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Master in Management Program

INTERNATIONALIZATION STRATEGY OF INTERNET TRANSPORTATION NETWORK COMPANIES (ITNCS):

CROSS-COUNTRY CASE STUDY OF UBER TECHNOLOGIES INC.

Master’s Thesis by the 2nd year student

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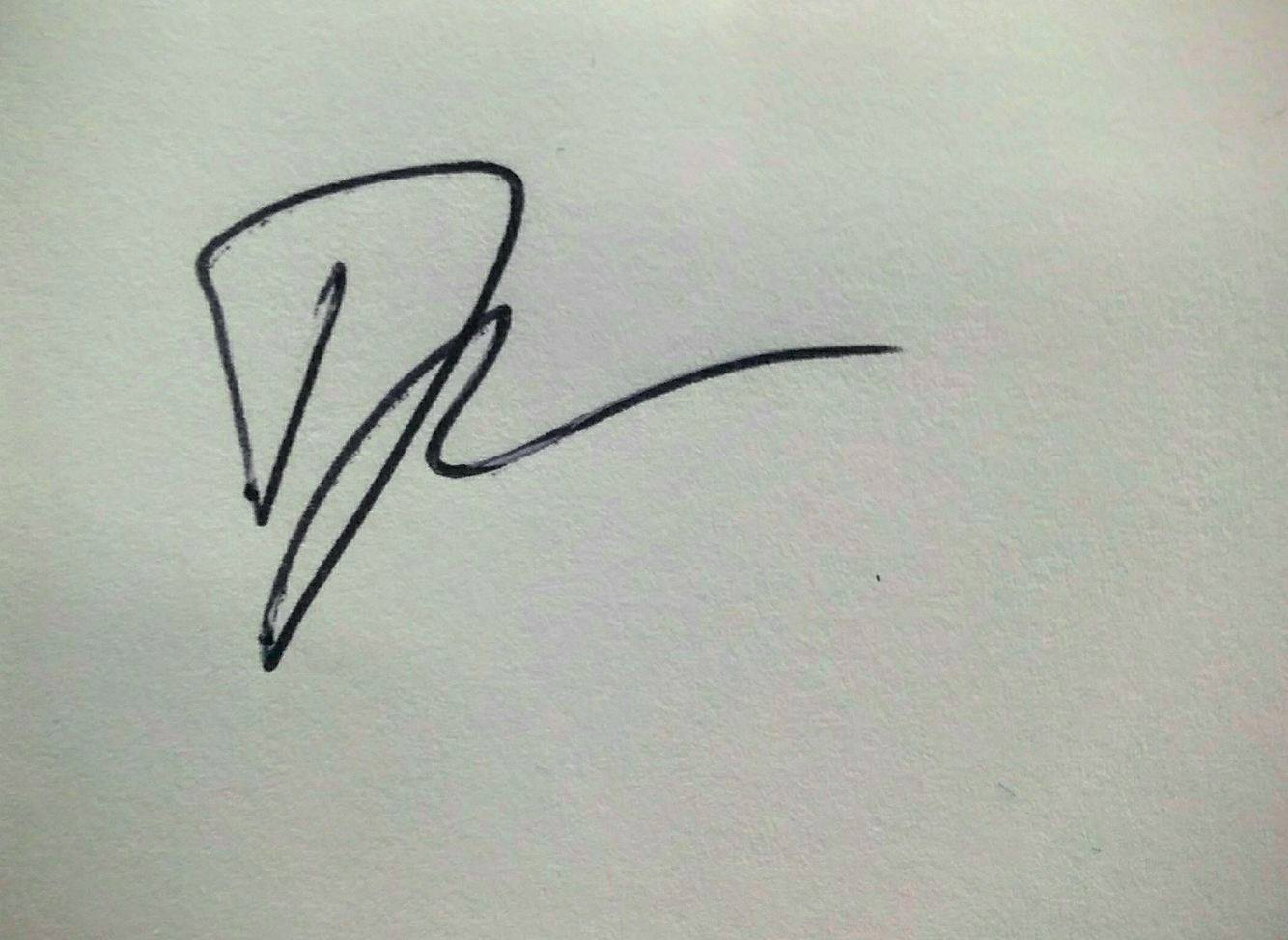
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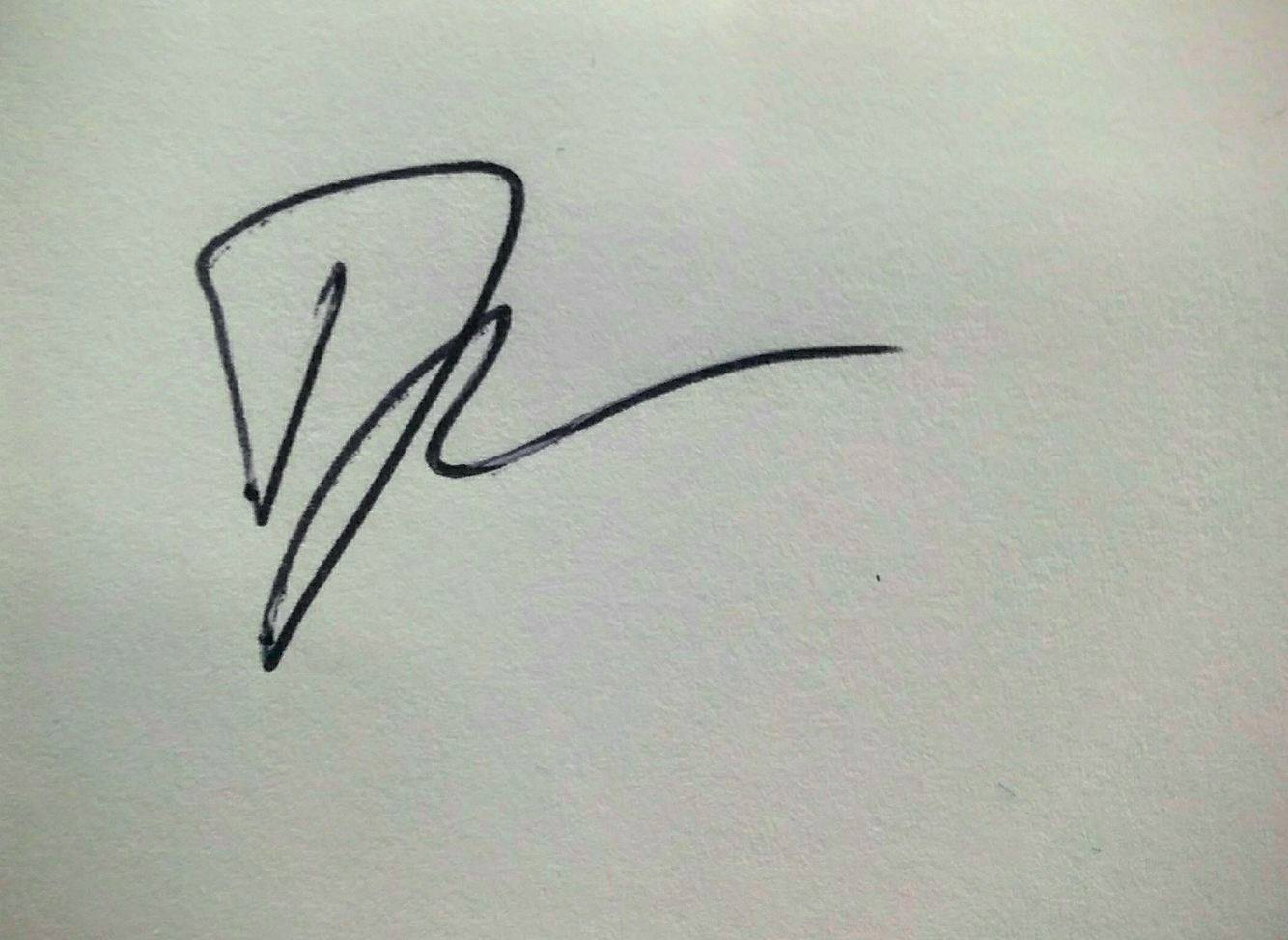
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I, Yulia G. Troyslit, second year master student, program «Management», state that my master thesis on the topic «Internationalization strategy of Internet transportation network companies (iTNCs): cross-country case study of Uber Technologies Inc.», which is presented to the Master Office to be submitted to the Official Defense Committee for the public defense, does not contain any elements of plagiarism.

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**ABSTRACT**

|  |  |
| --- | --- |
| Master Student's Name | Yulia G. Troyslit |
| Master Thesis Title | Internationalization strategy of Internet transportation network companies (iTNCs): cross-country case study of Uber Technologies Inc. |
| Faculty | Graduate School of Management |
| Main field of study | International Management |
| Year | 2016 |
| Academic Advisor's Name | Associate professor, Sergey A. Yablonsky |
| Description of the goal, tasks and main results | In recent years the world has witnessed the emergence of the new type of transportation companies that used the technology, a mobile application, to connect clients with drivers without owning the fleet of cars or employing drivers. These companies not only challenged the traditional taxi industry but also stretched previously local taxi markets to the international level by the rapid internationalization of operations almost from their inception. The goal of the present master’s thesis is therefore to explore the drivers of internationalization as well peculiarities and patterns of international expansion of Born Global Internet transportation network companies (iTNCs). To achieve the goal the following objectives were set: 1) identify the competitive advantage of iTNCs; 2) identify the motives of iTNCs to internalize; 3) analyze the process of internationalization of iTNCs; and 4) analyze the choice of entry modes and the business strategy.  The study based on the case of Uber has identified that the characteristics of the business model, unique technology, strong brand and experience of TMT were among the internal drivers of successful internationalization, while niche domestic market, high competition, domestic industry regulation as well as attractiveness of foreign markets and the availability of the grey zone of regulation in these markets were the external drivers to expand internationally. As for the patterns, iNTCs tend to first move to geographically and culturally close markets to accumulate knowledge and experience and then expand to other locations fuelling growth by profitable markets and investments. Finally, iTNCs choose FDIs and strategic partnerships to enter the market as well as cost leadership strategy with significant level of localization to develop the market. |
| Keywords | Internet transportation network company, Born Globals, internationalization, global expansion, strategy, Uber |

**АННОТАЦИЯ**

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| Описание цели, задач и основных результатов | В последние годы получил развитие новый тип транспортных компаний, которые используют технологии для оказания услуг такси, соединяя клиентов с водителями через мобильное приложение, в то же самое время не владея парком автомобилей и не нанимая водителей. Эти компании не только бросили вызов традиционному рынку такси, но и позволили расширить границы ранее локальных такси рынков до международного уровня, благодаря быстрой интернационализации своих операций сразу после основания. Цель данной магистерской диссертации – изучить факторы, способствующие интернационализации, а также особенности международной экспансии «рожденных глобальными» сетевых транспортных интернет-компаний (iTNCs). Для достижения цели были поставлены следующие задачи: 1) определить конкурентные преимущества iTNC; 2) определить мотивы iTNC для интернационализации; 3) проанализировать процесс интернационализации iTNC; и 4) проанализировать выбор стратегии выхода на новые рынки и бизнес-стратегии на этих рынках.  Исследование, основанное на кейсе компании Uber, определило, что характеристики бизнес-модели, уникальные технологии, бренд и опыт команды топ-менеджеров являются внутренними драйверами успешной интернационализации, в то время как нишевый домашний рынок, высокая конкуренция, государственное регулирование отрасли, а также привлекательность зарубежных рынков и наличие серой зоны регулирования на этих рынках – внешние факторы международной экспансии iTNC. Что касается процесса, как правило, iNTCs изначально выходят на географически и культурно близкие рынки, чтобы накопить знания и опыт, а затем расширить присутствие на других рынках, обеспечивая экспансию за счет прибыльных рынков и инвестиций. Наконец, iTNC выбирают прямые иностранные инвестиции и стратегические партнерства для выхода на рынок, а также стратегии лидерства по затратам и значительный уровень локализации для развития рынка. |
| Ключевые слова | Сетевые транспортные интернет-компании, компании «рожденные глобальными», интернационализация, глобальная экспансия, стратегия, Убер |

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1. INTRODUCTION

1.1 Research Background

In recent years the world has witnessed the emergence of new companies that changed or transformed the traditional industries and the way people consume goods and services with their disruptive technologies and business models. The increased pace of globalization, rapidly changing business environment and proliferation of information technologies created an opportunity for these new ventures to rapidly internalize their operations, sometimes from their inception, in the search of new business opportunities. The traditional internationalization theories that were mainly focused on MNEs and their strategies are now being reconsidered to enable the research on the new type of internalized companies – Born Globals or international new ventures (INVs) (McKinsey & Company, 1993; McDougall and Oviatt, 1994).

There are different labels attached to these kinds of firms such as international new ventures, born globals, international start-ups etc. However, the two most acknowledged terms are International New Ventures and Born Globals. Oviatt and McDougall introduced the term of “International New Venture” in 1994 and defined it as “a firm that, from its inception, seeks to derive significant competitive advantage from the combination of resources and sale of outputs in multiple countries”. The term Born Global was used by McKinsey & Company (1993) and later in 2004 Knight and Cavusgil defined Born Globals as “entrepreneurial start-ups that, from or near their founding, seek to derive a substantial proportion of their revenue from the sale of products in international markets”. In this master’s thesis the term Born Globals is used.

One of the most prominent examples of today's Born Globals are rapidly growing Internet transportation network companies (iTNCs). The term iTNC was introduced by [California Public Utilities Commission](https://en.wikipedia.org/wiki/California_Public_Utilities_Commission#Transportation_Network_Companies) in 2013 to address the growing neccessity of regulating such companies as Uber, Lyft, Sidecar and others (CPUC, 2013). The disruptive technology that connects drivers with prospective riders is transforming the traditional taxi industry since 2009 when Uber Technologies Inc. started its operations in San Francisco Bay area. As of May 2016 the company valued at $68 billion surpassing automotive giants like General Motors, Ford Motor and Honda Motor (Chen, 2015). The company’s disruptive technology and innovative business model is so successful that it was replicated by numerous competitors: US-based Lyft, Chinese Didi Kuaidi, Indian Ola, as well as Hailo, Gett, EasyTaxi and many others (Crunchbase, 2016). However, Uber still manages to keep the highest valuation among all as well as the broadest geographic scope of operations: 68 countries and 407 cities across the world (Uber, 2016).

The internationalization pace of Uber is phenomenal: the company became international in 2011 with the launch in Paris, France (Uber, 2011) and only in seven years of operations it managed to enter 406 cities in 68 countries on each continent except for Antarctica (Uber, 2016). The strategy seems to be approved by investors as Uber achieves to raise significant funds from acknowledged venture capitalists totaling to $10,61 bln in 15 rounds (CrunchBase, 2016).

To date there exists almost no literature on the topic of iTNCs, especially on its internationalization process, due to the newness of the phenomenon. However, the literature focused on the research of Born Globals and INVs is growing since 1990s when the number of such firms started to increase. Still, the field needs further research on various aspects as drivers of internationalization, speed, scope, and intensity. Moen (2002) in his work gave the following reasons on why is it important to study Born Global firms. First, it is the increasing number of such companies, and especially those like Uber that disrupt the traditional industries and change the way people consume goods and services. Second, the limited ability of existing frameworks and models to analyse the process and patterns of internationalization of Born Global firms as they were developed in the times when MNEs dominated the international arena. Therefore, it is important to develop new theories by closer researching this new phenomenon. A case of iTNCs, and Uber in particular, promises to make a considerable contribution into the understanding of internationalization of modern Born Globals as well as build a base for the further research on this new type of companies.

1.2 Research question, aims and objectives of research

*The goal* of the present master’s thesis is, thus, to explore the drivers of internationalization as well peculiarities and patterns of international expansion of Internet transportation network companies (iTNCs).

*The research question* of the study is, thus, formulated as follows: How born global Internet transportation network companies internalize their operations?

The research question deserves attention for a number of reasons. First of all, at the moment we witness the significant changes in the global transportation industry due to the emergence of iTNCs and the changes are very rapid because iTNCs quickly internalize their operations and enter more and more markets. Second, the pace and scope of internationalization of Born Global iTNCs challenge the established the theories that were designed to explain the foreign expansion of MNEs.

To answer the research question the following *goals* were set:

* Identify the competitive advantage of iTNCs that allows them to expand successfully to foreign markets;
* Identify the motives of iTNCs to expand their operations internationally;
* Analyze the process of internationalization of iTNCs;
* Analyze the choice of entry modes and the business strategy.

The present work contribute not only to the development of theory on Born Globals, but also generate managerial implications for managers and entrepreneurs of new technological ventures on when to internalize and how to successfully expand operations to foreign markets.

1.3 Research strategy and structure of the paper

The present study uses abductive research approach and starts with the taxi industry background as well as the review of state of the art on the topic of Born Globals. The study is explorative in its nature and uses a single case study as a research strategy. The object of the study is Uber Technologies Inc. and its expansion to China, India, and Russia.

The master’s thesis consists of 4 chapters. The first, present chapter, represented the introduction to the study. Second chapter will be devoted to the taxi industry and theoretical background of Born Globals. The third chapter will provide the research methodology and the results of the empirical study including the description of the case and the comparison of regional strategies employed by Uber. The final, fourth part, will discuss the main results and outcomes of the study, theoretical and practical contribution, and limitations of the research.

