barriers between international markets through the cultural, administrative, geographic and economic dimensions and their assigned attributes. Geographic attributes not taken into consideration were access by sea or river and climate differences, and economic attributes not used were intermediate inputs and natural resources. The reason was that these attributes were not believed to be relevant nor have any impact on software companies expanding online. However, the participants in the study could give their thoughts about it in the introduction questions.

To conclude, the CAGE framework and its four dimensions is considered to be an effective strategic tool for firms looking to prospect and understand new international markets (Ghemawat, 2001). Lastly, to clarify and to give an example of the design of the CAGE framework, it follows a structure in that language and social norms are attributes in the cultural dimension (Ibid). The CAGE framework is visualized below in Table 1 and has been changed to include specific examples.
Table 1. The CAGE Framework. (Adapted from Ghemawat, 2001, p. 5)

<table>
<thead>
<tr>
<th>Cultural Dimension</th>
<th>Administrative Dimension</th>
<th>Geographic Dimension</th>
<th>Economic Dimension</th>
</tr>
</thead>
<tbody>
<tr>
<td>Language</td>
<td>Previous Relations</td>
<td>Physical Distance</td>
<td>Purchasing Power &amp;</td>
</tr>
<tr>
<td>Differences in language across countries.</td>
<td>Previous relationships and local connections.</td>
<td>How far away the countries are from each other.</td>
<td>Financial Income</td>
</tr>
<tr>
<td>Religion</td>
<td>Governmental &amp; Economic Politics</td>
<td>Common Border</td>
<td>Human- &amp; Infrastructural resources</td>
</tr>
<tr>
<td>Shared religious beliefs across markets.</td>
<td>Political decisions issued by the government together with the economic politics.</td>
<td>If the countries share a common border, i.e. being neighbouring countries.</td>
<td>Recruitment, educational level and infrastructural quality.</td>
</tr>
<tr>
<td>Ethnicity</td>
<td>Political Hostility</td>
<td>Country size</td>
<td>Information &amp; knowledge</td>
</tr>
<tr>
<td>Ethnical connections between people.</td>
<td>Political hostility against certain industries or international companies.</td>
<td>The size of the country in terms of size and population.</td>
<td>Knowledge and information about the new market.</td>
</tr>
<tr>
<td>Social Norms</td>
<td>Laws &amp; Regulations</td>
<td>Transportation &amp; Communication</td>
<td></td>
</tr>
<tr>
<td>Unspoken rules, principles and traditions.</td>
<td>Structures of firms, laws, common unions and trade agreements.</td>
<td>Transportation opportunities and quality of communication.</td>
<td></td>
</tr>
<tr>
<td>National Institutions</td>
<td>The strength of international banks, universities, governments etc.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

3.0 Method

This chapter presents which methods that has been used and how the study has been conducted, together with different motivations for the chosen strategies.

3.1 Research Approach

To get an understanding of how online service providers perceived their internationalization process, the CAGE framework was used as the base to investigate which barriers and differences that OSPs faced and how they worked to overcome these in their active online internationalization process.

Further, it is argued for by Saunders, Lewis and Thornhill (2012) that the deductive approach aims to investigate and test already developed frameworks and theories, whereas the inductive approach aims start with no theoretical base, but rather with the collection of empirical data to then proceed and develop new theories in the end. With that in mind, one can argue that this research leans more towards a deductive approach since it is structured based on previously developed frameworks and theories.
3.2 Research Design and Methodology

This thesis is designed to further investigate the barriers and differences of internationalization that are brought up in the CAGE framework, together with exploring it through a rather new perspective of online service providers with an active online internationalization mindset. To better understand the design of a thesis, one can look at the different research forms of explanatory, exploratory and descriptive (Bryman & Bell, 2011; Saunders, Lewis & Thornhill, 2012). The explanatory study focuses on explaining and understanding current theories, whereas the exploratory study has the ambition to explore a phenomenon through a new perspective (ibid). Since this thesis works in the perspective of the already developed CAGE framework with the aim to capture new personal and corporate perspectives with software firms, it can be argued that this thesis is a combination of an explanatory and exploratory study.

Furthermore, Bhattacharjee (2012) and Recker (2013) argue that the qualitative research approach is suitable when a certain phenomenon is not fully understood. Additionally, the qualitative approach is argued to be a good way of conducting research when the aim is to understand personal answers and gain deeper understandings of processes, whereas the quantitative method allows for significantly larger samples but less deep knowledge (Saunders, Lewis & Thornhill, 2012). Even though the qualitative research approach could make it problematic to generalize to a broader population (Recker, 2013), this study is carried out with the belief that a qualitative approach is most suitable to fulfil the purpose. By conducting interviews with international software providers, it is believed that unique answers from managers that have actually been involved in the online internationalization processes are obtained, thereby constructing this thesis on experience rather than data points.

3.3 Data Collection

The data collection outlines the process of how empirical data has been gathered, how the interviews were structured, and the selection criteria applied for choosing companies and participants to interview.

3.3.1 Interview structure and Interview guide

The thesis applied qualitative interviews in order to explore the internationalization phase for SaaS firms. Kvale (2006) articulate that interviews make it possible for the interviewee to express their thoughts about a phenomenon. When interviewers want to be able to have a
dialogue with the participant, semi-structured interviews are a good enabler (Bhattacharjee, 2012). Recker (2013) further states that semi-structured interviews make it possible for interviewers to add follow-up questions to the process. Additionally, it is argued for by Bryman and Bell (2011) that semi-structured interviews allow for further discussions to circulate around each main question. Hence, to get the possibility to have conversations and add possible questions during the interviews, a semi-structured approach with open-ended questions seemed appropriate for this thesis.

However, Bryman and Bell (2011) argue that awareness has to be paid towards the fact that open-ended questions could, if not structured correctly, generate too much empirical data. It is further important to make sure that the interviewee feels comfortable in the setting in order to make it easy for them to answer the interview questions (Myers & Newman, 2007). Additionally, some introducing and ending questions were added as interview questions according to the suggestions of Myers and Newman (2007), which were questions about the interviewee’s position at the company and if the person would have some final thoughts to add at the end of the interview. The questions were intended to capture the internationalization processes overall, and thus no questions were asked about specific countries, this to ensure that the interviewee spoke freely about their overall internationalization processes.