1. THEORETICAL BACKGROUND: TOWARDS THE THEORY OF BORN GLOBAL TRANSPORTATION COMPANIES

2.1 Taxi industry background: prerequisites of the global taxi market

Before the mass adoption of smartphones and modern communication technologies the taxi industry was geographically limited – the companies were either operating only in one city to serve its citizens or encompassing other cities within the same country. However, the emergence of the so called Internet transportation network companies (iTNC) allowed for the development of international taxi firms operating at the same time in different countries across the world by application of the same technology and the business model. The first country where such firms emerged was the USA, where in 2009 Uber, a taxi-hailing app, became available. Later, companies with the similar business model and technology were established in other parts of the world. The following part, thus, will focus on the history and the peculiarities of the taxi industry, the USA one in particular, and how it was changed with the emergence of iTNCs.

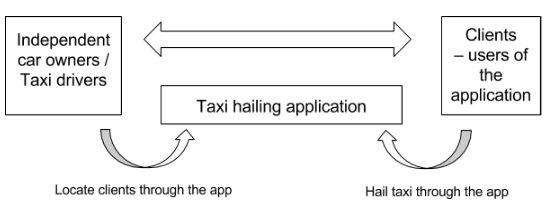
The first taxi company using electric battery-powered taxi vehicles appeared in New York in 1987 – Samuel's Electric Carriage and Wagon Company with the fleet of 12 cars (The Telegraph, 2011). However, the regulation of the US taxi industry was developed only after the Great Depression of 1929. In 1937 the mayor of New York city introduced the taxi medallion system to constrain the number of vehicles and assure more safety to the passengers through the background checks of drivers (Harding et al., 2015). The system became the standard practice for other US cities. The medallion system represented the efficient mechanism that limited the number of licensed taxis in the country. As the supply of medallions was limited the price for the one to acquire could reach $250'000 by the year 2013 (Stone, 2014).

Harding et al. (2015) emphasize two sectors of the modern taxi markets: cruising and dispatch markets. The first sector consists of taxis that pick up passengers from the streets without booking in advance. This type often refers to the taxicabs or yellow cab services. The second sector involves taxis that provide pre-arranged transportation services and are booked through the dispatch office. These taxis are also called livery vehicles and usually they are not allowed for street hailing. Livery companies generally operate black cars or limousines. The two sectors are also subject to different regulations.

The taxi industry as of 2009, in its pre-Uber state, was characterized by low competition due to the medallion system. As a consequence low quality of the service, high prices and low accountability was the major concerns of the customers. At the same time the smartphone adoption was on the rise (EMarketer, 2010) what created the possibility for the emergence of new technology-based solutions for the existing problems. Smartphones allowed companies to change the way traditional business works and at the same time provided customers with the convenient way to consume services.

The year 2009 became the starting point for the emergence of numerous companies offering taxi or car hailing applications. The application represents the two-sided platform that connects smartphone users with the car owners or taxi drivers based on the location criteria (Harding et al., 2015). The supplier of the transportation service operates in the manner similar to traditional taxi drivers: locate clients using the application instead of dispatch service, drive them to their destination and set the fee based on the distance and time of the trip calculated by the application, similar to the mechanism of taximeter. These companies were later called Internet transportation network companies or iTNCs (CPUC, 2013) as they were similar to the traditional taxi companies however still related to the tech companies providing the technological solution to drivers. The success of the iTNC business model, as with any internet-based platform, is derived by the critical mass of consumers whose benefits rise exponentially as suppliers of transportation services join the platform and vice versa for suppliers (Olson and Kemp, 2015). For the riders it is beneficial to have enough drivers connected to the platform as the average waiting time for the taxi lowers significantly. For the drivers, on the other hand, enough demand on the platform is necessary to make the provision of transportation service worthwhile.

By 2016 numerous iTNCs operated in different countries across the world: international iTNCs such as Uber, Gett, EasyTaxi and Hailo; US based Lyft; Chinese Didi Kuaidi; Indian OlaCabs and TaxiForSure; Russian YandexTaxi. All of them operate as two-sided platforms, however matching, different parties (Harding et al., 2015). The service may work on the P2P basis, or matching independent car owners with riders, and on the B2C basis, or representing the aggregator of a number of taxi companies whose drivers use the application for locating the clients – users of the application. Uber, Lyft and Didi Kuaidi, for example, refer to the P2P type of iTNCs, while Gett, YandexTaxi and OlaCabs to the B2C type. The Figure 1 shows the graphic representation of the iTNC’s platform.



**Figure 1.** iTNC as a two-sided platform (Companies websites: Uber, Gett, YandexTaxi, 2016)

One of the major impacts of this new type of companies on the taxi industry is that iTNCs lowered entry barriers into the market as they operate as the traditional taxi companies but at the same time do not incur costs of buying the medallion or license, fleet of cars, hiring drivers and maintaining the vehicles (Harding et al., 2015). Olson and Connor (2013) identify the following aspects of iTNCs, or ride-sharing companies, that allow these new transportation providers to compete successfully with incumbents: asset-light business model, social interaction, network effects, regulatory grey areas and community driven cultures. Indeed, asset-light model as well as grey area of regulation lowers significantly the entry barriers into the taxi market, allowing technology-driven start-up to enter the market previously dominated by traditional incumbents and gain the market share. As for 2014 Olson and Kemp (2015) estimate the global taxi market to be approximately $90 billion whereas Uber and other taxi-hailing companies account for $5,2 billion.

**Figure 2.** Global taxi market 2014 (total bookings, $B), (Olson and Kemp, 2015).

Low entry barriers as a consequence allow iTNCs to expand their operations beyond the jurisdiction of one city or even one country as the asset-light business model can be applicable with low costs in different locations. This significant innovation created the possibility for expanding the borders of local taxi market to the international level. Such companies as Uber, Gett, Hailo and EasyTaxi already operate in numerous markets in US, Latin America, Asia and Africa what makes them Born Global firms defined by early internationalization and rapid expansion. The following part 2.2, thus, will be devoted to the phenomenon of Born Globals, how the research field was developed, what are the peculiarities and drivers of internationalization of these companies.

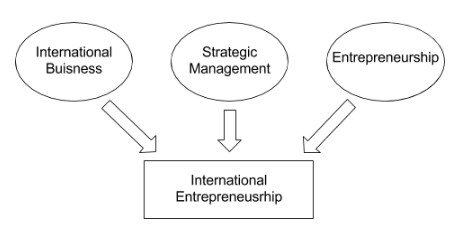
2.2 International Entrepreneurship: theoretical development of the field

Born Globals are considered as an expression of International Entrepreneurship (IE) that describes the process of creating, searching and exploiting opportunities that are located outside of a company’s home market (McDougall and Oviatt, 2000). Thus, the theoretical part will, first, discuss the field of International Entrepreneurship. Then the focus will be devoted to the phenomenon of Born Globals, its definition, main characteristics, and types. Finally internationalization theory as well as entry mode choice in application to Born Globals will be discussed.

The domain of IE has interested scholars since 1990s that was witnessed by the growing number of papers and articles on the topic (Zucchella and Scabini, 2007). Even though the field got a considerable attention from researchers, it still lacks the unified and widely accepted definition of the subject. Moreover the field needs a robust theoretical frameworks (Oviatt and McDougall, 2000), methodologies (Jones and Coviello, 2005), and interdisciplinary and holistic approach to research (Dana et al., 1999).

McDougall (1989) in her empirical work on new ventures’ international sales defines IE “as the development of new ventures and start-ups that, from its inception, engage in international business, thus viewing their operating domain as international from the initial stages of the firm’s operation.” In 2000 McDougall and Oviatt further developed the definition of IE by broadening its boundaries to the study of established firms and the recognition of comparative or cross-national analysis. IE, thus, was defined as “a combination of innovative, proactive, and risk-seeking behavior that cross or is compared across national borders and is intended to create value in business organizations”.

Different research fields contributed to the development of the IE theory as scholars seek to analyze the phenomenon from different perspectives. The Figure 3 shows the most influential fields contributed to the theory of International Entrepreneurship (Zucchella and Scabini, 2007).



**Figure 3.** Theoretical foundations of International Entrepreneurship (Zucchella and Scabini, 2007)

*International Business* frameworks were mainly used to analyze and provide the explanation to the process of internationalization of new ventures. IB and entrepreneurship studies are closely interrelated as entering new foreign markets are considered an entrepreneurial activity for both new ventures and established firms (Zahra and George, 2002). Even though internationalization theories were introduced before the development of IE, they provide a valid frame of reference to understand the internationalization processes of new ventures. There are two main streams in the IB studies: economic-based approach, developed since 1960s when scholars attempted to explain the motives of domestic corporations to expand to foreign markets, and behavioral theories emerged in 1970s that tend to explain internationalization in terms of learning and decision-making.

Economic-based approaches to internationalization focus mainly on cost-related factors and include the following theoretical models: market power approach (Hymer, 1976), the Product Life Cycle approach (Vernon, 1966), the Internationalization and Transaction cost theory, and the Eclectic paradigm (Dunning, 1988), explained in more details further.

Hymer (1976), who is considered as the pioneer in the field of international business, stated that the internationalization of companies is influenced by the search of new opportunities in order to maximize profits through efficient resource allocation and utilization. The drivers of expansion according to Hymer are limited exchange opportunities, strong competition in domestic markets, firm-specific advantages (FSAs) and maturity of the industry. As soon as the firm developed its FSAs in the domestic market, it tends to exploit them abroad, however the firm also faces several limits such as unfavorable foreign market conditions and governmental/consumer discrimination. The limitation of this theory in term of entrepreneurship is that the company internalizes once it reaches the significant size, so it explains the internationalization process of MNEs exclusively.

The international Product Life Cycle model suggested by Vernon (1966) assumes that there are four stages of the product life: introduction, growth stage, maturity, and decline. Internationalization, according to Vernon, starts on the second stage mainly through exports and then on maturity phase firm may decide to move production closer to the foreign market.

Transaction cost approach is focused on the explaining how transaction costs affect the decision to internalize, specifically through exports and FDI. The theory suggests that the company internalizes a transaction when the costs of using markets (exporting) are higher than costs of direct investment.

Finally, the Eclectic paradigm of Dunning (1988) combines all the theoretical frameworks developed before to propose the model explaining the internationalization of firms and FDI decisions. In order to internalize successfully a firm should rely on the following conditions (OLI-framework): ownership-specific advantages (O), location-specific advantages (L) or internationalization incentive advantages (I). O-advantages encompass intangible and tangible assets of the firm that can generate income and that competitors do not possess. L-advantages are the assets specific to a certain location that a firm considers beneficial to exploit such as cheap labour. I-advantages consider the benefits of transferring some of the O-advantages beyond the borders of domestic market in order to create more value for the company.

Behavioral approaches to internationalization refer to two general models: stage theories and network approach. Both models emphasize the importance of market knowledge for internationalization. The stage theories are based on progressive experiential knowledge, while network theory suggests that the network of partners, suppliers and customers may drive internationalization of the firm. The most acknowledged stage theories are the Uppsala theory developed in 1970s and Innovation model.

Uppsala model (Johanson and Vahlne, 1977) is based on the issue of risk avoidance related to uncertainty of physical distance and lack of foreign experience. In order to mitigate the risk the company should gradually internalize in two dimensions: widening (the company moves from geographically and culturally close markets to more distant ones) and deepening (from exports to direct investments). The Uppsala model gained a significant recognition in the works on internationalizations, however its modern applicability is arguable since the problem of the lack of the market knowledge is not crucial anymore thanks to developments in ICT. Moreover, the phenomenon of Born Globals also questions the relevance of the model since these companies show the almost instant internationalization skipping the stages of the Uppsala model (Zucchella and Scabini, 2007). The Uppsala model and its limitations considering Born Globals will be discussed in more details further.

Another stage model – Innovation model – is formulated in accordance with Uppsala model and is based on the adoption process concept proposed by Cavusgil (1980). According to the model the internationalization stages can be determined by the ratio of export sales to total sales showing the extent the firm is being involved in the foreign trade. Each stage represents an innovation and the process of internationalization is determined by the reconsideration of the company’s strategy. As Uppsala model, Innovation model also suggests the gradual internationalization of the company and, thus, shares the same limitation when applying it to the Born Gloabls. Finally, the second stream of behavioral models – the Network model (Johanson and Mattsson, 1988), that explains the firm’s internationalization process in respect to its position in a network of companies and their relationships. The model assumes that firms need to share market knowledge they accumulated in order to expand their business internationally, thus the internationalization is supported by the network rather than FSAs. According to scholars the internationalization process of the firm is determined by the level of internationalization of its network.

International Business studies that consider mainly the established firms and MNEs rather than new ventures provide a robust frame of reference even though lack the capability to explain the processes of internationalization of Born Globals. Zucchella and Scabini (2007) state that the economic-based approaches are not coherent to explain the development of Born Globals as their formation process differs significantly from that of MNEs. The latter process implies that first companies develop a significant position in the domestic market and then expand their FSAs to foreign markets. However, some concepts are relevant to the study of IE such as the role of resources and capabilities, the process view of internationalization and the organizational capabilities and possession of unique assets. On the contrary, the behavioral models represent the fundamental framework for IE studies since they enable a more profound understanding of the internationalization process and decision making (Zucchella and Scabini, 2007).

Some of the streams of *Strategic Management* studies also contribute to the IE as entrepreneurial entities also deal with setting goals and objectives according to their available resources, competitive advantage and conditions of external environment. Zucchella and Scabini (2007) highlight Dynamic Capabilities theory in the context of resource-based view (RBV).

According to resource-based view a firm possesses idiosyncratic (or unique) and heterogeneous resources that shape their strategy. A firm achieves a competitive advantage when its strategy leverages the available resources. Hitt et al. (2001) states that intangible resources such as reputation, brand name, know-how are more difficult to imitate and, thus, contribute to the firm’s sustainable competitive advantage. However, only the possession of such resources may not lead by itself to the favorable position on the market. What is also important is how the firm manages to reconfigure and adapt its resources to the changing economic environment.

Dynamic capabilities (Teece et al., 1997) represent that ability of firms to integrate and reconfigure the existing competencies to address rapidly changing external environment. They are, thus, the company’s organizational and strategic routines that allow a firm to get a new resource combination in order to exploit new market opportunities. To determine the dynamic capabilities of a company business processes, market position and growth path are considered. While processes refer to the organizational level where routines are determined, market position combines firm’s knowledge of market and customers, technological or intellectual assets, supplier relationships. Paths are the growth alternatives opened to the firm. Referring to entrepreneurship, Smart and Conant (1994) stated that the firm’s entrepreneurial orientation meaning the readiness to take risk, innovate and identify opportunities allows achieving a variety of distinctive competencies and higher performance. These entrepreneurial capabilities can be referred to as the routines and processes, thus, they are linked to the dynamic capabilities theory.

Strategic Management perspective, thus, emphasizes the unique, valuable and inimitable capabilities and resources that represent the core of the firm’s performance. Company’s specific knowledge, access to knowledge of other actors through the network, innovative solutions and ways to conduct business are the drivers for the company’s performance as well as internationalization. However, in order to be successful on domestic and global arena companies should be able to mobilize, combine and dynamically reconfigure these capabilities and resources in order to adapt to the changing environment and tap into opportunities opening by this change. New ventures due to their small size and more flexible organization are more successful to adapt and develop new routines and processes. Dynamic capabilities theory is, thus, a suitable approach to study the internationalization of Born Globals.

To summarize, different fields of studies contributed to the development of the IE theory, namely strategic management and international business. However, there is still a need for a robust theoretical framework that can be applied to the context of international entrepreneurship and specifically to Born Globals.

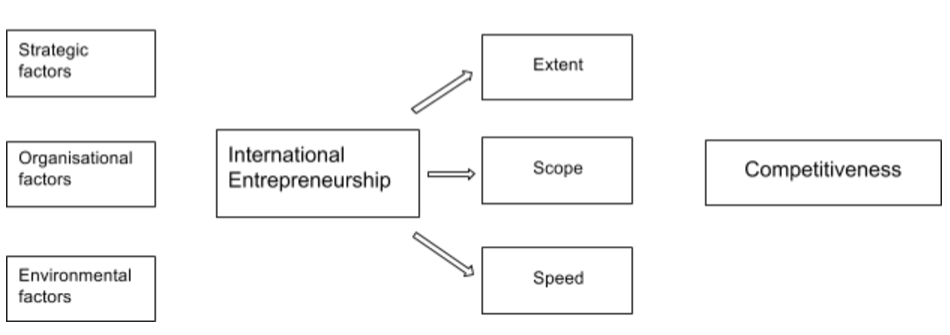
Recently, alternative approaches emerged to explain international entrepreneurship phenomenon, such as integrated model proposed by Zahra and George (2002) and interpretative model by Zucchella and Scabini (2007), that, however, mainly focus on the firm’s internal capabilities, specifically dynamic capabilities, and the primary role of entrepreneur/TMT in internationalization process.

Zahra and George (2002) offered a model of international entrepreneurship that emphasizes the three main factors affecting the internationalization of firms: organizational, strategic and environmental.

To the organizational factors authors refer resources of the firm, top-management team (TMT), and firm-related variables (size, age, financial strength, location, origin). Environmental factors are those referred to competition (number of competitors, bargaining power), opportunities for growth (rate of market growth, countries with open markets), institutional environment, regulatory environment, economies of scale. In the model these factors act as moderators between organisational factors and IE. Finally strategic factors represent the specific competencies of the firm, such as production or innovations that can be transferred to foreign markets in order to get advantages of their international expansion. These factors are also considered as moderators.