The interview guide was operationalized based on the CAGE framework with broad questions introducing the Cultural, Administrative, Geographic and Economic dimensions, followed by more specific questions on each attribute, thereby linking back and following the structure of the framework. The main structure of the interview guide is to capture how the interviewee perceived differences across the different attributes when they entered new markets. The full interview guide can be found in Appendix 1.

3.3.2 Selection criteria for chosen companies

The empirical data collected consists of six interviews conducted with online service providers, all of which define themselves as born digitals. When selecting companies to interview, a requirement was that they all had to operate in at least three countries to ensure that the company had solid international experience. In addition to this, it was ensured that the interviewed candidate possessed comprehensive knowledge in the firm’s internationalization process. Having these selection criteria were believed as necessary to reduce the bias of the
study. If the interviewed person did not have any experience in the internationalization process, that person was not chosen since it could affect the outcome of the study.

Bryman and Bell (2011) argue that a good strategy is to select companies based on a random-sampling method. Throughout this thesis, several companies were randomly selected from a pool of OSPs, and the first contact was conducted through the phone. The person interviewed were randomly selected as long as the criterion with knowledge about the internationalization process was fulfilled. All interviewees were provided with the same information prior to and during the interview, this to ensure similarity in the interviews. The research was limited to six interviews mainly due to a limited time frame, together with the fact that enough data was considered to be collected after these interviews.

In terms of interviews, all were recorded and conducted in the interviewee’s native language to avoid missing out on important points, an initiative which resulted in that all interviews were conducted in Swedish. Furthermore, if something was unclear during the interview, the respondent was immediately asked to elaborate further on this. Afterwards, all interviews were carefully transcribed and a summary of the characteristics of each interview is presented below in Table 2.

Table 2. Characteristics of the interviews

<table>
<thead>
<tr>
<th>Company</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Offered Services</td>
<td>Employee Benefits</td>
<td>Transportation Software</td>
<td>CRM Systems</td>
<td>CRM Systems</td>
<td>Digital Signatures</td>
<td>ERP Systems</td>
</tr>
<tr>
<td>Position of Interviewee</td>
<td>Founder and former CEO</td>
<td>Product Manager</td>
<td>Founder and former CEO</td>
<td>Product Manager</td>
<td>Founder and CEO</td>
<td>Product Manager</td>
</tr>
<tr>
<td>Interview Form</td>
<td>Face-to-Face</td>
<td>Face-to-Face</td>
<td>Face-to-Face</td>
<td>Face-to-Face</td>
<td>Face-to-Face</td>
<td>Telephone</td>
</tr>
<tr>
<td>Date</td>
<td>4th of April 2019</td>
<td>4th of April 2019</td>
<td>10th of April 2019</td>
<td>12th of April 2019</td>
<td>12th of April 2019</td>
<td>17th of April 2019</td>
</tr>
<tr>
<td>Length of Interview</td>
<td>40 minutes</td>
<td>55 minutes</td>
<td>45 minutes</td>
<td>40 minutes</td>
<td>47 minutes</td>
<td>58 minutes</td>
</tr>
</tbody>
</table>

3.4 Data Analysis

After the conducted interviews, an oral summary discussion was carried out between the authors to ensure that the responses were in accordance with the interview guide and the purpose of the thesis. To clarify, when referring to company A, it is important to remember
that it is participant A’s perception of the barriers. When writing participant A, it means that this is the person working in company A. The same will be the case for the other companies and participants throughout the entire thesis.

Further, Kvale (1996) states it is necessary to plan how the collected data should be analyzed. In addition to this, Recker (2013) argues that coding qualitative data is one of the most commonly used strategies to understand and bring forward the most important parts of the collected data. Coding can be performed by giving different citations tags or labels and by that it is possible to classify them into categories (ibid). Further, the coding of the empirical data was performed by assigning each of the four dimensions a certain color. To link the interview answers to the correct dimension, all the transcribed material was analyzed and each answer was given one of the dimension-colors. The answers were then divided into the different attributes under the cultural, administrative, geographic and economic dimension. This coding procedure was considered the most effective and reliable to find connections and associations between the answers and each attribute.

In the analysis and discussion chapter, summarizing tables of each dimension and its attribute in accordance with the CAGE framework are presented to make it clearer for the reader whether attributes were considered as barriers or not, based on the impression of the responses. Attention was also paid towards the relationship between the interview responses and psychic distance, the psychic distance paradox and the virtuality trap and to what extent the interviewed companies were perceived to encountered those.

3.5 Research Quality

To ensure and increase the reliability of the responses throughout this thesis, the ambition was to conduct all interviews on-site. The reliability is of significant importance since it contributes to the replicability of the study, in that a research project should be able to generate identical result again if conducted in the same way (Saunders, Lewis & Thornhill, 2009; Recker, 2013). To assist in replicating the thesis again, the interview guide is to be found in Appendix 1. Further, letting the interviewee stay in their office environment, both in the face-to-face interviews and the phone interview, is argued to increase the comfortability in the interview process (Saunders, Lewis & Thornhill, 2009). Additionally, five interviews were performed face-to-face in the companies’ offices and one over the phone.
Furthermore, several things could have changed in the topic of internationalization barriers since the CAGE framework was published in 2001. Therefore, the attributes of access by sea or river, climate differences, intermediate inputs and natural resources might not have the same impact now as then, and especially not for software companies, which is why it was decided to exclude these attributes from this study. Other attributes might be relevant as well but since this thesis is based on the CAGE framework, those will not be taken into consideration. Further, the importance of each attribute might differ since firms could perceive one attribute as more vital than others for their internationalization success. However, this thesis does not have the objective of measuring or quantifying the importance of each attribute and dimension, but rather to find out whether participating firms perceive them as barriers and differences and how they managed them.

The validity works with ensuring the credibility and transferability of the result of the study so that the data that has been gathered measures what is planned to be measured (Bryman & Bell, 2011; Recker 2013). Internal validity refers to how credible and believable the study is, whereas the external validity refers to that the outcome of the study should be applicable in other contexts (Bryman & Bell, 2011). To get good answers, interviews were only conducted with people possessing knowledge about the internationalization process of the company which is argued to increase the internal validity. Furthermore, several online service providers with different software products participated in the study which was considered to strengthen the external validity. All interviewed companies are founded in Sweden and have major sales within the EU, with their product portfolio varying significantly. Additionally, all interviewed participants were asked the same questions regardless of international spread, and awareness has been paid to that the different participating companies act in different markets were for example language might differ. These companies have a varying amount of customers, with some only operating within the EU and some having customers in other parts of the world.

3.6 Research ethics

Bhattacharjee (2012) states that engagement in research should be innocuous and voluntary, and the interviewees should have the possibility to be anonymous. This was taken into consideration and all interviewees were participating on a voluntary basis, and their companies were made anonymous in order to not reveal their identity. Bhattacharjee (2012) further argues
that an important aspect to take into consideration is that the researchers should not try to shape or manipulate the research to benefit them personally. The ethical aspects were considered during the entire process of this paper, this to ensure that the interest lies within producing a well written independent paper and not to get a specific result, but rather an answer to the research question and to fulfil the purpose of the study.

4.0 Empirical data

In the following chapter, the interview data will be structured in accordance with the CAGE framework and the cultural, administrative, geographic and economic dimensions. Under each dimension, the responses from the interviewed companies follow in chronological order. The interviewed companies are spread globally to a varying extent, with some operating only in Europe and some more globally to Asia and the US. However, the focus of this study is not to draw links between similarities and difference across regions, but rather to investigate the active online internationalization process for OSPs. A complete list of all firms and their operating countries are to be found in Appendix 2.

4.1 Cultural dimension

The cultural dimension investigates attributes such as language, religion, ethnicity and social norms, thereby focusing on traditions and behavior of people and corporations in a country.

4.1.1 Company A

Participant A state that their company has used the same platform across all countries, with just minor changes in the product offerings for specific customers and language. The company believes that this is due to the similarities between personal mindsets across different countries that have evolved hand in hand with the digital era. Although some differences between cultures are present, like the working conditions and corporate hierarchies, the biggest cultural characteristics are experienced in customers’ decision making processes. The company state that they have not really experienced any differences or issues in either religion or ethnicity. Furthermore, it is expressed that a local sales department is important to have in order to adapt to each countries working conditions and cultures, something that was an early decision when entering new markets. In addition to this, the participant express that finding good country
managers is of large importance to succeed in a new market, where senior colleagues are expressed as important factors to have a good market fit.

4.1.2 Company B

Company B found it important to conduct a thorough market analysis before entering a new market, with extra attention paid to the cultural aspects. Furthermore, the company experiences large differences in office working hours, which affects their internal communication. In addition to this, the participant states that promises and agreements on deals and projects between companies in different countries vary significantly, a problem faced in the general culture as well, although they only operate within Europe. It is argued that it is important to understand social norms and that employees speak the local language, but they face no particular issues in language when it comes to their online software. Further, local teams are considered necessary for company B to succeed in a new market, and the company also found out that managerial hierarchies and cultures vary across countries, making it important to tailor management competencies towards each specific market. Lastly, the attributes of religion and ethnicity were not considered when entering new markets.

4.1.3 Company C

Company C considers language as an obstacle in countries where an interpreter is needed, more precisely being in countries where decision makers have a hard time understanding English. Further, company C believes that cultural differences are more prone to be hierarchical decision making and meetings, which is an issue faced both in countries close-by and far away. The company does not experience any issues when it comes to religion and ethnicity, even though there are divergences between countries. Participant C also educate themselves about countries before visiting new customers, mainly about local social norms, history and culture, and sees this as an important aspect and issue. This is done to strengthen the relationship with the customer. This relationship is considered as highly important since it can facilitate upcoming sales, and participant C believes that Swedish origin plays a crucial part in many deals, since Swedes have a good reputation.

4.1.4 Company D

The participant from company D stated that it was important to not consider all Nordic countries as similar culture-wise even though they are physically close to each other. The reason for this is that working cultures differ significantly across their operating countries,
which can sometimes cause problems, especially when it comes to language and social norms. It is further argued that language differences between countries are considered an issue, especially when it comes to Finland, where specific meaning and length of words usually are problematic. The participant further argues that language is a smaller problem across Norway and Denmark. In addition to this, religion and ethnicity were not considered as problematic for company D. An additional important aspect for the company when going abroad are leadership characteristics of individuals, internal networks and the work morale across foreign markets.

4.1.5 Company E

The participant from company E expresses that digital maturity in a country is an important part when they prospect new markets. Language is not considered to be a problem since they believe their software is easily translated across multiple markets. In accordance with this, company E does not experience issues or barriers in either religion or ethnicity. Furthermore, the company state that similar cultures facilitate for the business and that the Nordic countries are very related in their cultures. Social norms, with a focus on traditions, are seen as a rather important point when making deals, since some customers prefer certain ceremonies and some are being satisfied with digital agreements. In addition to this, company E states that firms in certain countries are considered to have a stronger emphasis on buying from countrymen, and that local presence in these countries can facilitate more business. Finally, it is important to be aware of how employees are managed according to a country’s culture, and to ensure that the right person is in the right place.

4.1.6 Company F

Participant F states that the cultural barriers outside Sweden are challenging but manageable, with examples being to understand the market and the behavior of local people living there. In some cultures, there are flat organizations with a lot of meetings whilst some have more strict hierarchies for their decision-making processes. In addition to this, the speed of the decision making varies significantly across countries, with some countries being way faster in making a decision compared to others. Language is not considered a huge problem, and it is manageable quite quickly by employing bilingual people. Company F still experiences more cultural similarities between close countries than those far away, but this does not affect their business. Further, social norms affect their daily work, with examples being that digital companies are more prone to make decisions over digital conversations, compared to more
traditional companies that want to have physical meetings. Lastly, company F do not consider ethnicity and religion to be barriers in their internationalization processes.

4.2 Administrative dimension

The administrative dimension investigates rules and regulations from governmental and political institutions. The attributes in this dimension are political hostility, governmental & economic politics, laws & regulations, previous relations with countries and national institutions.

4.2.1 Company A

Participant A states that adaptation towards local laws & regulations is important in their internationalization phase. However, the most challenging task is considered to be registration formulas and paperwork, where the burden differs significantly depending on different countries’ political systems. The previous experience of internationalization has played an important role in making research and analysis before entering a market. In addition to this, company A experience no challenges or issues in neither governmental & economic politics, currencies nor political hostility, except the importance of having beneficial deductible systems for their products. Lastly, company A has not experienced any problem when it comes to the presence of national institutions, such as banks or universities, and neither have they put any particular attention towards this.