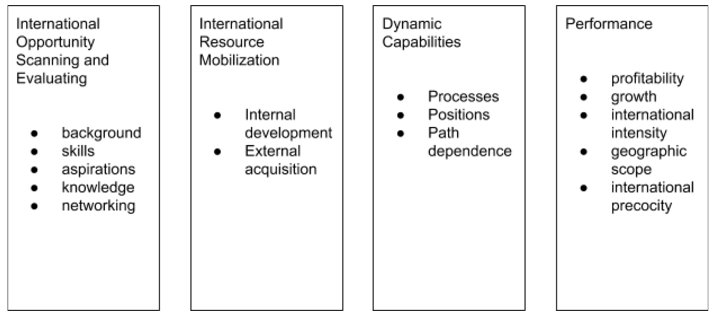
Next, International Entrepreneurship is studied in three dimensions: speed, scope, and extent. Extent considers the number of countries the firm enters or the dependency on international revenues. Speed represents the rate at which the firm enters new markets. Finally, scope measures the breadth of the internationalization process. Scope can be of two type: geographic one, if countries are the unit of analysis, or economic/product scope, if the product mix is considered. The level of success of the frim’s internationalization is represented by financial and non-financial performance indicators.

The Figure 4 graphically represents the relationship between three groups of factors on international entrepreneurship and consequently the firm’s internationalization and competitiveness.



**Figure 4.** An Integrated model of International Entrepreneurship (Zahra and George, 2002).

The second framework was suggested by Zucchella and Scabini (2007). They focus on dynamic capabilities of the firm that help to adapt and benefit from identified opportunities such as new markets or new goods and services. As the value-creating strategy they emphasize the role of innovation that is considered critical for a firm to compete on the international scope (Hitt and Ireland, 2000).



**Figure 5**. Interpretative model for International Entrepreneurial Organization (Zucchella and Scabini, 2007)

The Figure 5 shows that the entrepreneurial process starts from International Opportunity Scanning and Evaluating. Scholars place entrepreneur or TMT central on this stage as their skills, knowledge, background and network affect the decision to internalize to other countries. On the next stage they have to mobilize and reconfigure resources they possess in order to develop new combinations for the new markets. This can be done through internal development or by external acquisition. The capability to effectively leverage and acquire resources leads to dynamic capabilities. The ability to recombine the activities and processes are the central issues in the Entrepreneurship agenda. As Hitt et al. (2001) mention IE is the mix of entrepreneurial, strategic and opportunity-seeking activities that creates superior value and reduces the threats of competition. New ventures successfully perform when other firms are unable to imitate their specific advantages.

To summarize the part 2.2 on the theoretical antecedents of the Born Global theory, namely the field of IE, International Entrepreneurship is a rather new field of study that received a significant focus beginning from 1990s when the growing number of researchers identified new motives and patterns of internationalization expressed by small and medium entrepreneurial firms. These firms showed different internationalization processes compared to established MNEs that internalized gradually and once having established a considerable capabilities and size in their domestic markets. To research and explain these new trends researchers used theories and frameworks adopted from the fields of strategic management and international business, such as economic based approach, behavioral theory and resource-based view. These approaches, however, lacked the capability to explain the process of internationalization of Born Globals as were tailored to explain the foreign expansion of MNEs. Some of the elements, on the other hand, provide a robust and valuable framework for researchers, such as the importance of company’s unique and inimitable resources and internal capabilities, especially dynamic capabilities that allow the company to reconfigure its resources addressing the changes in environment; the process view of internationalization, that on the one hand was long dominated by the stage theory, but can also be useful in explaining the internationalization of SMEs.

Part 2.3 will address in more details the phenomenon of Born Globals, how the definition was developed, what is the difference between Born Globals and International New Ventures, and what are the characteristics attributed to Born Globals.

2.3 Born Globals: main characteristics, types, competitive advantage

Zucchella and Scabini (2007) identify two main streams in the IE literature: one is focused on international new ventures (INVs) or Born Globals, another on the internationalization of established firms. In this chapter the antecedents of the emergence of Born Globals, the development of the Born Globals definition as well as the difference between Born Globals and INVs will be discussed.

The phenomenon of new ventures that started to internalize their activities in the first years from their inception received a significant attention of scholars due to the fact that these firms challenged the established theories of gradual internationalization process, mainly Uppsala stage theory and Innovation-related export-developing model (Zucchella and Scabini, 2007). The early and fast internationalization showed by INVs shift the focus of scholars from established MNEs applying a logic of rents, efficiency-seeking, and power to a logic of new ventures, constrained with resources, but seeking profit, new opportunities, and innovativeness (Zander et al., 2015).

Since 1990s empirical studies on the export behavior have shown that many small regional companies are able to “leapfrog” internationalization stages and access foreign markets early due to the advancements in technology, transportation, and the reduction of trade barriers. Due to the newness and the small size such companies, that also possess some unique capabilities or resources, seek to exploit them in the best possible way by adopting a global strategy that enables to increase their customer base by horizontally segmenting the market, sometimes entering multiple countries at once.

Madsen and Servais (1997) explain the growth of this new kind of companies by the following factors: new market conditions, particularly the development of new market niches; technological developments in production, communication and logistics; international experience of founders through education and work. Knight and Cavusgil (1996) state that the increasing importance of global niche markets facilitated the emergence of Born Globals. Due to the small size of the niche markets Born Globals tend to adopt a global strategy right from their inception in order to be competitive. In addition, Moen and Servais (2002) argue that these new ventures are internalizing rapidly due to the management with international orientation as well as attractiveness of foreign markets in comparison to the domestic ones. All in all, the rapid increase of Born Globals is facilitated by globalization, the Internet, and innovations in communication technologies that have dramatically reduced the cost of foreign expansion of smaller companies with limited resources (Knight and Cavusgil, 2004). Some scholars call for the development of the new theory in order to explain the internationalization patterns expressed by Born Globals (Knight and Cavusgil, 1996; Oviatt and McDougall, 1994), whereas others (Bell et al. 2003) believe that these firms are not different from others with respect to fundamental processes, and, thus, the phenomenon may not require building a new theory, but rather can be explained by established frameworks.

These new kind of internalizing firms were labeled by different terms in the academic articles published over the years. Zucchella and Scabini (2007) list “Global start-ups”, “High Technology Start-ups”, “Instant Internationals”, “Born-Globals” and “International New Ventures”. The latter two received higher recognition among scholars. In recent literature the two terms are also attributed to two different types of ventures, possessing different characteristics and internationalization patterns. As for the Born Globals, the definition by Knight and Cavusgil (2004) is mostly used in the literature, while the definition of INVs offered by Oviatt and McDougall (1994) is the most acknowledged one.

The label “Born Global” firms was first proposed by McKinsey and Rennie in 1993. Having studied Australian exporters they defined Born Global firm as the one, that from its inception, views the world as its market. Knight and Cavusgil (2004) later define Born Globals as “entrepreneurial start-ups that, from or near their founding, seek to derive a substantial proportion of their revenue from the sale of products in international markets”. Knight and Cavusgil (2004) agree that despite limited resources these firms achieve international sales in the first years of their operations.

Later in 1994 Oviatt and McDougall introduced the term of “International New Ventures” defined as “a firm that, from its inception, seeks to derive significant competitive advantage from the combination of resources and sale of outputs in multiple countries”. Scholars emphasize that the specific characteristics of these companies is that “their origins are international” that is demonstrated “by observable and significant commitment of resources in more than one nation”.

This definition focuses not on the size of the firm, but on its age. Further, they propose that in order to identify the INV researchers should determine whether there is an observable resource commitment to sell the output in a number of countries in the first years of a company’s operations. They also propose a typology for INVs based on two dimensions: the number of foreign markets where the firm operates and the number of activities along the value chain that are coordinated internationally.

|  |  |  |  |
| --- | --- | --- | --- |
| Coordination of value chain activities across countries | Few | New international market makers | |
| Export/import start-up | Multinational trader |
| Many | Geographically focused start-up | Global start-up |
| Few countries involved | Many countries involved |

**Table 1.** Types of International New Ventures (Oviatt and McDougall, 1994)

“International market makers” are an age-old type firms that are mainly involved in export/import activities that are focusing on few countries or a large number of countries. “Geographically focused start-up” are the companies that serve the needs of a specific region by using the resources of that region and by combining multiple value chain activities. The latter type – “Global start-up” is the brightest example of the INV because it gains a significant competitive advantage by controlling many different organizational activities in unlimited geographical locations. These firms act proactively and acquire resources and sell the output in the locations where they can capture the greatest value. Global start-ups is the most challenging INV type as they demand significant skills of geographic and activity coordination for the sustainable development. But, as Oviatt and McDougall (1994) state, once they are successfully established, these companies gain the most sustainable competitive advantage.

Oviatt and McDougall in their further works recognised that the terms INVs and Born Globals were used interchangeably across publications. International New Ventures are, thus, similar to Born Globals in the way that they internalize right after their inception. However, comparing the definition of Born Global by Knight and Cavusgil with the definition on INVs by Oviatt and McDougall’s, it is clear that the first includes only the young firms as the unit of analysis, while the second takes into account different types of new ventures, even those that were launched in older established corporations. Moreover, Oviatt and McDougall on purpose use the term international in their definition as the companies they examine sometimes compete in their regional markets or in a limited number of markets, rather than being truly “global”.

The further distinction between different types of small international firms was suggested by Aspelund and Moen (2005) who distinguished three types of companies: Born Globals, Early Internationals, and Late Internationals. According to authors the Born Global firms are “defined by their rapid and extensive internationalization” and “are often forced into internationalization due to an insufficient domestic market and apparent opportunities for growth and profits on the foreign markets.” Early Internationals in this typology are similar to INVs as these are the companies that express the limited internationalization. Finally, Late Internationals are older established firms and in this way are more close to MNEs. Lopez (2009) also distinguished Born Globals and Born Regionals. The latter are the firms that internalize their operations regionally, rather than globally. The empirical evidence from Costa Rican software firms showed that there were a few truly Born Global firms.

The Table 2 below shows the development of the definitions of International New Ventures and Born Globals. While the two acknowledged definitions by Knight and Cavusgil (2004) and Oviatt and McDougall (1994) give a more broad and abstract view on these types of firms, many other scholars made attempts to identify particular criteria in terms of speed, scope and extent of internationalization to define a firm as a BG or INV.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Authors | Definition | Time before expansion | % of international sales | Term |
| McKinsey and Rennie, 1993 | Born globals are companies that conduct international business at or near the founding of the firm. | 2 years after foundation | 76% of total sales during 14 years | BG |
| Oviatt and McDougall, 1994 | A firm that, from its inception, seeks to derive significant competitive advantage from the combination of resources and sale of outputs in multiple countries | - | - | INV |
| Knight and Cavusgil, 1996 | Small, technology-oriented companies that operate in international markets from the earliest days of their establishment | 2 years from establishment | 25% of total production | BG |
| Servais and Rasmussen, 2000 | - | 3 years after the birth | 25% of foreign sales | BG |
| Knight and Cavusgil, 2004 | Entrepreneurial start-ups that, from or near their founding, seek to derive a substantial proportion of their revenue from the sale of products in international markets | - | - | BG |
| Aspelund and Moen, 2005 | Companies that are defined by their rapid and extensive internationalization and that are often forced into internationalization due to an insufficient domestic market and apparent opportunities for growth and profits on the foreign markets. | - | - | BG |
| Aspelund and Moen, 2005 | Early Internationals are defined by their early but limited internationalization, seeking internationalization to reduce the dependency on domestic markets. | - | - | INV |
| Luostarinen and Gabrielsson, 2006 | Global vision and/or at a global growth path. | Entered global market from the outset | Over 50% of their sales outside home country | BG |
| Weerawarden et al., 2007 | Business organizations that from inception, seek to derive significant competitive advantages from the use of resources and the sale of outputs in multiple countries | - | - | INV |
| Kuivalainen et al. (2012) | - | 3 years after inception | Sell more than 25% to five or more countries | BG |

**Table 2.** Definitions of Born Globals/International New Ventures

As of the sources of competitive advantage possessed by Born Globals there is also no unified agreement among different researchers. Madsen and Servais (1997) offered a model that considers the characteristics of the organization, environment, and the founder as fundamentals. Coviello and Munro (1995) adopted a network theory perspective to explain the role of international relationship of the founder. Knight and Cavusgil (1996) emphasized the role of knowledge-based resources: innovativeness and organizational capabilities. Empirical study by Oystein (2002) revealed that a global orientation of TMT/entrepreneur and market conditions are core factors affecting whether the firm will move early to international markets.

Born Globals were observed to possess a significant competitive advantage in the sphere of technologies. McDougall, Oviatt and Shrader (2003) state that Born Globals are focused more on innovative differentiation, quality and service in comparison to traditional firms. New technologies are also considered to enable Born Globals to sell products or services to international customers with minimum adjustments.

Rialp et al. (2005) prepared a list of characteristics of Born Globals that includes international experience and a global vision of TMT, personal and business network, market knowledge, value creation through product differentiation, unique asset base, narrowly defined customers, niche markets and flexibility.

The most widely used by Born Globals business strategies are unique global development, focus on quality, global technological competence, and leveraging competences of distributors. An empirical study of independent and corporate new ventures by Zahra et al. (2000) showed that the diversity of national environments where the firm operates corresponds to the increased technological learning opportunities, even for young companies whose internationalization was thought to be limited. Moreover they showed that speed, depth and breadth of technological learning is considerably enhanced by organizational processes that integrate knowledge through cross-functional teams and analysis of successful and failed projects. They also showed the positive effect of technological learning gained from international environment on the firm’s performance.

All in all, Born Globals are the companies that begin to internalize from their inception in order to tap into international market niches opportunities and sustain their competitive advantage. These companies view the whole world as their market without distinct borders (Cavusgil and Knight, 2015). And for the purpose of this master’s thesis the definition by Knight and Cavusgil (2004) is chosen: “Born Globals are entrepreneurial start-ups that, from or near their founding, seek to derive a substantial proportion of their revenue from the sale of products in international markets” as it allows to distinguish Born Globals from INVs and MNEs and at the same time does not fall into the problem of defining the scope, speed and extent of internationalization. Moreover, from the observation most iTNCs that internalized their operations and fall into the Born Global category refer to entrepreneurial start-ups, rather than projects of established companies.

The part 2.4 will focus on the process of internationalization and how Born Globals challenge the established stage theories, namely the Uppsala model. The issue of entry mode selection will be covered as well.

2.4 Born Globals Internationalization Process

In the academic studies of past decades the international involvement of a company was mostly described as a gradual process. The model of internationalizationproposed by Johanson and Vahlne (1977) – Uppsala model – is one of the most acknowledged internationalization frameworks. The model suggests that international expansion is a stage process, that is determined by the relation of potential benefits of exploiting firm’s specific advantages in foreign markets to the risk of operating in a vague foreign environment and the costs of gathering knowledge about these markets. Thus, the firm internalizes gradually making higher commitment into overseas market in the form of logical stages based on the knowledge gathered from these overseas markets and operations. The central issue in this model is the learning process of a firm and how it influences the internationalization.

The Figure 6 shows the internationalization process according to the Uppsala model.

Market Knowledge

Market Commitment

Market Knowledge

Market Commitment

Leads to

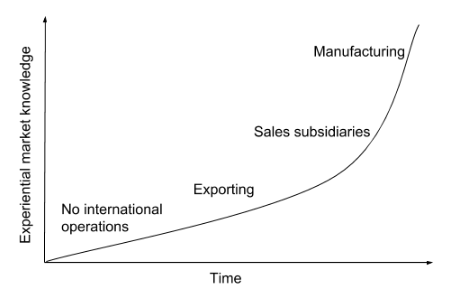
Leads to more

Leads to

and so on

**Figure 6.** Uppsala model (Vahlne and Johanson, 1977)

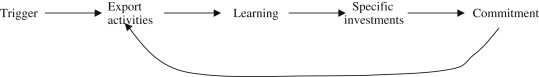
The model analyses, on the one hand, the internationalization as the consequent steps through experience and knowledge about foreign markets that is assumed to be the major obstacle, whereas, on the other hand, how the increased commitment is invested to the foreign market. Commitment reflects the amount of resources a firm invests into the market, meaning the export is the lowest commitment and FDI is the highest. Market commitment is composed of two factors: the amount and the degree of commitment. The amount of commitment refers to the actual volume of investment into particular market, whereas degree reflects the difficulty of identifying an alternative use for the resources. Uppsala model proposes that gaining more knowledge and experience in the foreign markets, the firm reduces the risk of working in foreign environment and consequently increases the resource commitment into the market. This in turn increases firm’s knowledge and leads to further commitment into more distinct markets. In summary, the model shows the internationalization process of the firm that refers to two dimensions: widening and deepening. Widening means that a company moves from geographically and culturally close markets to more distant ones. Deepening implies that the company commits more to the market or the operations become more demanding. Johanson and Wiedersheim-Paul (1975) listed four consequent steps: non-regular export activities, export via representatives, sales subsidiary, and production subsidiary. They called this process – “the establishment chain”. The figure below shows the deepening dimension of the firm’s international expansion.