4.2.2 Company B

Participant B express that regulations vary between countries and sometimes even between cities, and local disorder in politics affects their business. The company argues that the political rules and directions should be in accordance with their business for them in order to sustain competitive, such as countries focusing on improvements in environmental aspects and reduced carbon dioxide emissions. Additionally, entering countries being members of international agreements, such as EU, are important to ease the legal process, and are thus a conscious decision. This was compared to entering other markets being members of other unions, where the political and legal obligations differ significantly, making it harder for them to be competitive. Further, company B do not consider currencies and national institutions when entering new markets, while the relationships with earlier partners and networks are of large importance for international growth. Lastly, company B considers political hostility as a strong
barrier for their business and draws examples to the yellow vests movement in Paris and the UK’s Brexit.

4.2.3 Company C

Participant C states that relations with key employees in different firms are important, since it does not only create new business opportunities when they change jobs, but also reduces’ the barriers in operating in this country due to personal relationships. Further, to be a part of the EU makes it much easier to conduct business, even though the differences in value-added tax complicates the operations. Even though national institutions such as banks have not affected their way of doing business, participant C express that payments on customer receivables differ significantly across countries, while some pay directly, others might take months to proceed with a payment. Additionally, differences in currencies are an important factor to have under consideration, since an exchange rate in the wrong direction could affect their entire commission. Compared to operate within the EU, the difficulties of conducting business outside the union is difficult. This is especially true when it comes to administrative tasks such as invoicing, agreement proposals and data security, making them vulnerable towards political hostility in some countries. Lastly, following and adapting towards local laws and regulations in different countries are seen as challenging but necessary to succeed with business in that country, together with the preparation of visas for visiting certain markets.

4.2.4 Company D

Participant D express that no governmental-, or economic- political decisions have affected the choice in entering any of their operating countries, and neither has it complicated their entrance once decided. Proceeding in the same way, company D have not felt affected by national institutions in their internationalization process. Additionally, company D do not consider trade unions as an issue when entering new markets. What however is beneficial is the easiness in transferring employees across their operating countries. Even though laws and political regulations are different between countries, which sometimes is considered as challenging, they manage to adapt according to them in a successful way. Lastly, company D had some previous resellers and relations in Finland, being one of the reasons they decided to enter this market, and they thereby found previous relations to countries as an important factor.
4.2.5 Company E

Even though company E prefers to make businesses in the EU due to similarities in taxes and administration, they believe that legal differences that are present for their industry, even within the EU, make it hard to enter certain countries. Therefore, the company searches for countries with a well-developed legal maturity, since their services are of no use unless this maturity is present. Additionally, the company have not experienced any political hostility, and do therefore not see this as a challenge. In terms of administration, participant E states that the process of setting up a company abroad differs significantly across countries depending on local governmental rules. However, to have previous experience and relations towards a country, together with good local managers present can ease this process. The company has decided to conduct all their invoicing and administration from Sweden since they have experienced challenges in administrative work abroad in for example handling different taxes. Further, it is stated that the currency is of high importance since it affects their costs and margins significantly. Lastly, the company has not experienced any issues when it comes to national institutions.

4.2.6 Company F

Participant F expresses that past relationship has been an important factor throughout their internationalization process with current customers assisting them a lot. What could be seen as a barrier in new countries are mostly differences in value-added tax codes and accounting standards, but this is handled through advanced adaptations in their systems, thereby tailoring the need for each and every country individually. Currencies and unions are considered and carefully evaluated when entering new markets since it can affect the way of making business. Company F has not experienced any political hostility but varying customs across different countries creates a large amount of administrative burden. It is important to stay up to date with the local rules, standards and legislations, to constantly be able to update their system accordingly. Lastly, company F believes that it is somewhat beneficial to operate within the EU due to common laws & regulations, and believe that they experience differences in national institutions across countries, but this does not affect their way of doing business.
4.3 Geographic dimension

The geographic dimension investigates the attributes of physical distance, country size, whether a common border matter between countries, the importance of transportation & communication and the power of national institutions.

4.3.1 Company A

Company A express that they do not put any particular attention to whether a country should be large in terms of area size, and even sees smaller and more concentrated countries as beneficial in terms of local transportation. Further, the company prioritizes cities with high coverage of corporate presence, and highlights the importance of finding the right clusters. The company does not choose countries based on physical distance and neither does it matter if the country is a neighboring country or not. However, company A believes that it should at least be somewhat easy to travel to their operating countries conveniently.

4.3.2 Company B

Overall, company B puts more emphasis on entering clusters of cities with high population-density instead of making their selection based on the size of the country, mainly due to the easiness of reaching a large number of people over a short distance. Furthermore, bad traffic conditions in the cities facilitate the competitive position for company B, however, it is necessary that good public transportation exists. There should be great communication possibilities in terms of internet connection, but it is also said that the time shift between offices makes it difficult to communicate. The participant state that it is good if travel distances between the countries are short, but this factor do not play any part when they decide which countries to enter. Lastly, no emphasis is put on whether the new market is a neighboring country or not.

4.3.3 Company C

Participant C express that distance to the new market is of high importance since travel time is an important factor for them. Further, the communication and coordination of international meetings are also affected by physical distance for company C, mainly due to customers being present in different time zones. This is supported by the fact that internet connection, and in some countries even electricity, are extremely important for company C to be able to conduct
their business there. There is no significant attention on whether a country is physically large or not, and neither does the company prioritize neighboring countries based on their vicinity.

4.3.4 Company D

Participant D argues that it is easier to do business if the countries are close to each other but it does not need to be a neighboring country. In addition to this, smooth transportation of employees both to and within the country are considered important, together with the requirement of having strong communication to ease the contact and support with colleagues and customers. Lastly, company D do not put any emphasis on the physical size of the country but rather highlights that as long as there are enough companies operating there, it is good enough for them.

4.3.5 Company E

The participant from company E states that when they aim to be the market leader in a specific country, they need a local presence to have the possibility to visit their customers easily. The ambition from start for company E was not to just sell in Sweden, and therefore small deals have been made abroad already since birth, which has helped them grow and expand to new international customers and markets. Participant E states that neither physical distance or neighboring countries are considered when selecting new markets. In addition to this, company E do not prioritize physical size when selecting new countries, but rather look for high-density clusters with many potential customers in a small area. Lastly, participant E states that well-functioning communication and transportation are important when selecting and entering new markets, this to ensure good internet connection and smooth movements to and within the operating countries.

4.3.6 Company F

Company F does not consider physical distance as an issue when entering new markets, and rather highlights that type of customer and their maturity impacts more. Furthermore, the company does not make any difference whether a country is a neighboring country or not when prospecting new markets, even though it can be more comfortable travel-wise. Further, the closer a country are, the more similar are the standards, demands and customer groups. The choice of market for company F depends on the productivity in combination with high population-density, rather than size. Therefore, an analysis is performed before entering new countries to ensure their qualification demands are met. Lastly, a top priority for company F
when entering new markets is that a well-functioning internet connection has to be present, this to partly ensure the use of the product, but also to be able to provide the right support to their customers.

4.4 Economic dimension

The economic dimension investigates the attributes of purchasing power & financial income of companies, human- & infrastructural resources and information & knowledge about a new country.

4.4.1 Company A

Company A focuses on well-developed markets in terms of employment opportunities, and highlights the importance of only operating in markets where the customers can pay for their product, i.e. high purchasing power and strong GDP per capita. In addition to this, the company prioritizes countries with low unemployment and a large number of established firms, and the participant believes that it is important to recruit employees from the local area. Adaptation to the price level in each country is important since customers are not always willing to pay the same price due to the competitors’ price level. Research is important and is performed in a similar manner for each country during the prospecting phase, and consultants are often used to understand frameworks, taxes and corporate structures.

4.4.2 Company B

Company B puts a high priority on the purchasing power, social class and personal education, since this is a requirement for the end consumer to purchase their services. When entering a new country, they believe it is necessary to have enough knowledge about the market, mainly to avoid spending too much money on simply testing an idea. Furthermore, following an existing customer into a new country could also assist in reducing the risks and lowering possible entry costs, together with ensuring guaranteed sales volumes. It is vital to have local knowledge about wages and how payments are performed in different countries, and local presence with an office is also considered as necessary to optimize their business internationally. Lastly, the participant believes that it is important to analyze the economic cycle and to understand the direction of the market.
4.4.3 Company C

Company C enters markets that have customers with high purchasing power and states that when expanding to large markets they educate themselves about the market to ensure that they understand local processes. Further, the company considers the current economic situation as both interesting and important when entering new markets. The participant C also states that when entering developing countries, the importance of having customers that have enough purchasing power becomes crucial. In addition to this, different prices across countries are a sensitive way to operate, and this is thus carefully done to avoid conflicts. Lastly, company C does not see any barriers in human- or infrastructural resources when entering new countries, since they have no employees present abroad. Therefore, when they are having meetings, they simply fly there themselves.

4.4.4 Company D

Participant D believes that international competition is somewhat as expected, harder in some countries and under less pressure in some. What however was important is that they sometimes need to adapt their pricing strategies depending on the purchasing power of the customers and countries, this in order to ensure that their product is equally attractive regardless of the market. Additionally, the importance of having a large pool of potential recruits is vital for company D to establish in a new country. The company says that a downturn in other industries are positive for them in terms of available employees becoming free on the market. Last but not least, company D emphasizes the importance of learning about a new market and its niches before expanding, together with the requirement that the market needs to be large enough in terms of potential customers.

4.4.5 Company E

Participant E states that the company investigates the market potential, where the population and the number of companies are seen as an important factor to ensure profitability. Even though it facilitates their business when staying in the EU, they still face difficulties in pricing the products in accordance with different countries purchasing power, this to ensure that the product is always affordable. The exchange rate affects the pricing of the product but can usually be adjusted through certain bank solutions. However, participant E believes that wages are more difficult to adjust when paid in different currencies. The range of well-educated people in a new market matter and so do the prices and locations of offices. Furthermore,
information about a market plays an important role when looking for new markets, and they see the problem that companies in some countries are slow in paying their invoices as a large issue. Lastly, participant E argues that it facilitates to hire people that have experience in the company's industry.

4.4.6 Company F

Participant F states that purchasing power and potential sales have a huge impact if the company should enter a new market, and makes analyses during the prospecting phase to ensure these requirements. However, local adaptation on prices can sometimes be done according to each country's purchasing power, this to ensure that they are competitive and capture a significant market share. When entering new markets, the company tries to find competent employees, and to ensure that the new market is interesting and of high value, a thorough market analysis is performed since it is important to understand the customers. Different markets are not equally mature, and due to this, the underlying market analysis becomes extremely important for company F before entering new countries to ensure effective future operations.

5.0 Analysis and discussion

The following chapter will analyze and discuss how online service providers perceived barriers and differences when actively expanding to new markets online. After each section, a summarizing table is presented to show a simplified visualization whether the attributes under each dimension were perceived as a barrier or not.

5.1 Cultural Dimension

The attributes included in this dimension are language, ethnicity, religion and social norms (Ghemawat, 2001). Language across different countries is by most of the participant not perceived as a barrier, except for company C and D. Company C argue that they see the need for an interpreter as vital to succeed, while company D believes that the complexity and meanings of certain words and phrases affect their way of conducting business. Arguably, one could argue that this awareness assist company C and D in avoiding the virtuality trap discussed by Yamin and Sinkovics (2006). This since preparation and good research has been conducted when it comes to language in that they not only translate but also adapt their services
accordingly. The companies that do not perceive language as an issue, argue that their services are easily translated. This could potentially result in that the company falls into the virtuality trap due to a low adaptation of their software service, which may cause problems in their internationalization process. Additionally, an interesting finding where that no company in the study perceived Ghemawat’s (2001) attributes of ethnicity or religion as a barrier. It can be argued that it is right not to adopt one's business depending on religious beliefs, but it could still be important to pay respect towards and be aware of religious differences across cultures. This could draw parallels towards the psychic distance paradox as discussed by O’Grady and Lane (1996), in that companies might think that new countries are more similar than they actually are.