**Figure 7**. The establishment chain and stages of Uppsala model (Johanson and Wiedersheim-Paul, 1975)

Even though Uppsala model found a considerable acknowledgement in the number of academic studies, it was also criticized to be too deterministic (Zucchella and Scabini, 2007). First, the model is thought to be valid only in the initial stages of international expansion when the experience and market knowledge are not significant. Second, it is argued that the companies today can enter any market that is now exactly similar or close to the home one thanks to the development of information technologies. Finally, Uppsala model is criticized for not being able to explain the phenomenon of Born Globals. These firms “leapfrog” the establishment chain of the model and start operations at earlier stages of their lives. McDougall, Shane and Oviatt (1994) as well as Knight and Cavusgil (1996) demonstrated that there are firms that do not follow the traditional internationalization process. Moen (2002) also showed on a sample of Norwegian firms that 74% of them started to sell their products in countries that are not geographically or culturally close to Nordics.

Gabrielsson et al. (2008) proposed their model of internationalization consisting of 3 distinct stages. In the phase 1 the company is established and the initial launch of operations happens. At this stage the companies have constrained resources and immature organisational structure. The advantage may be in the tacit know-how of the firm and founder/TMT skills and experience. The crucial role of the following internationalization step of the company is in the firm’s ability to accumulate financial resources and develop international business expertise. The phase 2 in the company’s internationalization process is characterized by growth and resource accumulation. The key here is the ability of the company to learn from its partners, investors and channels and/or network members. Finally, the phase 3 is the break-out phase dependent on the company’s ability to leverage the organisational learning and experience it gained from partners. In this phase the firm starts to develop its own global strategy independently of its partners and customers. Gabrielsson et al. (2008) emphasizes the global vision of founders and the effective commitment for a successful internationalization. The latter condition ties this model with the Uppsala model (Johanson and Vahlne, 1977) that views commitment as a core variable in the internationalization process. However, the principle difference is in the trigger of the commitment: in Uppsala model commitment decision is triggered by economies of scale or by unsolicited order while in the Born Global model the commitment is triggered by the global view of the founder and the potential opportunities. Thus, the model proposed by Gabrielsson et al. (2008) emphasizes significant differences in the internationalization process of Born Globals compared to MNEs, namely the different conditions that trigger a Born Global company to commit in the global expansion. Below the Figure 8 represents the difference between traditional internationalization model and the Born Global model.



Commitment in traditional internationalisation.



Commitment in Born Global internationalisation.

**Figure 8.** Commitment in traditional internationalization model and Born Global internationalization model. (Gabrielsson et al., 2008)

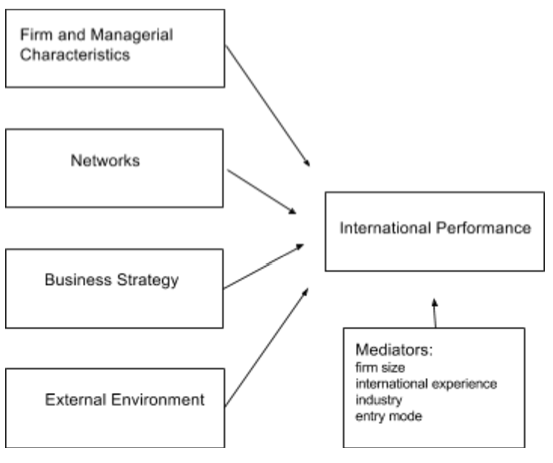
Oviatt and McDougall (2005) proposed their theoretical model of internationalization of Born Globals based on the factors that influence the speed of the internationalization process. Researchers state that the speed is determined by technology, it is competition-driven, and moderated by the knowledge of the opportunity and a company’s networks. Cannone and Ughetto (2012) further developed the model by Oviatt and McDougall (2005) to investigate the motives that drive the early internationalization of the firm. The figure below shows their theoretical model.



**Figure 9.** Factors influencing the degree of born globalness (Oviatt and McDougall, 2005)

The process of internationalization according to them begins with the potential international entrepreneurial opportunity. This opportunity may be identified depending in the number of factors grouped into the five categories: technology, entrepreneur characteristics, home country environment, firm attributes and network relationship. Rapid technological changes push the tech-based companies to internalize early in order to avoid the obsolescence of their product or imitation processes (Andersson et al., 2004). Home country environment, especially competition can be a driving force for the born global firm to internalize (Oviatt and McDougall, 2005). Cannone and Ughetto (2012) add the market size as well as industrial and innovation systems. As for the entrepreneur related factors Cannone and Ughetto (2012) identify the following groups that affect the early internationalization of the firm: human capital, experiential knowledge, international commitment, and entrepreneur’s network relationship. Finally, the firm attributes, such as the nature of the firm’s product, its internal capabilities, and the experience of the TMT. These firm-specific factors also correlate with the ownership advantage of Dunning (1988). To sum up, all these factors taken together finally affect the degree of “born globalness” or the number of markets the company entered. The model, offered by Cannone and Ughetto (2012), thus, explains the motives behind the internationalization decision and how they influence the scope of internationalization.

Gerschewski et al. (2014) examined the drivers of international performance of Born Global firms. They emphasize that the following factors: firm and managerial characteristics such as international entrepreneurial orientation, learning orientation, market orientation, and product/service quality; network relationship; business strategy; and external environment of the foreign market influence the firm’s international performance. The figure shows the graphic representation of the model.



**Figure 10.** Model of drivers of international performance (Gerschewski et al., 2014)

*The choice of the entry mode* is one of the key decisions in the internationalization process. Internationalization theory suggests several ways for a firm to internalize such as exports, licensing or foreign direct investments (Dunning, 1988). The choice of entry mode is one of the crucial decisions in internationalization process (Terpstra and Sarathy, 1991) and one of the most difficult ones for a number of reasons. First, the multidimensional nature of each entry mode choice encompassing varying levels of control, commitment of resources, dissemination risk, and flexibility (Root, 1987; Argarwal and Rawaswami, 1992). Second, situational factors such as country risk, government policies and regulations, socio-cultural distance, firm specific factors, product differentiation and international experience of TMT/entrepreneur (Dunning, 1988; Argarwal and Rawaswami, 1992). Thirdly, the rapid globalization, increased international competition, advancements in technologies (Driscoll and Paliwoda, 1997).

Driscoll (1995) introduced a framework facilitating the decision on the mode of entry to a foreign market that she based on the Dunning’s Eclectic paradigm (1988). The OLI (ownership, location and internationalization advantages) factors of the Eclectic paradigm help to understand the foreign market entry mode. Ownership, or firm specific advantage, and locational advantage are the two situational variables that influence a firm’s entry mode choice according to Driscoll. The author identifies three basic entry modes: export, contractual mode, and investment. Later Cateora et al. (2009) developed the framework by emphasizing four entry modes: export, contracts, strategic alliances, and ownership. Finally, greenfield investment are the start-up investments in new facility and can be wholly-owned or jointly owned by the firm, but at the same time are costly and time consuming to initiate.

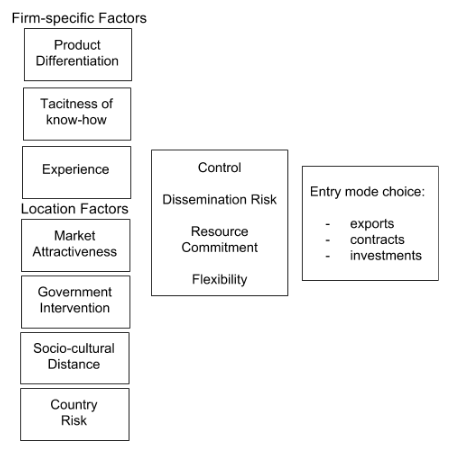
Driscoll (1995) based her entry mode choice framework on four dimensions: control, dissemination risk, resource commitment, and flexibility. Control is understood as the operational management and strategic decision making that enables the management to coordinate all the stages of the supply chain in the target markets. Different entry modes, thus, imply varying levels of control. The second dimension, dissemination risk, refers to the level of the risk that the firm’s specific advantages will be expropriated by the partner company (Hill et al., 1990). The protection of the firm’s specific knowledge, know-how or technology and transferring it to the host markets forms the basis for a company’s competitive advantage. Dissemination of these FSAs can affect significantly the firm’s position and, thus, leakages should be prevented. The next dimension, resource commitment. The highest commitment of resources leads to the higher exposure to the risk of foreign environment. Finally, flexibility is the firm’s ability to change entry modes quickly and with minimum costs, inversely relating to the resource commitment. Heavy resource commitment can create exit barriers for a company in the view of unfavorable market conditions and thus making the firm strategically inflexible. The Table 3 provides the characteristics of different entry modes according to the four dimensions.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Entry mode** | **Control** | **Dissemination risk** | **Resource commitment** | **Flexibility** |
| **Investments** | High | Low | High | Low |
| **Contracts** | Medium | Med-high | Med-high | Medium |
| **Export** | Low | Low | Low | High |

**Table 3.** Characteristics of foreign market entry modes (Driscoll, 1995)

Driscoll (1995) also identifies two groups of situational factors influencing the selection of the entry mode: they are Dunning’s firm-specific and locational advantages. Here FSAa take the form of capabilities of product differentiation, firm’s knowhow and the international experience. The first FSA becomes a crucial capability of firm to gain competitive advantage in the overseas market where incumbents already have the significant position. Second. Dunning’s Eclectic theory states that knowhow is a significant ownership advantage since it determines the institutional mode of transfer possible to exist. If the knowhow is difficult to transfer or articulate (it is tacit) it is more efficient to transfer it within a firm than in the market. Finally, another FSA is the international experience of an entrepreneur or TMT. As for the location advantages, they describe the country attributes that make it attractive for the foreign company to enter. According to Dunning (1988) a firm will engage in FDI if it perceives the endowments of another country more beneficial than costs of commitment. Government regulations and policies, market attractiveness, socio-cultural distance and country risk are, thus, the important factors in the location advantages subgroup to consider.

The Figure 11 shows the Driscoll’s market entry mode choice framework considering all the endogenous and exogenous factors.



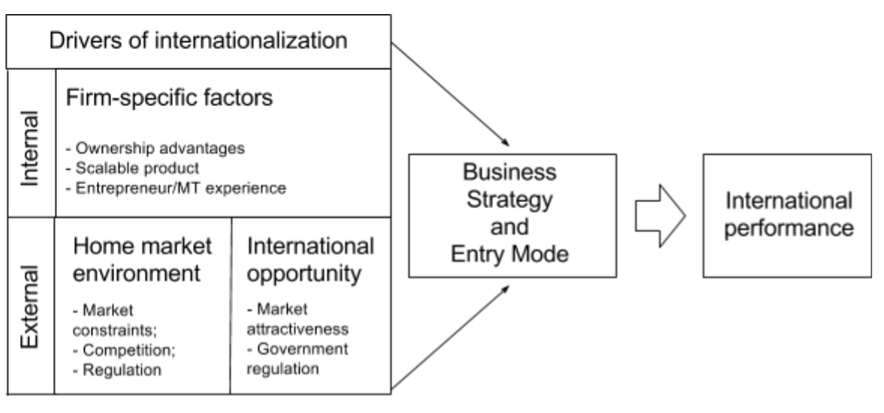
**Figure 11.** Foreign market entry mode choice framework (Driscoll, 1995).

As for the Born Globals, it is considered that once such firms are relatively small in size and are limited in resources they tend to use non-equity entry modes like exporting (Lu and Beamish, 2001). However, the choice of such modes due to the size of Born Globals can also be an advantage for a firm that exists in the flexibility and responsiveness to market changes (Knight, 2000; Lu and Beamish, 2001), in comparison to established MNEs, that possess the advantage of control over resources (Hennart, 1982; Rugman, 1981). The focal firm exercises control not through ownership rather through knowledge and information internationalization (Liesch and Knight, 1999). Here, the international business researchers see the principal difference between Born Globals and MNEs, stating that the latter are not just the smaller version of MNEs, rather new type of companies that demand adjusted theoretical frameworks (Knight and Liesch, 2016). However, there was also evidence that showed some firms internalizing rapidly by choosing the FDI entry mode and possessing substantial experience and knowledge of foreign markets (Hedlund and Kverneland, 1985). McDougall (1989) also showed that some INVs showed the aggressive foreign market entry with internationally oriented founders. Even though there was a significant focus on Born Globals since the beginning of 90s, the academic literature still lacks a unifying paradigm that includes the perspectives from different research direction and that would adopt and improve the previously dominated theories (Jones et al., 2011; Keupp and Gassmann, 2009).

2.5 Summary

To summarize the theoretical part, the emergence of Internet transportation network companies (iTNCs), using asset-light but technology intensive business model, allowed for the extension of the traditional taxi industry beyond national borders. Those iTNCs that internalized their operations are related to the phenomenon of Born Global firms that typically expand internationally from their inception. Born Globals are challenging the acknowledged theoretical models of internationalization that became limited to explaining the internationalization patterns of MNEs. Previously, it was considered that companies internalize gradually by committing more resources once gaining considerable knowledge of the market in order to minimize the risks of foreign environment (Uppsala model). However, starting from 1990s researchers observed companies that seemed to neglect this “rule” by starting international operations almost from their inception. Born Globals, thus, seek to exploit their competencies in the foreign markets to gain competitive advantage. As for the market entry strategies, there is no unified view on whether Born Globals start with non-equity modes due to their small size and limited resources, or choose more aggressive entry strategies such as greenfield investments in order to gain control over foreign operations and preserve the firm-specific advantages.

The present study aims at providing the holistic and multidimensional view on the process of internationalization of iTNCs to identify the peculiarities of internationalization of these kind of firms. Based on the Born Globals literature review the research framework of the study was developed as shown on the figure below. The framework specifically focuses on drivers of internationalization or what motivates the iTNC to go global and what enables it to do that. The choice of business strategy and entry mode, on the one hand, is dependent on the firm’s internal capabilities and external factors of foreign environment, and on the other hand enables the firm to exploit its capabilities in the foreign location with maximum possible efficiency. These choices finally, affect the firm’s international performance.



**Figure 12.** Research Framework of the study.

Drivers of internationalization consist of two sub-groups: external drivers and internal drivers. The first sub-group involves the home market environment that influence the firm’s internationalization as well as the environment of foreign market or the international opportunity that they offer to the internalizing firm. As for the second sub-group, it encompassses all the factors specific to the focal firm such as its competitive advantage, characteristics of the product and the entrepreneurial experience, in other words, the firm-specific factors that can be exploited in the foreign market environment. The next block concerns the business strategy and the entry mode that the company chooses to tap into the advantages of overseas markets with its specific advantages. Finally, the way the company is able to exploit its advantages through the business strategy determines its international performance. Below the more specific explanation of the building blocks is provided.

*Firm-specific factors.* Dunning (1988) and Driscoll (1995) state that the firm-specific advantages that can be exploited more beneficially in the foreign environment represent the firm’s driver to internalize.The factors connected to the focal firm are assumed to affect the internationalization decision of a firm (Cannone and Ughetto, 2012). Gabrielsson and Kirpalani (2004) state that in order to succeed in the international expansion Born Globals have to offer unique and highly specialized product/service or innovative technologies. Dunning define FSAs as ownership advantages that are “advantages that stem from the exclusive privileged possession of or access to particular generating income assets” and are, thus, the firm’s tangible and intangible resources that enable the company to generate future income and which its competitors do not possess. According to Driscoll, the FSAa can take the form of capabilities of product differentiation, firm’s knowhow and the international experience. Cannone and Ughetto (2012) emphasize the niche scalability of the product, team competencies and organizational flexibility as well as the entrepreneur related factors as factors affecting the internationalization. Gerschewski et al. (2014) identifies product/service quality, entrepreneurial orientation, market orientation, and learning orientation as the characteristics that affect the firm’s internationalization.

*External drivers of internationalization: home market environment.* According to Oviatt and McDougall (2005), the home country conditions affect the probability of a firm to internalize. They identify the competition as a motivating force driving the speed of the international expansion. Cannone and Ughetto (2012) also add the characteristics of the home market, specifically the size of the market, availability of private equity finance, and the level of competition. Their proposition is based on the statement that Born Globals tend to internalize quickly due to the small saturated domestic market or to the niche nature of the market they operate in (Knight and Cavusgil, 2004; Madsen and Servais, 1997; Oviatt and McDougall, 1995). As for the equity availability, Gabrielsson et al. (2004) state that to sustain the international expansion of the firm the financing structure should also be global.

*External drivers of internationalization: international opportunity.* Moen (2002) states that foreign market attractiveness is significantly high for Born Globals, especially in relation to unattractiveness of home market. Driscoll (1995) emphasize the market attractiveness, government regulation, socio-cultural distance and country risk as as factors affecting the firm’s decision to internalize to a certain location.

*Business strategy and entry mode.* Porter (1980) identifies three generic strategies: cost leadership, differentiation, and focus strategy. Cost leadership means that the company tends to become the lowest-cost player in the market. Firm pursuing a differentiation strategy competes by emphasizing the uniqueness of the product/service. In a focus strategy a firm tailors its value proposition to a specific segment and adopts either the differentiation or cost leadership. As for Born Globals, they tend to adopt the niche strategy or the Porter’s focus strategy with differentiation, what is positively associated with international performance (Knight and Cavusgil, 2005). However, Gerschewski et al. (2014) in their research found that the niche strategy not always the case for Born Globals as some of them may tend to adopt cost reduction. McDougall and Robinson (1990) also found that initial aggressive growth strategy may generate better financial results. Gerschewski et al. (2014) also tie the entry mode choice with the firm’s performance.

The next chapter will provide the details on the methodology and the research strategy chosen for the analysis of the internationalization of the Born Global iTNCs on the case of Uber Technologies Inc.