Social norms were by most of the participant perceived as a barrier when entering new markets except for company A, who thought that no adaptation was necessary here. It can be argued that this once again draws potential parallels towards Yamin and Sinkovics (2006) virtuality trap, in that company A believe that social norms do not have any particular impact on their online services when expanding internationally except the local working conditions and hierarchies, since their services circulate around employment benefits. The other companies express bigger awareness in that the social norms may have an impact on their online internationalization process, and it can therefore be argued that they carefully investigate the concept of psychic distance discussed by Johanson and Vahlne (1977; 2009). This could be of advantage for the companies in order to succeed with their internationalization processes. The reason social norms are perceived as a barrier for most of the OSPs could very well be due to that underlying behavior do not change just because business is conducted through the internet.

Table 4 below visualizes a simplified version of whether the cultural attributes were perceived as barriers or not.

<table>
<thead>
<tr>
<th>Company →</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Language</td>
<td>NO</td>
<td>NO</td>
<td>YES</td>
<td>YES</td>
<td>NO</td>
<td>NO</td>
</tr>
<tr>
<td>Ethnicity</td>
<td>NO</td>
<td>NO</td>
<td>NO</td>
<td>NO</td>
<td>NO</td>
<td>NO</td>
</tr>
<tr>
<td>Religion</td>
<td>NO</td>
<td>NO</td>
<td>NO</td>
<td>NO</td>
<td>NO</td>
<td>NO</td>
</tr>
<tr>
<td>Social Norms</td>
<td>NO</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
</tr>
</tbody>
</table>
5.2 Administrative Dimension

The attributes included in this dimension are previous relations, political hostility, governmental & economic politics, laws & regulations and national institutions (Ghemawat, 2001). Previous relationships are by all interviewed companies perceived as a barrier when entering new countries and having connections or even personal experience towards a market were seen as beneficial in both the prospecting phase and once up and running. It can be argued that having these relationships originating from knowledge and experience could reduce the psychic distance that is discussed by Johanson and Vahlne (1977; 2009).

Furthermore, it is interesting that company A and D do not perceive governmental & economic politics as a barrier when entering a new country, even though these legislations differ across countries. The case might be that they either have conducted an analysis in an exemplary way, or it may just be that it has succeeded so far, but might get problems later on when entering new countries. It can be argued that this draws possible connections towards the psychic distance paradox as discussed by O’Grady and Lane (1996). On the other hand, it can also be the case that these barriers simply are looser when working with SaaS instead of perpetual licensing, since operations are present through the cloud and companies could therefore avoid certain rules and administrative tasks. In addition to this, unions are by most of the companies perceived as a facilitating factor for their business, being in accordance with Ghemawat’s (2001) arguments with that common trade unions can improve trade significantly. However, this could be the case since they are already members of the European Union, and thereby doing business in other unions could be considered as a barrier of entry.

Political hostility on the other hand is perceived as a rather diffuse attribute for the companies, which is reflected by the responses from the interviewed companies where some express that hostility exists, some not and one company even has a hard time answering the question. This could be due to that political environments shifts from day to day, with hostility and riots popping up every now and then to affect international business. For example, company B sees UK’s Brexit and France’s yellow vests movement as a huge challenge towards their business, and company C perceive the data regulations outside EU in some specific countries as a complex challenge for their industry. This once again shows that even though physical distance is short, administrative barriers can be huge. It could also be the case that firms being used to a rapidly changing political environment unintentionally ignore the political hostility and do
not perceive this as a barrier, whereas those staying up to date are well aware of its implications and thereby adapt to the political situation.

Furthermore, Ghemawat’s (2001) attributes of laws & regulations are by all companies perceived as a barrier, where some of the companies state that the regulations have to be in favor for the company if it should enter the market since they are seen as a challenge to adapt to. For example, company A highlights the paperwork and firm registration as the most challenging issue, whereas company B favor to enter countries were environmental laws & regulations encourage reduced carbon dioxide emissions, since this is a requirement for them to be competitive. Company C also express that visa rules in certain countries makes it complex when visiting some of their customers.

Even though all of the companies work with national institutions, no one perceived this attribute as a barrier, thereby going against Ghemawat’s (2001) argument that national institutions are considered an international expansion barrier, at least perception-wise. It could be considered risky to avoid paying attention to this attribute since it can differ across countries and create unintentional problems for the company. Ignoring this could once again put the firm in O’Grady and Lane’s (1996) psychic distance paradox in that the companies believe that no differences are present compared to the home country, even though there might be. Table 5 below visualizes a simplified version of whether the administrative attributes were perceived as barriers or not.

Table 4. Administrative Dimension - Were attributes perceived as barriers?

<table>
<thead>
<tr>
<th>Company</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Previous Relations</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
</tr>
<tr>
<td>Governmental &amp; Economic Politics</td>
<td>NO</td>
<td>YES</td>
<td>YES</td>
<td>NO</td>
<td>YES</td>
<td>YES</td>
</tr>
<tr>
<td>Political Hostility</td>
<td>NO</td>
<td>YES</td>
<td>YES</td>
<td>N/A</td>
<td>NO</td>
<td>NO</td>
</tr>
<tr>
<td>Laws &amp; Regulations</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
</tr>
<tr>
<td>National Institutions</td>
<td>NO</td>
<td>NO</td>
<td>NO</td>
<td>NO</td>
<td>NO</td>
<td>NO</td>
</tr>
</tbody>
</table>

5.3 Geographic dimension

The attributes included in this dimension are physical distance, country size, neighboring countries and transportation & communication (Ghemawat, 2001). The physical distance to the markets is only perceived as a barrier by company C and D since according to them it affects
the travel time, and it makes it easier to conduct business if the countries are close to each other. The rest of the companies do not consider physical distance as a barrier, which is rather surprising due to the arguments made by Ghemawat (2001), in that shorter physical distance between countries should facilitate for better business opportunities. It is therefore seen as rather odd that companies do not prioritize countries close by, but on the other hand, the targeted countries might be more attractive for the company. This might however be the case since the interviewed companies sell software online rather than physical products.

Furthermore, none of the companies considered neighboring countries as a requirement when internationalizing their business. Even though some companies found it of ease to move employees to countries close by, this was not considered as a selection criterion when choosing a new market. A possible explanation of this could be that firms operating online focuses on attractive markets for their virtual product rather than physically close countries. In addition to the previous attribute, no companies in the study considered the size of the country as a barrier when entering new markets, which Ghemawat (2001) argues is an internationalization barrier.