1. EMPIRICAL STUDY: INTERNATIONALIZATION STRATEGY OF BORN GLOBAL iTNCs

The following chapter will introduce the methodology of the research applied in this master’s thesis as well as provide the results of the empirical study. The qualitative research approach is chosen to answer the research question of the paper. As for the research strategy the single case study with embedded units was chosen. First, the chapter, will provide more details on this research approach. Second, the case of Uber Technologies Inc. will be analyzed in terms of external and internal drivers of internationalization, internationalization process, the choice of entry modes, and host market strategy.

3.1 Case Study Methodology justification

The present study is based on the qualitative research methods. Pratt (2009) states that “qualitative research is great for understanding the world from the perspective of those studied, and for examining and articulating processes”. Qualitative research method also allows to get an in-depth view of the process under study as well as the reasons for the process. Therefore the approach is suitable to understand the process internationalization from the point of view of iTNCs.

The qualitative research approach offers different kinds of methods to collect and analyze data. Data collection methods are generally the case method and the ethnographic one. As for the data analysis the following methods may be applied: case study method (Yin, 1994; Eisenhardt, 1989), ethnographic methods (Pratt, 2009) or grounded theory (Eisenhardt, 1989; Pratt, 2009). For the purpose of the following master’s thesis the case study method was chosen as a research strategy to analyze internationalization strategy of iTNCs.

Case study method can provide an understanding of a complex phenomenon or issue as well as strengthen what is already known about the phenomenon. Yin (1994) defines the case study method as a valid research tool and a research strategy. He also states that “A case study is an empirical inquiry that investigates a contemporary phenomenon within its real-life context”. From the literature review on the topic of internationalization it was concluded that external factors play a significant role in the company’s internationalization process. Thus, the case study method in this study is appropriate as it takes into consideration the contextual conditions and investigates the phenomenon of internationalization of born global iTNCs.

Moreover, the case study method is appropriate when the research questions are of “why” and “how” types (Yin, 2009). Since the research question of this study is formulated as “How born global Internet transportation network companies internalize their operations?”, a case study method is a suitable research approach.

Eisenhardt (1989) states that case study as a research strategy “focuses on understanding the dynamics within a single setting”. However, cases are not samples and, thus, there is an important issue of generalization of the results or the applicability of findings on different situations in time, place and other conditions. Results from the case study cannot be statistically generalized due to the small number of cases. However, Yin (1994) states that the aim of case study is to make analytical rather than statistical generalizations.

Case studies can be used for theory building or theory testing (Eisenhardt, 1989). That is why case studies can use previously developed theory as a template applied on the real-life situation. Yin (1994) also tells that case studies are appropriate for exploratory, descriptive, and explanatory studies. The present study is an exploratory one and the ultimate aim is the development of theory in the field of internationalization of Born Globals.

A case study can investigate any level – a firm, a business unit, or a network. Case study research can also be both single and multiple case studies (Yin, 1994). While multiple case study (or comparative) takes data from two or more instances in order to find differences and similarities, a single case study is a method where the data from one instance is enough to achieve the goal of research. For the present research the single case study with embedded units was chosen (Baxter and Jack, 2008). This single case study investigates the unique phenomenon of internationalization of Uber in different geographical contexts that allows to achieve the in-depth understanding of the factors and drivers that influence the internationalization process and strategy of the company.

Additionally, the research can be deductive, inductive, and abductive. Pratt (2009) distinguishes two ways for conducting a research: deduction and induction. The main difference of the two approaches is the way how theory and empirics are linked to each other. In a deductive approach a researcher, first, studies the existing literature, develops the theoretical framework for the study and finally conducts the case study analysis (Yin, 1994). The case study, thus, test the hypotheses and the theory behind. As for the inductive approach, researcher first collects the empirical data and then on its basis makes theoretical assumptions. In practice it may be challenging to follow strictly only one approach. Saunders et al. (2009) claim that it is possible to use both approaches and introduces the abductive one. Researcher may first look into theory for an initial framework and then collect the data. Then he/she can reconsider the theory or even change it. Moreover, the abductive approach allows the theory building as it gives an opportunity for a thorough data analysis and allows to offer propositions for further research. In this master’s thesis the abductive approach was followed as it allows to look at the theory and practice at the same time and to reconsider the theory.

To summarize the present study takes the qualitative research approach. As it was already emphasized qualitative research allows to get an in-depth view into the phenomenon or process under study as well as the understanding of these phenomenon or process from the point of view of the subject of the analysis, in our case from the point of view of Uber Technologies Inc. on the international expansion. As for the research strategy, an abductive single case study with embedded units was chosen. This method allows getting an in-depth understanding of the phenomenon as well as the context within which this phenomenon develops. The single case study with embedded units implies that there are sub-units of analysis within a single case. In our case the embedded units are different geographies where Uber operates. The comparative analysis of Uber’s strategies in different geographical contexts will provide an opportunity to generate similarities and differences of its strategy patterns and identify factors of external environment that affect them.

3.2 Data collection process and analysis

The single case study of the present research will be based on the secondary data thanks to the availability of comprehensive information about Uber and its international operations from multiple sources. The methods of data collection for a case study must allow the researcher to receive substantial informations in order to get the insight into the phenomenon in context. According to Yin (1994) the multiple data sources include six sources: company documents and publications, direct observations, participant-observations, archival records, physical artefacts and interviews (Yin, 1994).

What is important here is that the case study method requires using multiple data collection methods (Eisenhardt 1989; Yin 1994), which is called data triangulation. “The triangulation made possible by multiple data collection methods provides stronger substantiation of constructs and hypotheses” (Eisenhardt, 1989). The data used in the research are gathered from the following sources: company records from official website, records of interviews with TMT, blog posts by members of TMT, business articles, databases and Internet.

Secondary data is a useful source of information for the case study research that helps to better understand and answer the research question of the thesis (Ghauri and Gronhaug, 2005). Since Uber is a company that has received a considerable attention from media, experts, and scholars due to its high valuation and rapid expansion there is a plenty of reporting on the company’s performance and management decisions on international expansion.

Moreover, the founder of the company – Travis Kalanick – is a new type of entrepreneur who is open and ready to share his experience as well as company’s strategic decisions. That’s why there is a plenty of records of interviews taken with him as well as his own posts in the Uber’s blog and in social media. Therefore, for the purpose of this research the secondary data is considered to be substantial to answer the research question about the internationalization of iTNCs. However, the challenge of such approach remains in the possible subjectivity and biases of the collected information. That’s why caution must be maintained in the process of data analysis and interpretation.

Once the data is collected, the process of its analysis starts. The process of case study analysis in this research consists of two phases. First, the detailed overview of the company, it’s history, business model, and its internationalization strategies in the following regions: India, China and Russia is provided. Second, the comparative analysis of these embedded sub-units (regions) is performed in order to identify the company’s entry strategy and the business strategy in host markets. In order to guarantee the quality of the research the existing frameworks on internationalization and entry strategies identified in the literature were applied. The next chapter, thus, is devoted to the discussion of the case study.

3.3 Overview of Uber Technologies Inc.

*Uber’s timeline*. The timeline of Uber starts from the year 2008 when its founders, serial entrepreneurs – Travis Kalanick and Garrett Camp – came up with the idea of the on-demand car service application while waiting too long for the taxi in the snowy night in Paris (Swisher, 2014). Back in San Francisco, the entrepreneurs founded the company called UberCab in 2009. Next year, in 2010 UberCab officially launched in the San Francisco Bay Area as the on-demand luxury car service targeted mostly at opinion leaders and Silicon Valley executives. Originally, Uber offered the service called UberBlack, a high-end transportation in premium and luxury cars for those who wanted to impressively arrive to conferences or business meetings. The main idea behind the new service was simple and powered by technologies: the riders could hail the cab through the mobile application that also included the automated payment once the ride was finished (Olson and Kemp, 2015).

Already in 2010 Uber raised $1,25 mln in Angel investments by First Round capital followed by $11 mln in Series A raised in 2011 by Benchmark capital. The funding allowed the company to grow bigger and start its national expansion process with the launch in May, 2011 in its second city – New York, followed by other US cities such as Boston, Chicago and Washington (Chokkattu and Crook, 2014). The same year, in December 2011 Uber announces another round of investments – $37 mln in Series B led by Menlo Ventures and including other investors such as Goldman Sachs and Bezos Expedition. This investment enabled the company to start its global expansion – in December, 2011 Uber officially started its operations in Paris, France (Uber, 2011). Thus, only in two years of operations the company managed to start its rapid expansion on the national as well as international level. At the same time Uber started to face pressures from the side of the regulatory authorities with the notice from San Francisco Transit Authority and the Public Utilities Commission of California because of seemingly operating like a taxi provider without the proper licensing (Chokkattu and Crook, 2014).

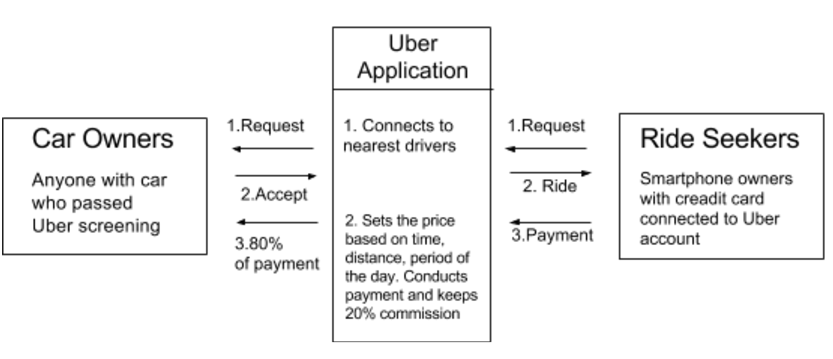
Another important milestone for the company was the introduction in July 2012 of the new business model and the new service – UberX. UberX represented the more affordable service as it used not the premium cars as UberBlack, but lower-cost hybrid vehicles. In an attempt to maintain the premium perception of the Uber brand the company noted “It saddens us to not be able to give it out to everyone, but we want to make sure we can provide an Uber experience at every price point and as we increase our UberX supply, we’ll roll it out to more people” (Uber, 2012). In this way, Uber began to increase its customer base stretching its black car premium service to the more affordable one. This decision was made due to the increasing competition from an Uber’s competitor – Lyft, a peer-to-peer ride-sharing service building on the affordability and community experience. The main peculiarity of UberX is that this service works with independent individual drivers, basically with anyone owning a car, rather than with licensed chauffeurs as Uber does with its premium UberBlack.

The further astounding funding rounds by major venture capitalists fueled Uber’s national and international expansion. After the $361.2M of funding round by such investors as Google Ventures the company were able to expand its presence to Africa with the launch in Johannesburg and to India starting from Bangalore in the year 2013 (Chokkattu and Crook, 2014).

In 2014 Uber not only expanded its operations to China, considered now as the strategically important market, fueled by the massive investment of $1.2B, but also introduced new services such as UberRush, a courier service, that marked the gradual transformation of Uber from transportation to logistics provider; UberPool, a ridesharing service that allowed riders to hail drivers commuting in the same direction; and UberEats, a food delivery service (Chokkattu and Crook, 2014).

Up to 2016 Uber managed to expand to 404 cities in 68 countries on each continent except for Antarctica (Uber, 2016). The rapid global expansion of the company seems to be approved by investors as Uber achieves to raise significant funds from acknowledged venture capitalists totaling to $10,61 bln in 15 rounds (CrunchBase, 2016). Appendix A provides a more detailed timeline of Uber Technologies Inc.

*Business model.* According to the company – Uber is a technology company and does not refer itself to taxi or limousine operator (Uber, 2016). The company does not own a fleet of cars, employ drivers or dispatchers, does not have a maintenance department. The company just use its technology to connect individuals in the need of a ride with the available driver through mobile application that delivers a customer service experience and meets the needs of tech-savvy commuters. Uber’s business model is based on the two-sided platform that connects two parties – car owners and ride seekers. The communication and payment between them is facilitated through the mobile application that is offered by Uber. The company, thus, represents the intermediary. The value is derived from the requests [screening that Uber’s technology allows for the drivers](https://www.uber.com/drivers); and the smooth pricing and payment system, that allows riders to choose the level of service and allows not to worry about payment as the fare is automatically billed from the rider’s credit card once the service is arranged. The company takes a 20% commission on each ride for its service of matching riders with drivers, while 80% are kept by the driver (Uber, 2016).

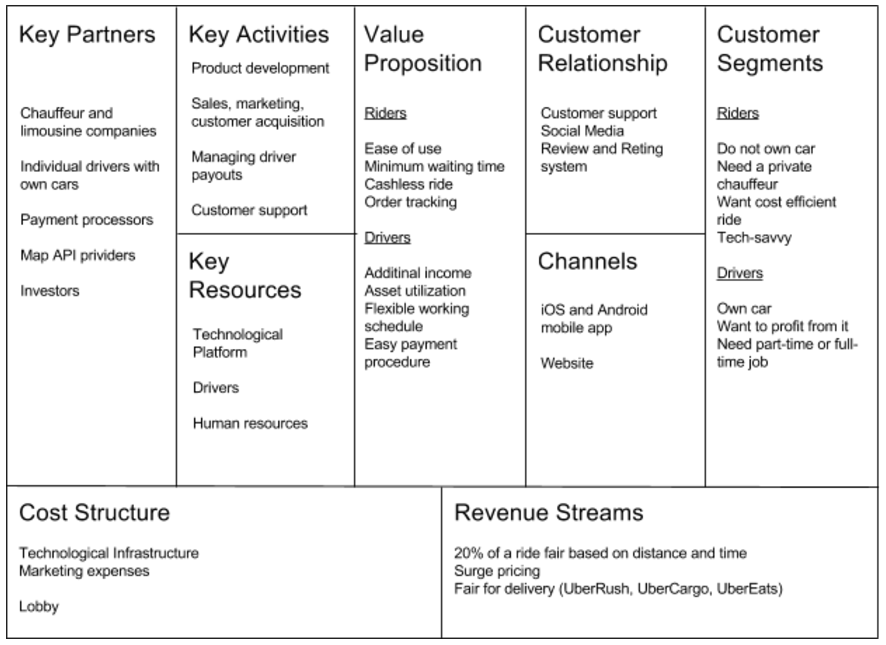


**Figure 13.** Uber application as a two-sided platform (Uber, 2016)

One of the primary features, and one of the most debatable as well, is the relationship of the company with drivers. As it was already mentioned Uber does not employ chauffeurs, rather it works with individual contractors. With its UberX service the company allows anyone with a car of a required quality to apply for a driver position. Uber then tests the driver’s local knowledge and conducts the background screening of a candidate. Successful candidates are then connected to the Uber’s application and trained on how to give service to riders. As contract workers, the drivers do not receive health benefits, insurance, retirement, disability, vacation leave or any other compensation. The relationships are limited to the 20% commission fee that Uber withhold from the driver's gross fare. Thus, the company just provides the drivers the technology to offer the transportation services and make money. In other words, Uber works as a referral or dispatch system for drivers with their own cars (Uber, 2016).

The service works for riders in the following way. The individual through the mobile application sees the nearby available vehicles and the ETA (Estimated Time of Arrival – one of the main Uber’s KPI). Once the client orders the ride the request is sent to the nearby drivers. Then client can see the real-time movement of his/her driver on the map. Here lies one of the first value of Uber for riders – convenience of ordering a ride in a couple of “taps”. Next, at the end of the ride, the client just leaves the car without paying cash as the payment for the ride is settled automatically with a card that is connected to the client’s Uber account. The price is based on the time and distance and is automatically determined by the pricing algorithm. Here is the second value – frictionless payment process. Finally, the two-sided rating and review system increased the safety and the quality of the service – both drivers and riders with low rating were disconnected from the service (Uber, 2016).

The figure below shows the graphic representation of Uber’s business model.



**Figure 14.** Uber’s Business Model Canvas (Uber, 2016).

There are two major services within Uber: UberBlack – a premium chauffeur service and UberX (or UberPop in European countries). The first relies on the network of established, licensed limousine companies and only chauffeurs with commercial license and commercial auto insurance were allowed to work for UberBlack. The vehicles required for the service were also limited to premium and luxury class cars. The requirement for drivers were also less stringent than for UberBlack: driver had to be at least 21 years old, having a personal license and personal auto insurance that covered usage if vehicle for commercial purposes. In contrast UberX represented the cheaper version of Uber that allowed non-licensed drivers to use the dispatch technology for performing ride services with their own vehicles. UberX is the major service offered by the company that is also presented in each of the cities where Uber operates. Later Uber introduced in different markets other services, such as UberSUV, UberXL, and others. The transportation infrastructure of drivers that Uber was able to build, allowed the company to expand to new segments, what gradually transforms it into logistics company. In 2014 Uber expanded its service to courier delivery by introducing UberRush – a service that allowed delivery of small to medium packages by Uber drivers (Uber, 2014). In 2015 company launched a new service – UberEats that connected those who wanted to order food with restaurants and performed the delivery using the same fleet of drivers the company uses for its other services (Uber, 2015).

*Regulatory challenges*. However, the Uber’s growth is also accompanied by significant opposition and challenges from the side of incumbent taxi operators and local governments protecting taxi drivers and riders. Almost in every country where it started to operate it faced such accusations as enrolling drivers without licenses, damping, unsafe driving and violations of foreign exchange rules (Bagga, 2014). Traditional taxi companies protested against Uber because it threatened the profitability of their business and even survival.