All of the companies perceived Ghemawat’s (2001) attribute of transportation & communication as a barrier, with arguments being that it should be easy to visit customers both when traveling to the country, but also once there. In addition to this, all companies said that good internet connection and communication opportunities are vital, which is not surprising since the investigated companies are an online service provider that offers software over the internet. It could thereby be argued that all companies avoid Yamin and Sinkovic’s (2006) virtuality trap since they understand that the communication barrier shifts between countries and that internet access is a necessary criterion for them to maximize the performance with their online software. Table 6 below visualizes a simplified version of whether the geographic attributes were perceived as barriers or not.

Table 5. Geographic Dimension - Were attributes perceived as barriers?

<table>
<thead>
<tr>
<th>Company</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physical Distance</td>
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</table>
5.4 Economic Dimension

The attributes included in this dimension are purchasing power & financial income, human- & infrastructural resources and information & knowledge (Ghemawat, 2001). It can be seen that all companies in the study consider purchasing power and good financial income among customers as a requirement to enter new markets, and they thereby see a barrier in entering countries with lower purchasing power, being in accordance with Ghemawat’s (2001) arguments. This is understandable since the goal of running a profitable business do not change just because operations are done virtually rather than physically. More obstacles in the economic dimension are administrative costs and exchange rates, factors that could cut significant margins on their business deals. Lastly, it can be argued that paying attention to these factors benefits the companies in their internationalization process in that they are aware of Johanson and Vahlne’s (1977; 2009) concept of psychic distance.

Ghemawat’s (2001) attributes of human resources are by most of the companies considered as important to succeed with an internationalization process, with arguments being to have a competent and well-educated pool of employees. These human resource requirements are seen as a barrier for many companies to succeed in a new market, which is understandable since the core asset for software companies are the people employed that develop their products and services. However, interesting was to see that company C puts no priority on neither human- or infrastructural resources, which probably is the case due to that they have no employees present abroad, but rather only have customers there.

All interviewed companies state that Ghemawat’s (2001) attribute of information and knowledge about the new market was necessary to have in order to succeed there. Analyses of the economic cycles, directions of the market and understanding of local processes are highlighted as important factors to succeed and to overcome barriers. Further, it is important to understand that payment procedures vary across all countries, which sometimes can make transactions problematic. Additionally, all markets are not equally mature and adaption of the products and services towards customers preferences and requirement are considered important to succeed in new markets. By that, it can be argued that the companies avoid Yamin and Sinkovic´s (2006) virtuality trap due to extensive market research. Table 7 below visualizes a simplified version of whether the economic attributes were perceived as barriers or not.
Table 6. Economic Dimension - Were attributes perceived as barriers?

<table>
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<th></th>
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<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
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<td><strong>Human- &amp; Infrastructural Resources</strong></td>
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<td><strong>Information &amp; Knowledge</strong></td>
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</table>

5.5 Findings beyond the CAGE framework

It is rather interesting that several findings are identified that were not particularly highlighted in Ghemawat’s (2001) CAGE framework. Firstly, the emphasis was paid towards strong cultural leadership, country managers and good local teams with rooted understanding in local cultures and working climate, being factors pointed out by company A, B, D, and E as highly necessary to succeed in new international markets. Secondly, company A, B, C and F perceived that differences in hierarchies & decision-making processes should be considered when entering new markets. A third interesting finding identified was that focus should be put on high-density clusters rather than country size in order to have customers close to each other, an argument that was considered as vital by company A, B, E and F. Additionally, a fourth findings were that company A, C, D, E and F experienced difficulties in pricing strategies across markets with an argument being that customers price levels vary in accordance with their economic situation.

6.0 Conclusion

It is argued that there is a lack of research within the process of online internationalization for OSPs (Wentrup & Ström, 2019). In addition to this, active online internationalization is suggested to be further researched, mainly to broaden the view of how firms that intentionally chose to go abroad online operates and behaves (Pezderka & Sinkovics, 2011). Furthermore, Sinkovics, Sinkovics and Jean (2013) state that there is a shortage of research present when it comes to the internet's ability to reach export markets.

The purpose of this thesis was to examine if and how online service providers offering software as a service perceived barriers and differences in their active online internationalization.
process. Attention was also given to whether connections could be drawn from the interview answers towards psychic distance, the psychic distance paradox and the virtuality trap. Based on this, the research question of “which differences and barriers did online service providers face when actively internationalizing online to new markets, and how did they perceive them?” was constructed. Further, this study was written in accordance with Ghemawat’s (2001) CAGE framework, which contains the four dimensions of Cultural, Administrative, Geographic and Economic barriers, each with their underlying attributes. By using this framework, it was possible to study how OSPs expanding online experienced differences across countries and how they worked to overcome these. This study took a qualitative approach through semi-structured interviews with six companies, all being born digital online service providers.

In several situations the participating firms evaluated differences across countries, and it could thereby be argued that they paid attention towards psychic distance. However, there could also be a risk that the companies were victims of the psychic distance paradox in cases when they believed that a certain attribute in the CAGE framework was not to be perceived as a barrier, even though it could have a significant impact for their business. It could also be argued that the OSPs sometimes fell into the virtuality trap, in that they believed that the transferability of their software services across different countries would be easier than it actually turned out to be, mainly due to shifting customer demands. Following, the result of the four dimensions and their attributes from Ghemawat’s (2001) CAGE framework are summarized and presented below.

The first dimension, being the cultural dimension, shows rather interesting findings in that the attributes of religion and ethnicity are completely ignored as barriers, and that language is barely perceived as one when expanding internationally. Lastly, the most challenging attribute was considered to be social norms. Thereby we would argue that the cultural dimension in Ghemawat's (2001) framework was barely perceived as a barrier by OSPs when entering new markets online.

In the second dimension, being the administrative dimension, only two attributes were clearly considered as barriers for the companies, being previous relations and laws & regulations. Governmental & economic politics and political hostility were to some extent seen as barriers in the online internationalization process, although some companies found political hostility more challenging than others. Lastly, national institutions were not considered to be a barrier
at all. Thereby we would argue that the administrative dimension in Ghemawat's (2001) framework was moderately perceived as a barrier by OSPs when entering new markets online.