Another significant issue considers safety of the drivers as well as riders. Lawmakers stated that ride hailing apps were compromising the safety of the passengers due to the lack of regulation of insurance, driver background checks, and inspections. In California and Oregon Uber was sued by confusing its clients about the business and safety practices as well as not complying with the local licensing rules. One of the most controversial episodes happened in India, when the Uber driver allegedly raped the passenger in the car, what lead to the ban of Uber in Delhi (Chokkattu and Crook, 2014).

Non-complying to the local licensing rules is also a reason for the ban of Uber in a number of countries. UberPop (another name for UberX) is banned in Germany as it does not provide the sufficient safety measures for both drivers and riders, thus violating national as well as European Union laws. In Netherlands and Spain Uber is banned because it’s drivers doesn’t have a driving license. The company is also banned in Thailand as an unlawful competitor to taxi companies; in Toronto accused of non-complying to Canadian laws and compromising the public safety; in South Korea by offering illegal taxi services (Chokkattu and Crook, 2014). Appendix B shows in more details the locations where Uber is banned or partially banned (e.g. UberX is banned).

Another significant regulatory challenge for Uber came from the side of the drivers that work with the company. In autumn 2015 a collective lawsuit was enacted by Uber drivers who required an official employment and the associated benefits such as medical insurance, social transfers, repayment of administrative expenses. In April 2016 the lawsuit was settled by the company’s agreement to repay up to $100 million to its California and Massachusetts drivers. The company, thus, defended the right to further consider its drivers as independent contractors (Newcomer, 2016). However, this precedent may trigger the same reaction from Uber drivers across the world what would entail the considerable settlement expenses for the company if it does not reconsider its relationship with the drivers.

3.4 Uber’s international expansion: drivers of internationalization

3.4.1 Analysis of firm-specific factors

In the Uber case the firm-specific advantages are of intangible nature as the company does not own any physical income-generating assets like cars, service stations etc. As Uber is a technology company the main ownership advantages lie in the sphere of technologies, innovations and the unique business model. Other advantages relate to the company’s strong brand and image as well as the experience and competencies of the founders and management team.

Uber’s *innovative business model* that connects drivers with potential clients through online platform was one of the company’s major competitive advantages, especially in the beginning of its operations when no such product was offered in the US or foreign taxi market. Since the company does not employ drivers or own the fleet of cars it has the *asset-light model*. The main expenses come from platform’s technological maintenance and innovation, marketing and sales expenses to hire new drivers and attract users, salaries to employees, as well as legal costs and lobbying due to Uber’s confrontations with regulators. Thus, the model enables Uber to reinvest the profits and investments into the growth and international expansion. Another important characteristic of Uber’s business model is its *scalability*. As long as the taxi services are the important part of the city’s transportation network, there is a demand for Uber’s service. Uber is also able to *innovate* on its business model, modifying it to meet the requirements of local markets or even expanding its service to other businesses, such as food delivery (UberEats) or courier and cargo transportation services (UberRush, UberCargo).

Another characteristic of Uber service that also distinguishes it from competing iTNCs are *technologies*, that allow to generate insights and value from the data as well as set the fair price for the service. Ryan Graves, Vice President at Uber, states that technologies are the basis for the business that allow the company to generate significant value for their drivers. “We have a lot of data about how this or that city "moves", we use this knowledge to ensure that our driver came to the passenger at the right time. Using a vast array of data and algorithms, we understand not only how many cars there are on the roads at the moment, but also direct them to the location where the demand is growing. That's unlike many of our competitors.” (Sukharevskaya and Igumenov, 2016). The company also hired data-science team of nuclear physics, computational biology, and astrophysics PhDs to develop the pricing mechanism that matched supply with demand. The tool were called «God View» and it offered Uber managers a real-time view of the locations and routes of all it drivers as well as the location of potential riders. Although the algorithm was highly debated for its fairness, the management claims that it is an efficient way to manage and regulate the supply and demand that worked for the benefits of both drivers, who could earn more and increase their asset utilization, and riders, who were ready to pay more for the instant ride. Therefore, in order to beat the competition and the «copycats» Uber employed sophisticated data analysis tools to extract the highest possible efficiency from its operations.

Another ownership advantage of Uber is a strong and well-known *brand*. The company invests considerably into the brand building that is reflected in the company’s launch strategy where marketing and PR are at core. Thanks to the company’s marketing strategy that aims at gaining the attention of opinion leaders in the cities where it operates, Uber is able to attract the high media “buzz”, not only in social networks (that are its primary marketing channel), but also in news media. The interest for the company and its brand is also fueled by the news of its high growth and massive funding rounds. Uber has many different regalia such as a number one “unicorn” (a private company that exceeded $1B valuation) (Fortune, 2016), the most valuable startup (The Wall Street Journal, 2015), and others. The company’s brand is so strong that it even allows to forecast the demand for the company’s service: when the launch team prepares the start of the service it not only looks at the demographics of the market, but also on how many times application was opened in the city before the official launch (Sukharevskaya and Igumenov, 2016).

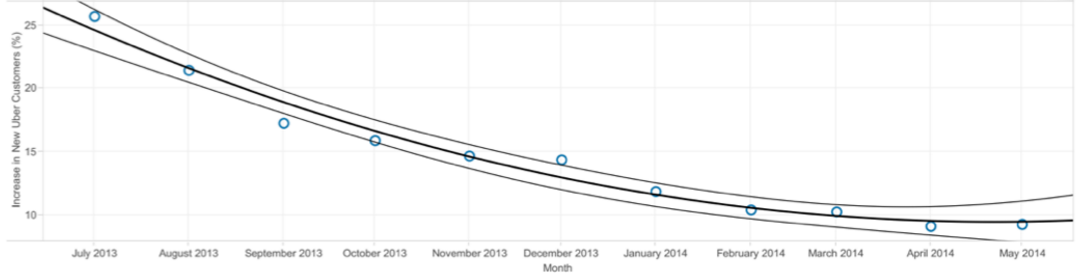
Another ownership advantage of Uber is the entrepreneurial *experience* of its founders – Travis Kalanick and Garrett Camp. Kalanick, “Experienced, successful Serial Entrepreneur” as he describes himself in his LinkedIn profile, before founding Uber had an experience in two other entrepreneurial technological projects, one of which was successfully sold for $19 million. Camp, before Uber, was also involved in technological projects, such as StumbleUpon – a search engine that had over 25 million registered users. Another key people in Uber’s team, like Ryan Graves, Vice-president and the Board Director, or Thuan Pham, Chief Technology Officer, had a vast experience in technology and in own entrepreneurial projects.

Taking it all together – asset-light and technology-intensive business model, strong brand and experienced management team – Uber is able to generate significant return on its operations not only in its home country – USA, but also on an international scale as the transfer of these ownership advantages that are of intangible nature is significantly easy given the low entry barriers.

3.4.2 Analysis of external factors of domestic environment

In the study we assume that incentives to internalize arise from the external environment of the focal firm’s domestic market that motivates the firm to exploit its ownership advantages in overseas markets where the benefits are higher compared to staying in the domestic one.

*Market size.* According to researchers (Madsen and Servais, 1997; Knight and Cavusgil, 1996) the growing number of Born Globals is attributed to the development of *niche markets*. Due to the small potential size of such markets new ventures tend to internalize quickly in order to increase revenues and customer base exploiting opportunities outside of the domestic markets. In the case of Uber that operated in the US taxi and limousine market back in 2010 prior to its internationalization to Paris the aspect of limited market potential was one of the most significant one. Uber’s black car hailing application – UberBlack, was a niche service aiming at tech-savvy executives wanting a premium ride. Other constraints come from natural reasons. First, to use the Uber service one must possess a smartphone with Internet access. According to the estimates of Edison Research and Triton Digital (2016) only 14% of US population used smartphones (comparing to 76% for the year 2016). The *slowing growth trend* in new customer acquisition is also the reason why Uber must have focused on foreign markets where the opportunities of fast growth were not exploited yet. The figure below shows the slowing trend of Uber’s new customers acquisition in the US in the period from July 2013 and May 2014.



**Figure 15.** Trend in growth rate of Uber’s distinct new customers. (FutureAdvisor, 2014).

*Competition*. Another factor for the internationalization of Uber was the increasing *copying of its business model* and a competition as a consequence. Uber’s CEO Travis Kalanick wrote in the company’s blog: “...the advent of a sophisticated “cloning” and copycat industry means you need to move fast to stake your claim on the global stage” (Uber, 2011). In USA the major competitor to Uber – Lyft, operated as a peer-to-peer on-demand ridesharing service. The same technology – GPS-based two-sided platform that connected those in the need of a ride with available drivers. Lyft positions itself as “anti-Uber” and was gaining a significant pace at the time Uber decided to internalize its operations. As of 2011 the company attracted $7.5B in venture capital and started to aggressively expand in the US (CrunchBase, 2016). As of 2016 the company operated in 200 US cities, a number that is slightly higher than that of Uber. That is why for a technology company like Uber, which idea and the business model can be easily copied, internationalization is a crucial strategic decision which aims at exploiting the first-mover advantage in new markets that do not have the same service yet and, thus, outride potential competitors.

*Government pressures*. It was already mentioned, that Uber faced significant *pressures from traditional taxi companies and the US government* once it started to grow and expand its operations to other American cities.

Governmental regulators started to question the long-term impact of Uber on the incumbent companies and society as well (Marchi and Parekh, 2015). Uber tried to avoid the regulatory pressures by emphasizing that it is the technology company, not the taxi company, and that it just provides the application-based service for the drivers and prospective riders. However, as bans in several American cities and negative reputation began to limit the growth of the business, the internationalization to new markets, where incumbents and the government were not familiar with the Uber’s business model and its potential threats as well as did not have the regulations for such companies, was a strategic decision for Uber in order to increase its growth. The company, thus, sought to exploit the unfamiliarity and gaps in foreign taxi regulations.

3.4.3 Summary

Both internal and external drivers contribute to the firm’s decision and ability to internalize. Internal drivers for Uber were its innovative business model, unique technology, strong brand and the experience of the founders and TMT. Uber’s low inventory business model allows the company to invest its revenues into growth both in domestic and overseas markets. The business model is also scalable, meaning that it is capable to perform with increased or expanding operations and does not require the significant increase in costs, what allows the company to apply it to new markets. Finally, the ability of Uber to innovate the business model by adopting new processes (cashless payments in UberAuto), working with other types of vehicles (motorbikes in UberMoto) or even providing another type of service (food delivery in UberEats, courier service in UberRush) allows the company to be flexible and adapt the business in different contexts tapping into the need of new customers. The unique technology that is the basis of Uber’s business model differentiate it from competitors and allows drivers to utilize more efficiently their working time by forecasting locations with higher demand. The transferability of technology allows Uber to tap into new markets but keeping the same advantages of its technology. Other intangible ownership advantage of Uber is its strong brand that is recognizable across the world and facilitates company’s entrance to new locations. Finally, the international and entrepreneurial experience of TMT as well as the global vision of founders contribute to the company’s firm-specific advantages. Taken together, the internal firm-specific factors that Uber has allow the company to internalize its operations to foreign locations.

As for external drivers, the niche market orientation as well as the limitations of the market to grow Uber’s business in the US represent one of the contributing factors for the company’s decision to internalize. The increased copying of Uber’s business model and the increasing competition with such companies pushed Uber to internalize in order to exploit the first mover advantage in foreign markets where its competitors were either small at the moment or non-existent. Finally, the pressures from the industry regulators imposed significant obstacles for Uber and limited its US expansion by banning operations, suing or fining the company.

|  |  |  |
| --- | --- | --- |
|  | **Internal Drivers** | **External Drivers** |
| 1. | **Innovative business model**   * Asset-light business model allowed for investment into growth; * Scalability of the service; * Ability to innovate the business model to tap into new geographic markets and client segments. | **Niche domestic market:**   * Initial target on tech-savvy executives and entrepreneurs wanting a premium ride; * 14% of US population owned smartphones in 2011, necessary to use iTNC service. * Slowing growth rate of distinct new customers. |
| 2. | **Unique technology**   * Use of data analysis and unique pricing mechanism to generate more revenue for drivers and differentiate from “copycats”; * Transferability of technology across borders. | **Competition:**   * Competition and pressures from incumbent traditional taxi companies; * Easy to copy business model and the growing number of “copycats” in the US (Lyft) and globally. |
| 3. | **Strong brand**   * Considerable investments in marketing and PR to spread awareness about the brand; * Allows to “prepare” the demand for the service before official launch. | **Regulation:**   * Pressure from government regulators * Bans in several US cities; * Development of iTNC regulatory framework. |
| 4. | **Founders and TMT**   * Entrepreneurial experience of founders; * International experience of TMT. |  |

**Table 4.** Drivers of internationalization

3.5 Uber’s international expansion: location-specific advantages and the business strategy

Uber’s internationalization roadmap shows that company in the first year of its internationalization chose geographically and culturally close countries. In December 2011 the company launched the service in its first foreign location – Paris, France, prior to international Internet conference LeWeb. Next the company expanded to Toronto, Canada in October, 2012 and to London, UK in June, 2012. In November of the same year Uber entered its first city in Asia Pacific region, geographically distant but culturally close, Sydney, Australia. But beginning with 2013 the company continued its expansion in Asian region by launch in Singapore, Taipei and Seoul. At the same time Uber grew its presence in Europe by launching in Milan and Lyon; in East Asia by launching in Dubai; in Africa by entering Johannesburg and Cape Town. In 2014 the company announced a nationwide roll-outs in China and India as well as a modest entry to Russia (Uber, 2011; Uber, 2016; Chokkattu and Crook, 2014).

Internalizing to foreign countries Uber first launches its operations in major cities, and then expands its presence to smaller ones. Uber pursues the same launch strategy for the each city it enters. The small team consisting of three local managers makes a market research, investigates the peculiarities of government regulations, assesses the demand and hires drivers. The best practice launch strategy or the “playbook” consists of two key steps: a) recruiting and training of drivers; b) raising awareness through social media, the opinion leaders and launch parties (Lagorio-Chafkin, 2013).

Kalanick explains the strategy in the following way: “The good thing though is when you have profitable cities around the world, those profitable cities can then help us to invest more deeply in this country so you take ... the top 30 cities that we're in around the world, we're already generating a billion dollars in profits from those 30 cities a year today, and those cities are growing by 2x, 3x, 4x per year. And so that is sort of the fuel that allows us to go to places like China and invest deeply to make the system work, and to work in a big way.” (Cutmore and Kharpal, 2016). In other words, Uber aspires to become the first global iTNC and to cover as many locations as it can fuel unprofitable locations with the profitable ones and with the massive investments that it receives.

According to Travis Kalanick (Uber, 2014) the mission of Uber is to make transportation “as reliable as running water, everywhere for everyone...”. The company aspires to be present in each city, not only in the one where the business is profitable. In 2014 Uber opened a new city almost each day (Sukharevskaya, 2015) and the Uber’s Head of Global Expansion Austin Geidt states that in the beginning of internationalization process the team considered whether the demand is sufficient to start operations in the location, later this factor became not so important. “At this point we go so quickly, I wouldn’t say that it particularly matters,” states Geidt.

When Uber enters a new country or even city it looks closely on the consumers in the market in order to offer them service the most suitable for their needs. Uber is able to use its ownership advantage – the technology and the business model, and customize the final product suitable for the demands of people in a new location. Nevertheless, the company sees the whole world as its market, it customizes its product and for doing so, it establishes the local subsidiaries in the location that do the market research, develop consumer profiles, learn about the regulation environment and other. As Head of Operations at Uber Ryan Graves said: “We have to understand the nuances – how do people want the service to operate? Of course, the business model is all the same, but there’s pricing that’s different, there’s regulations that are different, there’s culture that’s different, and there’s competition that’s different. So we have to be able to adapt our solution to what the citizens want” (Horwitz, 2014). The service, that is now presented in 360 cities out of 406 cities where Uber operates, is UberX – an affordable mode of transportation. UberXL – a version of UberX with bigger vehicles for groups of passenger is presented in 170 cities across the globe, while UberBlack – the premium Uber is presented in 113 location, mainly in major cities where the demand for premium services is higher. As for localization Uber introduces cheaper version of UberX in some of the locations, such as UberPop in Europe, UberStart in Russia, UberGo in India, and People’s Uber in China, though the latter service falls into the car-pooling category.

Next, in order to understand the details of Uber’s internationalization process and how it enters the new markets the analysis of Uber’s expansion to China, India, and Russia is conducted.

3.5.1 Internationalization to China

China became the 4th Asian country where Uber started its operations. Uber entered the Chinese market in the summer of 2013, however did not launch the formal operations for almost half a year. Instead the company ran test pilots preparing the market for a limited launch in the spring of 2014 starting from Shanghai, Guangzhou, Beijing, and Shenzen. As the CEO of Uber noted in the letter to investors in June 2015: “China represents one of the largest untapped opportunities for Uber, potentially larger than the US”. Kalanick also noted that China was “number one priority” for the company (Wong and Shakil, 2015). The central part of the Uber’s 2016 growth strategy was to expand into more than 100 cities in China. As of 2016 the estimated share of Uber in China accounted for 30%, up from 1-2% in the beginning of 2015. However, Uber also loses $1B in China due to massive expansion, tough competition, and regulatory challenges (Clover and Hook, 2016).

*Market opportunities*. By 2015 China became the major competitive market for Uber. The market was attractive and prospective for Uber for a number of reasons. There were 2.62 million licensed taxi drivers operating in major Chinese cities. In comparison to the US taxi industry, that accounted for 240 thousand drivers, the figure was 10 times higher (Millward, 2014; Bureau of Labor Statistics, 2014). For example, in 2014 New York accounted for 13’437 licensed taxis (NYC Taxi and Limousine commission, 2014) while Shanghai, Uber’s first Chinese city, had more than 52 thousand licensed taxis and 93 thousand licensed taxi drivers (Lin, 2015). The number for unregulated drivers in each Chinese city, town and village was even more. Thus, the supply side for the Uber company was very promising.

As for the demand side, China had the largest smartphone market in the world with the estimated number of 3G and 4G unique smartphone users to be over 690 million – more than the population of US, Indonesia, and Brazil combined (Perez, 2015). As for the number of taxi application users it reached 18 million by 2013 and rose to around 45 million by the end of 2015 according to the Chinese marketing research company iResearch (Reuters, 2015).

*Regulation environment advantages*. As Uber seeks to exploit the opportunity of gaps in the government regulation in the sphere of Internet transportation services, the Chinese market also seemed to give that location advantage as taxi-hailing services was in their mature stage of development.

The grey zone in transportation regulation provided the company an advantage to enter China fastly and to develop the business before the government understood the need for the regulation. Initially, Uber entered China with its UberBlack product that allowed to avoid the issues of legality by partnering with car-and-driver rental companies that allow users to book licensed chauffeurs. But when it introduced its People’s Uber service the company stepped into the grey zone of legality. The incumbent taxi operators accused Uber, as in many other countries, of unfair competition by enabling its users to evade local taxation and regulations. In April 2015, after a year of Uber’s presence in China, the Chinese authorities, Office of Industry and Commerce and the Guangzhou Transportation Commission, announced that Uber was under investigation as it organized private drivers to provide unlicensed business. The Guangzhou government later issued a statement that the company was not properly registered, did not have the official approval for operations in the transportation industry, and was involved in using private cars for commercial purposes (Wei et al., 2015). In response to this issue municipal governments of several Chinese cities began to develop the clearer regulations regarding the status of iTNCs. To summarize, Uber sought to exploit the gap in the Chinese transportation regulation that gave it the time advantage to penetrate the market while the government struggled to develop the regulatory framework that could balance the demands of different interests, consumer safety, and the need for new modes of transportation in the country.

*Innovative potential*. According to the words of Uber’s CEO, Travis Kalanick, the Chinese market is also of significant interest to the company due to its innovation potential and the entrepreneurial culture. He states: “[China] has incredible educational institutions, they have great engineering here and so I think the surprise that maybe a lot of folks will be seeing in the next 5-10 years Is the amount of innovation that's gonna be happening in Beijing…” He predicts that in coming 10 years there will be 3 Bays (similar to Bay Area in Los Angeles): the Bay Area, Beijing and Bangalore. Beijing seems for Kalanick the most attractive place because “entrepreneurs want to be where all the action is, and there's a lot of exciting work being done.” (Cutmore, 2016). Therefore, the country’s innovative and technological potential is also an important location advantage that the company will want to exploit in the future.

*Business strategy*. As in any other country, Uber chose the FDI entry mode to enter the Chinese market. It established the Chinese subsidiary that operated under the parent company, Uber Technologies Inc. However, with the significant rise of competition from the side of Didi Kuaidi and the government regulation, in October 2015 Uber decided to increase commitment in the Chinese market. It was done in the response to Didi Kuaidi receiving the first “certificate” for an Internet transportation company from Shanghai local government. Uber announced the establishment of a new company, Shanghai Wubo Information Technology Co., Ltd. with the registered capital of $150 thousand (later increased to almost $320 million), in the Shanghai Free Trade Zone. Along with the new independent company, Uber also established China-based data and operating center in Wuhan (investment of $9.5 mln), the first major operations center outside of North America. Uber’s Chinese subsidiary, Uber (Hong Kong), Limited, in its turn became the shareholder of the new company. Subsequently, Uber established two more independent companies – Wubu Information Technology Co., Ltd., and Wubu Software Technology Co., Ltd., both with Liu Zhen as a legal representative. The strengthening of Uber’s corporate presence in China is intended to battle for the increasing market share and indicate the Chinese market among the company’s first priorities. As Kalanick noted: “...if you're gonna compete in China you have to be willing to invest”.

Additionally to FDIs, Uber strengthened its Chinese presence by strategic partnerships with local companies. The company entered in December 2014 into the strategic partnership with Baidu, a Beijing-based technology company that provided services similar to Google, that also became the major Chinese investor for Uber, by committing $600 mln of strategic investment in 2014 and in 2015 – $1.2 bln in private equity (CrunchBase, 2016). The invested money was used for the development of the Uber’s Chinese presence and also supported the establishment of the independent Wubu company and the operating center in Wuhan. The partnership also brought the politically connected and economically powerful Baidu into the Uber’s close circle of investors that promised to support the company in the face of regulatory pressures. Another important benefit of the partnership was the improved localization of the service – with the use of Baidu Maps, localized significantly better than those of Google. Another partnership for Uber in China was with the Guangzhou Automobile Group in December 2015. In return for the undisclosed amount of investment from the automobile manufacturer, Uber promoted the Guangzhou Autos to its drivers (Hook, 2015). Later in January 2016, Kalanick also announced that the tourism, aviation, and shipping conglomerate HNA Group also launched a strategic partnership with Uber and invested an undisclosed amount (Carsten, 2016).

As for the business strategy Uber pursues the combination of cost leadership and differentiation focus strategies with more focus on cost leadership. The services that company launched in China are premium class UberBlack, affordable UberX, and cheap non-profit People’s Uber, that target different customer segments, from wealthy business travellers to regular local commuters. The company also strives to drive down the prices for the service by innovating on its business model and introducing new cheaper products that would particularly satisfy the needs of the broader Chinese citizens. In order to attract more users in China who got used to rather low local taxi fares Uber started testing a new service – People’s Uber, a car-pooling service that allowed riders to pick up passengers for a set route at a fixed fee using the existing Uber’s technology for that. It was the first time for the company to launch a new product outside the US. People's Uber initially was a no-for-profit pilot project to promote safer and greener transportation for both car owners and riders. The fare was kept to the lowest level and calculated based on the cost of maintaining and operating a car. The popularity of the service among Chinese customers was so significant led to the exponential growth of both Uber’s consumer base and the team of drivers. After the successful pilot Uber introduced ride-sharing services in other countries such as US, UK, and Canada (Uber, 2015). This is an example of how a company can exploit its existing ownership advantage – in case of Uber a matching technology and the pricing algorithm – in the overseas market and create the new advantages and competences, in that case the new service with new value proposition.

3.5.2 Internationalization to India

Uber entered India in September 2013 with the launch in Bangalore (Uber, 2013). It than expanded to Delhi, Hyderabad, Chennai, Mumbai, Pune, Ahmedabad, Chandigarh, Jaipur, and Kolkata. By August 2015 Uber operated in 22 Indian cities, though it was banned or partially banned in a number of them (see Appendix B for more information). The company’s entrance in Indian market was being partially fuelled by [$258 million investment led by Google Ventures](http://techcrunch.com/2013/08/23/uber-confirms-258m-raise/).

*Market opportunities.* Back in 2014 when Uber decided to enter India, the taxi market in the country was one of the most attractive in terms of taxi infrastructure. There were three main types of players: unregulated taxis (also called Kalee Peeli taxis); auto rickshaws (riding a small car called tuk-tuk); and organized taxi services encompassing car-rental services, tourist taxis, and radio taxi services. By estimates there were around 550 thousand registered commercial taxis operating in 10 major Indian cities (Harsimran and Shrivastava, 2014), less than in China (2.62 mln), but still significantly higher than in the USA (240’000). As for the auto rickshaws, there were estimated 5 million drivers of tuk tuk providing service to approximately 50 million people every day (Dutta, 2015). The two biggest radio taxi operators – Meru Cabs and EasyCabs – worked as a radio dispatch service and had a fleet of more than 12 thousand vehicles in 7 major cities. In terms of smartphone penetration, in India there were more than 123 million smartphone users in 2014 and that number was estimated to grow up to 382 million users by 2020 (EMarketer, 2016).

*Regulation environment advantages.* Pursuing the same launch strategy Uber entered India with the test pilots of its premium service – UberBlack that worked with licensed limousine and premium chauffeurs (Uber, 2013). However, once Uber introduces its cheaper product – UberX (and also UberGo – service with low cost, chauffeur-driven hatchbacks for Indian market specifically) the company enters the gray zone of operations. The Indian taxi market, though already had the app-based on-demand taxi services, such as Ola and TaxiForSure (TFS), was regulated by the outdated rules and policies that allowed iTNCs to operate in the grey zone, at least until 2015, when the Indian government seriously considered the change of policy in respect to these companies, mirroring the experience of China, that introduced the licensing procedure for iTNCs mentioned above.

For instance, in Delhi the radio taxi services must have followed the rules under the Radio Taxi Scheme, 2006 that specified that the provider must be either a company (Parliament of India, 1956) or a society (Ministry of Corporate Affairs, 1860). The scheme also stated that the provider must have an adequate parking space for its fleet and office space for the dispatcher room with radio communication. The fleet size must be of minimum 500 motor cabs and vehicle equipped with GPS/GPRS devices. The rule also said that the company must be responsible for the quality of its drivers, conduct background checks and vet for previous criminal records. Since iTNCs usually does not position themselves as taxi or radio taxi companies, as Uber does emphasizing that it’s the technology company, not the taxi one, the rules does not applied to them.

That is why, at least, for the first year of operations, Uber could benefit by operating in the grey zone of Indian legislation, from time to time disputing with some local transportation authorities on the issue of its legality.

*Business strategy.* In the case of Indian market Uber, as well as with the Chinese one, was able to exploit its ownership advantage in the foreign location, that was beneficial in terms of markets size and the gap in taxi industry regulation, and also gain the internationalization advantage of being closer to the market with specific requirements.

For the Indian market Uber as well chose the FDI entry mode, setting a wholly-owned subsidiary operated under the parent company, Uber Technologies Inc. However, as Uber faced the increasing competition from the side of other iTNCs, such as Ola and TFS, and the pressures from the government, that introduced the new regulations for the app-based taxi hailing applications, the company needed to strengthen its position in the Indian market. That is why Uber entered into the strategic partnership with Times Internet Ltd. in March 2915. The deal with TIL, the digital business of the Times of India media group – the largest media conglomerate in the country, was worth nearly $23.63 million and represented the strategic investment and cooperation partnership, including as well the advertising services for Uber and an undisclosed equity investment. "The deal is centered around a commercial marketing arrangement accompanied by a small investment," stated Uber in the company’s blog (Uber, 2015). All that was in line with the TIL’s strategy to collaborate with technology companies in India. The agreement between Uber and TIL implied that TIL will work on promotions to increase awareness about the American iTNC and also help it to localise the service for India. As Uber’s CEO, Kalanick, said: "India is one of our fastest growing markets ... where we are investing heavily in continued growth.”

In India Uber pursues more of a cost leadership focus strategy. Two major services operate in the country – affordable UberX and cheaper version UberGo. The company also introduced UberMoto in Bangalore and New-Delhi – a transportation service by bikes. The premium UberBlack is also presented in the country, but only in Bangalore city. Thus, the company aims at cutting the price of the service in India providing a cheaper mode of transportation in order to meet the local demand and beat competition. As with the case of China, India provided the playground for the test of new services. In 2015 it launched the auto rickshaw service and for the first time allowed the cash payments to meet the need of the local customers. UberAuto worked the same as other Uber products, but with local auto rickshaws riding a small car – tuk tuk, and allowing clients to pay in cash as an option. Though the service was later suspended, Uber got the possibility to learn more about the local preferences, about the product customization to meet the local requirements, and about the new (for the company) payment method. The company stated in the blog: “At Uber, we continuously experiment with products to ensure that we can provide the most efficient, affordable, and reliable ride to everyone everywhere. We are temporarily removing this product to solve specific problems that need to be resolved to help it scale” (Uber Newsroom, 2015).

3.5.3 Internationalization to Russia

As part of the European expansion after the enormous funding round led Google Ventures and accounting to $1.2 bln, Uber started its Russian expansion by first launching, as usual, its premium UberBlack service in November, 2013 (Uber, 2013). As of April 2016 Uber operated in 9 Russian cities: Moscow, Saint Petersburg, Ekaterinburg, Kazan, Krasnodar, Novosibirsk, Rostov-na-Dony, Sochi, and Nizhny Novgorod. The company also plans to expand to all Russian cities with the population over 1 million people. “In the nearest future we will open all cities with the population of over 1 million people. At the moment there are 17 cities with populations above one million people in Russia... We focus that within half a year-year appear in 12 regions," – said Irina Rader, a director of regional expansion at Uber (Tass, 2015).

*Market opportunities.* Russian taxi market was always complex and closed due to the lack of regulation. In 2014, the year when Uber started its official operations in Russia, the taxi market was dominated by three categories of players: taxi companies with their own fleet of vehicles (approximately 1000 for the whole country), taxi aggregators, that operate only online (e.g. Yandex.Taxi) or as a dispatcher service; and unlicensed taxi drivers (Garant, 2015). Experts rather reluctantly give the estimates of volume of the taxi market and the number of players. Recent research based on the expert estimates showed that there are approximately 180 thousand licensed taxi drivers in the whole Russia – a number lower compared to that for the US taxi industry (240 thousand drivers). Moscow taxi market, on the other hand, is characterized by the high competition with over 800 independent taxi companies having their own dispatcher systems and over 55 thousand licensed taxi drivers (compared to New York: 13,4 thousand taxi companies with 50 thousand licensed drivers). Moreover, by the estimate of the founder of one of the taxi companies “Taxilet” there are over 100 thousand unlicensed taxi drivers in Moscow only (Sokolova, 2016). All this infrastructure data in total made (at least) Moscow one of the most attractive markets for Uber in Europe.

Paul Faguet, the International Launcher at Uber who set the operations in Moscow, stated that one of the reasons to launch Uber in Moscow were the favorable demographic characteristics, high smartphone penetration as well as the fact that many muscovites regularly opened the application to find Uber Moscow prior to its launch (Burchakov, 2016). According to the marketing research agency eMarketer, Russia is the 4th largest smartphone market in the world with approximately 58,2 million smartphone owners, following China, USA, and India. As for Moscow, the smartphone penetration reached 41% in 2013. By the expert estimates the share of orders with the use of mobile applications only in Moscow accounted for 65-70% by 2016, in Saint Petersburg it was – 30%, whereas in regional cities – from 3 to 8 per cent (Kogachigov, 2015).

*Regulation environment advantages.* The Russian taxi industry is characterized by the lack of regulation as at the moment only one federal law is providing the basis for the taxi transportation service – №69-FZ. It is only applied to traditional taxi companies and individual entrepreneurs who are providing transportation services by means of a passenger car. The law states that the company or an individual have to get the licence from the authorized local government body and comply to the following requirements: vehicles should have the identification sign, be of the color determined by the local regulations, and have the checkered taxi mark; company or an individual must conduct the technical maintenance and repairment of the vehicle, make the medical checks of drivers leaving for a run. However, there is no special regulation for the internet-aggregators and dispatcher companies and as of July 2015 no special frameworks are expected to be developed (basing on law projects in work). That is why iTNCs have the opportunity to work in the grey zone in Russia and exploit the benefits of not licensing their drivers, conducting fleet maintenance or paying taxes, by emphasizing the status of Internet or technology companies.

Even though the traditional taxi companies protested against iTNCs in Russia and initiated the checks of iTNCs operations by Federal Antimonopoly Service and Prosecutor General’s Office, the government authorities did not find any violations of federal law. The only precedent of government pressures against Uber the company had with the Department for Transport and Road Infrastructure Development of Moscow in the year 2015. The Department ordered Uber to work only with licensed drivers in the Moscow city, otherwise the company will be banned in the city. Due to the high significance of Moscow for Uber Russia, the company signed the agreement with the Department in February 2016 (Frolov, 2016).

However, Uber still has the opportunity to reap benefits of underdeveloped taxi regulation framework in Russia and continue to operate in the gray zone of legislation at least in cities other than Moscow.

*Business strategy.* Following the expansion template, Uber entered the Russian market with the establishment of the wholly-owned subsidiary of the parent company, Uber Technologies Inc.

Even though Ryan Graves, Vice-president of Uber, states that Russia is one of the top priorities for the company as of 2016, Uber does not commit heavily in the Russian market as it does in China and India. According to the words Ryan Graves, Uber in Russia is rather small compared to its other markets and the real development and scaling of the business in the country started only in 2015. “So we are at a very early stage of development. We only have seven cities, but I think by the end of 2016 we will be in seventeen” (Sukharevskaya and Igumenov, 2016).

As for strategic partnerships with Russian companies to increase the positions in the market, there were not many of them as of April 2016. The only major announcement was about the partnership with the Russian state-owned and the biggest bank – Sberbank. The parties signed the memorandum of commitment (MOU), that just indicates the more formal agreement of convergence of will. Uber and Sberbank intend to work together in the sphere of new technologies in financial sector (Uber, 2015). However partnership does not imply any strategic investment. Another strategic partnership, that somehow relates to Russia, was with the LetterOne (L1) holding of the Russian businessman Mikhail Friedman. L1 made a $200 million in strategic investments into the Uber company in the beginning of 2016. According to Uber’s CEO, Travis Kalanick, the expertise in the emerging markets, that has the L1 holding, is of great importance for the company (Kantyshev, 2016). However, it was not specified whether the investment was directed at Uber’s expansion in Russia or not.