In the third dimension, being the **geographic dimension**, two of the attributes were not seen as barriers at all, being neighboring countries and size of the country, whereas the attribute of physical distance was barely perceived as a barrier when the firms expanded internationally. Lastly, the attribute of transportation & communication was clearly seen as a barrier mainly due to the requirement of an internet connection. Thereby we would argue that the geographic dimension in Ghemawat's (2001) framework was barely perceived as a barrier by OSPs when entering new markets online.

In the last and fourth **economic dimension**, the attributes were overall considered as barriers when expanding abroad. Purchasing power & financial income and information & knowledge were clearly considered to affect international expansion, and almost all companies perceived human- & infrastructural resources as challenges when going abroad. Thereby we would argue that the economic dimension in Ghemawat’s (2001) framework was clearly perceived as a barrier by OSPs when entering new markets online.

To conclude, even though the cultural dimension is barely perceived as a barrier when looking at Ghemawat’s (2001) attributes, it could be argued that some findings in our study could expand the CAGE framework. For instance, several companies believed that **cultural leadership**, being that managers possess explicit knowledge in the national culture, was necessary to succeed abroad. In addition to this, **hierarchies & decision-making processes** across different countries were seen as barriers according to the interviewed companies. The geographic dimension is also accompanied by a new challenge in that several of the interviewed companies prioritized **high-density clusters** with customers close to each other rather than looking for large countries. Additionally, in terms of the economic dimension, **pricing strategies** across international markets were considered as an obstacle by almost all companies, since price levels vary across countries. These findings are argued to be of large interest since they are not brought up in Ghemawat’s (2001) CAGE framework and might therefore be possible addendums for future versions when using the framework in prospecting new markets online.
6.1 Implications

The result of the study can be argued to give implications for online service providers when looking to expand to new international markets. By taking Ghemawat’s (2001) CAGE attributes together with the new findings into consideration, firms could obtain a better knowledge of how to manage their internationalization process. By keeping these attributes and new findings in mind when internationalizing, it could be argued that the OSPs gets a better understanding in psychic distance and thus leap a lower risk in being victims of the psychic distance paradox and the virtuality trap.

6.2 Limitations and Suggestions for Future Research

This study is limited with only interviewing companies founded in Sweden, and the interviews have only been conducted with one person in each firm. In addition to this, all questions of the firms’ perceptions of barriers and differences are based solely on the CAGE framework. Furthermore, international operations vary between the participating firms, and their operations are spread across many different countries.

Recommended research for the future could be more specific studies in how the additional findings of cultural leadership, hierarchies & decision-making processes, cluster opportunities and pricing strategies affect online service providers in a new market. An additional research suggestion is to investigate the weight of each barrier by measuring the importance of the attributes and each new finding in the internationalization processes. Lastly, since this study is conducted completely on online service providers, research on the differences between virtual expansion and traditional physical internationalization could also be of interest as a future study.
References


Appendix

Appendix 1. Interview guide

**Interview Guide**

\[ I = \text{Introduction Questions} \]
\[ C = \text{Cultural Barriers} \]
\[ A = \text{Administrative Barriers} \]
\[ G = \text{Geographic Barriers} \]
\[ E = \text{Economic Barriers} \]
\[ F = \text{Final Questions} \]

| I-1 | Are you fine with us recoding the interview, with the purpose to transcribe it at a later stage?  
(The sound file will of course be kept private with us). |
<p>| I-2 | Do you have any more questions before proceeding? |
| I-3 | To clarify, what is your position in the company? And further, are your familiar with the internationalization process of the company? |
| 1. Cultural Dimension | How did you experience Cultural differences and barriers when entering a new market online? |
| 2 - C-1.1 | How did you handle differences in Language when entering new markets online? |
| 3 - C-1.2 | How did you handle differences in Ethnicity when entering new markets online? |
| 4 - C-1.3 | How did you handle differences in Religion when entering new markets online? |
| 5 - C-1.4 | How did you handle differences in Social norms when entering new markets online? |</p>
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<tr>
<th>6. Administrative Dimension</th>
<th>How did you experience Administrative and political differences and barriers when entering new markets online?</th>
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</thead>
<tbody>
<tr>
<td>7 - A-1</td>
<td>How did you handle and use Part relationships to the country when entering new markets online?</td>
</tr>
<tr>
<td>8 - A-2</td>
<td>How did you handle differences in Governmental and economic politics when entering new markets online?</td>
</tr>
<tr>
<td>9 - A-3</td>
<td>How did you handle differences in Political hostility in a country when entering new markets online?</td>
</tr>
<tr>
<td>10 - A-4</td>
<td>How did you handle differences in Political rules in the new country when entering new markets online?</td>
</tr>
<tr>
<td>11 - A-5</td>
<td>How did you handle differences in National institutions when entering new markets online?</td>
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<td>12. Geographical Dimension</td>
<td>How did you experience Geographical differences and barriers when entering new markets online?</td>
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<tr>
<td>13 - G-1</td>
<td>How did you handle Physical distance when entering new markets online?</td>
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<tr>
<td>14 - G-2</td>
<td>Did you put any weight on whether the new market should be A neighbouring country or not and if so, what are your thought about this?</td>
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<tr>
<td>15 - G-3</td>
<td>How did you handle differences in Country size when entering new markets online?</td>
</tr>
<tr>
<td>16 - G-4</td>
<td>How did you handle differences in Transportation and communication opportunities when entering new markets online?</td>
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<td><strong>17. Economic Dimension</strong></td>
<td>How did you experience <strong>Overall Economic differences and barriers</strong> when entering new markets online?</td>
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<td><strong>18 - E-1</strong></td>
<td>How did you handle differences in <strong>Purchasing power and income among customers</strong> when entering new markets online?</td>
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<td><strong>19 - E-2</strong></td>
<td>How did you handle differences in <strong>Human-, and infrastructural resources</strong> when entering new markets online?</td>
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<tr>
<td><strong>20 - E-3</strong></td>
<td>How did you handle differences in <strong>Information and knowledge about the new country</strong> when entering new markets online?</td>
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<tr>
<td><strong>F-1</strong></td>
<td>Alright, that was the last question, and now we will just proceed to a self-reflection. What would you say are the most prominent thing you have learned during the internationalization processes?</td>
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<td><strong>F-2</strong></td>
<td>We will make you as an individual anonymous. Would you like that we do the same with the company name?</td>
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Appendix 2. Countries and regions the interviewed companies operate in.

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