In Russia Uber pursues the cost leadership focus strategy with UberX, UberStart as its major services. UberBlack is represented only in major cities – Moscow and Saint Petersburg. Russian regional cities that are characterized by lower incomes in comparison to Moscow or Saint Petersburg provide an opportunity for Uber to test its localized services. In Ekaterinburg the company launched in 2016 the new service – UberSTART, that the company plans to expand to Russian regions after the test period. “The environment requires constant reaction and improvement from us. With it [UberSTART], we plan to increase customer base among both passengers and drivers”, stated the company in the letter to citizens of Ekaterinburg. Again, the internationalization to the market allows Uber to increase its competences in business model adaptation to the needs of particular locations and to develop new ownership advantages.

3.5.4 Summary

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  | **China** | **India** | **Russia** |
| International Opportunity | Market attractiveness | Huge taxi market with 2.62 million licensed taxi drivers;  Biggest smartphone market – 690 million owners. | Rather big tax market with 550 thousand licensed taxi drivers and 5 million auto rickshaws.  Sufficient penetration of smartphones – 123 million owners (3nd biggest market). | Significantlybig taxi market in major cities – 55 thousand licensed taxi drivers in Moscow, but small on a country scale – 180 thousand.  4th biggest smartphone market with 58,2 million smartphone owners. |
| Regulation | Grey zone of regulation in the beginning of Uber’s expansion;  Pressures beginning in 2015 | Outdated regulation allowed for the grey zone  Pressures beginning in 2015 | No regulation of iTNCs  Favorable attitude of government regulators |
| Innovative potential | Innovation potential of Beijing as a global innovation hub |  |  |
| Strategy | Entry strategy | From wholly-owned Chinese subsidiary to **independent companies** (Shanghai Wubo Information Technology Co., Ltd; Wubu Information Technology Co., Ltd., and Wubu Software Technology Co., Ltd.) Establishment of data and operations centers.  **Strategic partnerships** with Baidu and Guangzhou Autos.  **-> High market commitment** | **Wholly-owned subsidiary**  **Strategic partnerships** with Times Internet Ltd.  **-> Medium market commitment** | **Wholly-owned subsidiary**  **No strategic partnerships**  **-> Medium market commitment** |
| Business strategy | Mix of cost leadership and differentiation focus strategies | Cost leadership focus strategy | Cost leadership focus strategy |
| Localization of services (People’s Uber – cheap carpooling) | Localization of services (UberAuto for auto rickshaws; UberMoto with bikes, UberGo - cheap Uber service) | Localization of services  (UberStart - cheap Uber service) |

**Table 5.** International opportunity for Uber and company’s strategies in China, India, and Russia

Scaling up operations and internalizing to foreign markets is a potential opportunity for Uber to exploit its firm-specific advantages to generate higher income. The cross-country analysis of markets significant for Uber (India as the biggest market outside the US in terms of cities covered, China as the strategic focus of the company, and Russia as biggest European market) revealed that such factors as market attractiveness, local industry regulation as well as innovative potential of the countries represent a driving force for Uber to internalize. Even though Uber considers all countries for internationalization as it wants to be present in as many cities as it can according to the words of the CEO, Travis Kalanick, the company tends to commit more in the countries with attractive markets in terms of taxi infrastructure and smartphone penetration. National regulation of taxi industry, namely the availability of the grey zone, represents the opportunity for Uber to establish operations and increase its presence before the government authorities realize the need for the special iTNC regulation as it was in the case of its Chinese and Indian expansion. Innovativeness and the future potential of the country for developing the innovative hub, as in the case of China, is another factor that contributes to the attractiveness of the country according to the words of Kalanick.

The company chooses to enter markets by establishing the wholly-owned subsidiary in order to maintain the full control over its operations, marketing and sales strategy so that to determine the unified global strategy and deliver the unified experience for its customers. This high market commitment also allows Uber to be closer to the national context and tap into the needs of the local consumers. However, the Chinese case shows that the company is ready to increase the market commitment in the countries that are both attractive in terms of business opportunity and where the competition and industry regulation represent significant challenges for the growth. There Uber is ready to establish independent companies, not a subsidiary, and relocate the data and operations centers. Uber also enters into strategic partnerships with leading local companies to strengthen its presence and localize the service as in the case of partnership with Baidu, leading Chinese technological company, and Times Internet Ltd. The partnerships aim at both the marketing and advertising to increase awareness of Uber (partnership with TIL) and technological improvement of the service (integration of Baidu maps). On the other hand, the case of Russia shows that in locations where competition or government regulation do not challenge the company significantly, the company tends not to increase commitment or enter into strategic partnerships.

As for the business strategy Uber tends to pursue the cost leadership and differentiation focus strategies depending on the market characteristics. In Chinese case Uber pursues both strategies: cost leadership for the broader customer base that got used to cheap taxi fares and differentiation to offer different levels of services to attract wealthier category of business travellers and emerging Chinese middle class. In the cases of India and Russia, where Uber mostly offers affordable versions of its service – UberX and UberGo for India, UberX and UberStart for Russia, the company seeks to beat its competitors by providing the lowest fares for a broader audience. Furthermore, in order to make the services of Uber more attractive to local customers, Uber localize them and offer unique proposition tailored specifically for the needs and requirements of local clients. The company introduced a China exclusive service such as People’s Uber, India exclusive UberGo, and Russia exclusive UberStart.

1. DISCUSSION AND CONCLUSION

4.1 Discussion of the findings

The aim of the present master’s thesis was to explore the drivers of internationalization as well peculiarities and patterns of international expansion of Internet transportation network companies (iTNCs). The aim was achieved by investigating the existing literature on the topic of taxi industry development as well as on the phenomenon of Born Global companies (or International New Ventures) and by applying the theoretical frameworks to the case of Uber Technologies Inc. – the first iTNC that changed the taxi industry by lowering barriers to entry and stretching the local industry to the international level. To achieve the aim of the study the number of objectives were set.

The first objective was *to identify the competitive advantages of iTNCs* that allow them to expand successfully to overseas markets. The case of Uber revealed that the innovative business model, that is characterized by its asset-light nature (the company does not own the fleet of cars, not it employes drivers), scalability and capability to innovate is the first competitive advantage that allows iTNC to expand its operations abroad. Secondly, the unique technology, that allowed drivers to generate higher results by observing the “heat maps” showing where the higher demand will be, differentiated the company from its rivals. The technology is also transferable across borders what allows the company to implement it in foreign locations. The strong brand of the company also facilitates internationalization as it “prepares” the demand for the iTNC service in advance, before it actually enters the market. Finally, entrepreneurial experience of founders as well as international expertise of the management team is another advantage for the iTNC that allowed it to internalize with such pace. The findings are consistent with the theory on Born Globals that emphasize that the unique and/or innovative product (Gabrielsson and Kirpalani, 2004; Gerschewski et al., 2014), scalability of the product (Cannone and Ughetto, 2012), entrepreneur experience and knowledge (Oviatt and McDougall, 2005; Cannone and Ughetto, 2012) are significant factors that affect the success of the company’s internationalization.

Second objective was to identify *the motives of iTNCs to expand operations internationally*. By analysing the environment of the US taxi industry it was found that the niche market where Uber operated as well as the slowing growth trend of customer acquisition was one of the main reasons for the internationalization. This finding corresponds to the assumption that Born Globals tend to internalize early due to the niche nature of the market where they operate in order to open more opportunities that global market promises (Gabrielsson et al., 2012; Knight and Cavusgil, 2004; Madsen and Servais, 1997; Oviatt and McDougall, 1995). Increasing competition, both from the side of incumbent taxi companies and emerging “copycats” is another external driver that motivated Uber to internalize rapidly. Oviatt and McDougall (1995) also state that severe competition can influence the firm’s rapid internationalization. Another factor of the domestic market environment is the industry regulation. iTNCs operate in the taxi industry, but they do not consider themselves as taxi companies, rather technology companies or aggregators. Therefore, they do not fall under the taxi regulation. However government fuelled by protests of incumbent taxi companies tried to employ existing outdated norms, sued and even banned the service of Uber. That is why internationalization to foreign markets, that allowed the company to operate in the grey zone, was drived by the challenges of taxi regulation.

Third objective was to analyze *the internationalization process of iTNCs*. The case of Uber showed that the company internalized its operations in two years from its establishment and started its international expansion from geographically and culturally closed markets. But only in one year, as the company increased its international and operational experience, Uber started to quickly expand to more distant locations in South Asia, East Asia and Africa.The pace became so fast that it was almost non-significant where to launch next. Uber grows its presence in the overseas countries starting from major cities and then going deeper into the country. Uber’s CEO states that this strategy allows to exploit the profitability of major cities to fuel the expansion deeper into the country as well the expansion to other countries.

The fourth objective of the study was to analyze *the choice of entry mode and the strategy in the foreign markets*. It was found the Uber enters the new markets by establishing wholly-owned subsidiaries. This finding contradicts to the statement of Lu and Beamish (2001) that Born Globals tend to choose non-equity entry modes like exporting. Furthermore, the company is ready to commit more resources to the country if it has the significant market potential and the competition is very tough, as it was with the Chinese case where Uber for the first time established the independent company. As for the business strategy, iTNC pursues differentiation and cost leadership focus strategy based on the country’s overall economic characteristics, but still focusing more on cost leadership. The evidence of a positive relation of such aggressive and multi-faceted growth strategy to international performance was found by McDougall and Robinson (1990) and Gerschewski et al. (2014). The company also shows the high level of localization of its services to meet the local requirements. The localization appears not only in the form of different pricing strategies but also in the form of new services tailored specifically to the local needs.

All in all, the factors and strategies the were found and analyzed in the present study contribute to understanding of the successful international performance of Uber Technologies Inc. that is now operating in 406 cities around the world and being valued at extraordinary $62.5 billion.

4.2 Theoretical implications

The study contributes to the theory of Born Globals as well as sheds light on the internationalization process of Internet transportation network companies that shaked the global taxi industry in recent time.

The findings of the master’s thesis contribute to theory of Born Globals by analyzing the case of the company that internalized rapidly to 68 countries in only 7 years of its operations. The drivers, both internal and external, of such a rapid internationalization were analyzed, what strengthened the existing models of internationalization of Born Globals, specifically the model of drivers of internationalization performance developed by Gerschewski et al. (2014) and factor model of born-globalness by Oviatt and McDougall (2005) as well as added knowledge by emphasizing the role of industry regulation in domestic market as the driver for internationalization, what was not. As for the entry mode, even though Born Globals are considered as being too small to choose more capital-intensive entry modes, the study showed that FDI may be the right choice as it allows to be closer to market and have better control over the customer experience what contradicts to the statement of Lu and Beamish (2001). Considering business strategy of Born Globals the study showed that such companies not always pursue the niche strategy but also employ aggressive growth strategies to generate better financial results what proves the findings of Gerschewski et al. (2014).

The more significant theoretical implication of the master’s thesis lies in the attempt to shed light on the internationalization process of iTNCs. At present the literature on the international expansion of iTNCs is almost non-existent and, thus, the study provides the basis for future research in the direction of internationalization strategy of iTNCs. The study not only describes such companies, but also identifies the drivers of the internationalization of iTNCs, both internal with the emphasize on the firm specific advantages, such as asset-light and technology intensive business model, and external drivers; explores the internationalization patterns as well as describes the strategic choices iTNC uses to enter (FDIs) and develop foreign markets (cost leadership and localization). All in all, the results provide the basis for the future research on the drivers and patterns as well as strategies that Born Global iTNCs employ in the internationalization process.

4.3 Managerial implications

The study not only contributes to the theory with the results, but also provides valuable managerial implications. As Moen (2002) stated the research on INV is important for managers of newly established firms that not only face the issues related to the management of a startup but also have to deal with issues when starting to internalize.

The managerial implications of the following study are aimed at the following groups of managers: 1) management of internalizing iTNCs; 2) management of iTNC that is going to internalize; 3) management of the domestic iTNC that competes with international one. The findings of the study show which ownership advantages шnternalizing iTNCs should develop such as light-asset and scalable business model; innovative technology that will differentiate them from rivalry; and strong brand. Internalizing iTNCs should also pay specific attention to industry regulation in order to leverage the opportunities of either grey zone or collaboration with governments. As for the international opportunity, the study shows that managers of iTNCs should not only consider the market attractiveness of the foreign location, but also consider the regulatory environment, and the innovative potential of the country, what can be important in the long-term perspective. Expansion of iTNCs should be started from geographically and culturally close markets to gain experience and knowledge and then aimed at more attractive markets. Finally, the results of the study may help managers of iTNCs to choose the entry and business strategy for their overseas expansion, namely pursue the FDIs and strategic partnerships with local major companies, higher commitments are expected in the case of strategically important markets. Cost leadership is an appropriate business strategy for rapid market expansion; and the localization of services creates additional advantages for the company to tap into the opportunities of local specifics.

4.4 Limitations of the study

The following study has certain limitations that are mostly attributed to the selection of the case company and the industry.

First limitation is that the company chosen for the case study is US based and from the beginning has different prerequisites for the international expansion comparing to those iTNCs based in Latin America or Asia. To build a broader view on the iTNC internationalization it is important to analyze the expansion of iTNCs from emerging countries such as Didi Kuaidi, Ola, and EasyTaxi.

Second, the type of companies chosen for the study – iTNCs, is rather new and started to develop only seven years ago, internalizing just 5 years ago, and, thus, the period of the study is rather short. Studying such companies in the longer period, when the industry will get its rigid regulatory framework and distinct players, will definitely generate more insights to the internationalization theory.

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APPENDICES

**Appendix A.** Timeline of Uber Technologies Inc.

|  |  |  |
| --- | --- | --- |
| **Date** | **Type of the event** | **Details** |
| 2009, March | Company | Foundation of UberCab |
| **2010, July** | **Company** | **Launch in San Francisco** |
| 2010, October | Funding | $1.25 mln of Angel financing |
| **2010, October** | **Regulation** | **Notice from San Francisco Transit Authority and the Public Utilities Commision of California on operating like a taxi without proper licensing** |
| 2011, February | Funding | $11 mln Series A by Benchmark Capital |
| 2011, May | National expansion | Launch in New York |
| 2011, December | Funding | $37 mln Series B by Menlo Ventures, Goldman Sachs, and Bezos Expeditions |
| **2011, December** | **International expansion** | **Launch in Paris, France** |
| **2012, July** | **Company** | **Launch of UberX** |
| 2012, winter | Regulation | Increasing pressure from regulators: $20’000 fine by CPUC |
| 2013, August | Funding | $361.2 mln Series C by Google Ventures and TPG Growth |
| **2013, August** | **International expansion** | **Launch in Johannesburg, South Africa and Bangalore, India** |
| 2013, September | Regulation | CPUC introduces the regulatory framework for TNCs |
| **2014, April** | **Company** | **Launch of UberRUSH in New York, a courier service** |
| 2014, June | Funding | $1.2 bln in Series D by [Google Ventures](https://en.wikipedia.org/wiki/Google_Ventures), [BlackRock](https://en.wikipedia.org/wiki/BlackRock), [Kleiner Perkins Caufield & Byers](https://en.wikipedia.org/wiki/Kleiner_Perkins_Caufield_%26_Byers), SherpaVentures, [Menlo Ventures](https://en.wikipedia.org/wiki/Menlo_Ventures), [Wellington Management](https://en.wikipedia.org/wiki/Wellington_Management), [Summit Partners](https://en.wikipedia.org/wiki/Summit_Partners). |
| **2014, July** | **International expansion** | **Launch in Beijing, China** |
| 2014, August | Company | Launch of UberPool, a ridesharing service |
| 2014, December | Funding | $1.2 bln in Series E by [Qatar Investment Authority](https://en.wikipedia.org/wiki/Qatar_Investment_Authority), [Lone Pine Capital](https://en.wikipedia.org/wiki/Lone_Pine_Capital), [Valiant Capital Partners](https://en.wikipedia.org/w/index.php?title=Valiant_Capital_Partners&action=edit&redlink=1), SherpaVentures, [New Enterprise Associates](https://en.wikipedia.org/wiki/New_Enterprise_Associates) |
| 2014, December | Regulation | Uber driver in Dehli rapes a passenger |
| **2014, December** | **Funding** | **$600 mln of strategic investment (Series E) by Baidu, Chinese search technology company** |
| **2015, January** | **Company** | **Launch of Uber Cargo in Hong Kong, logistics service** |
| 2015, January | Funding | $1.6 bln by Goldman Sachs in debt financing |
| 2015, February | Funding | $1 bln in Series E by Foundation Capital, Times Internet, Accelerated IT Ventures |
| 2015, June | Regulation | California Labor Commission deems Uber drivers as employees |
| **2015, July-September** | **Funding** | **$1 bln in Series F by Microsoft, Bennet, Coleman, & Co, Ltd.**  **$100 mln in private equity by Tata Opportunities Fund in India**  **$1.2 bln in private equity by Baidu** |
| 2015, October | Regulation | Legal framework proposed by the Government of India |
| 2015, December | Funding | $2.1 bln in private equity |

**Appendix B.** Locations where Uber is fully or partially banned.

