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Business model mechanisms for overcoming the liability of platformization in international digital platform firms

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Abstract: While the extant research recognizes that digital platforms not only enable internationalization but can also hinder the process, the prior studies do not address how firms can overcome these hindrances. We describe these as the liabilities of platformization, and explore the mechanisms by which to overcome them and thereby support the internationalization process. We conduct a multiple-case study of six international firms from Finland, whose business models are based on digital platforms. Our findings distinguish three facets that constitute a more general aggregate of the liability of platformization, namely the liabilities of digital space, control loss, and user-network outsidership. Consequently, we propose three respective mechanisms that enable firms to tackle these liabilities: digital platform customization, digital platform personalization, and establishing a local presence. Our study contributes to the emerging research on business models in an international context.

Key words: liability of platformization; internationalization; digital platform firms; multiple-case study

1.0 Introduction

Platform business models (PBMs) have become a largely international phenomenon (Fehrer & Wieland, 2021). In order to achieve greater scalability and internationalize more effectively, many firms utilize digital platforms, which inevitably imply the extensive use of the Internet and communication technologies to virtualize their operations (Fu et al., 2017; Benyayer & Kupp, 2017). Ultimately, this broad spread of companies operating on digital platforms, and the concurrent emergence of platform ecosystems, have dramatically changed the entire context of international business (Banalieva & Dhanaraj, 2019; Monaghan et al., 2020; Ghauri et al., 2021). This phenomenon of platformization, which relates to “the shift from individual products or services to platforms as the basis for offering value – and the emergence of associated ecosystems as a major venue for innovation, value creation, and delivery” (Nambisan et al., 2019; p. 1465; Nambisan et al., 2018), leads firms to reassess their boundaries, geographical distances, and cross-border transactions (Luo, 2021). The extant discussion in international business emphasizes the greater scalability and more effective internationalization of digital platform firms (Stallkamp & Schotter, 2018), since they “discourage ownership and promote access instead” (Kelly, 2016; p. 123). Their asset-lightness, low internationalization costs, and high connectivity enable faster and cheaper transactions between service providers and end-users globally, almost ‘at the click of a button’ (Langley & Leyshon, 2017; McIntyre & Srinivasan, 2017; Chen et al., 2018). Moreover, several authors pinpoint the universality of digital platforms, meaning they can be almost instantaneously replicated in different foreign markets (Fu et al., 2017; Ondrus et al., 2015).

However, there is growing evidence that internationalizing platform-based firms still face hindrances associated with calibrating and anchoring their business model (BM) in foreign market environments (Jean et al., 2020; Shaheer & Li, 2020). These hindrances can be related to, for instance, the challenges of adopting users from both the demand and supply side, and the concurrently greater liabilities of outsidership (Brouthers et al., 2016; Gerwe et al., 2020), incompatibility risks, and the poor cross-country network externalities that may result (Stallkamp & Schotter, 2018), digital mistrust (Wentrup et al., 2019), conflicts of interest between multiple sides of a platform (Gawer, 2020), and the “virtual traps” that undermine firms’ ability to learn about local cultures (Sinkovics et al., 2013). Notably, the

extant research goes no further than identifying these negative effects of digital platforms on internationalization, so little is known about how firms tackle these downsides of platformization. In this chapter, we term this aggregate of digital platform drawbacks the liability of platformization, and look to explore how internationalizing firms can overcome it. We conduct a longitudinal study of six internationalizing firms from Finland, whose BMs are based on a digital platform.

This study offers several important contributions. First, we contribute to the emerging research at the interface of international business and BMs. We respond to the call to create “business modeling approaches for internationally-oriented entrepreneurial processes” (Onetti et al., 2012: 363), and to obtain more knowledge on the specific characteristics of BMs leading to (or hindering) internationalization (Hennart, 2014; Hennart et al., 2021). Second, we add to the literature on the internationalization of digital platform firms (Brouthers et al., 2016; Stallkamp & Schotter, 2019; Wentrup et al., 2019). In particular, our study responds to the calls to pay attention not only to the benefits of digital platforms for internationalization, but also to examine their “dark sides” and what activities internationalizing firms undertake to mitigate them (Jean et al., 2020; Luo, 2021).

2.0 Theoretical background

2.1 Platform business models and internationalization

The BM research domain originates from the intersection of strategy and entrepreneurship, and is still considered an emerging stream, yet attracting conceptualization. Without entering the debate on the various definitions of BMs (please, see Ritter and Lettl (2018) for the review of existing definitions of the BM concept), we follow the most established definition and understand a BM as depicting “the design of transaction content, structure, and governance so as to create value through the exploitation of business opportunities” (Amit & Zott, 2001; p. 493). Similarly, there is an extensive discussion on BM elements (see, e.g., George & Bock, 2011). For instance, Osterwalder and Pigneur (2010) created the “Business Model Canvas” with nine building blocks: value proposition, partners, activities, resources, customer relationships, channels, customer segments, cost structure, and revenue streams. Despite conceptual and structural variations in understanding the BM phenomenon, the value-related processes and their complementarities appear to be the key BM elements.

Given the nascent state of BM research, its diffusion into international business studies has been even more embryonic (Rask, 2014; Hennart et al., 2021), and foreign location decisions have been largely neglected in the BM research (Onetti et al., 2012). We see this as a clear omission because a change in the external context of a firm inevitably leads to the necessity to reconsider its operations. Because internationalization implies essential changes in the contextual environment (both physical and digital, internal and external), internationalization and BM change frequently go hand in hand (Chen et al., 2018; Hennart, 2019). Internationalization and location decisions may lead to the reinvention of an entire business, including changes in the firm’s ability to access resources, in value propositions, customer segments, key operations, modes of delivery, sales and marketing, pricing, and cost structures (Cao et al., 2018). In this respect, Bohnsack et al. (2020) suggested that international companies have a specific type of firm-specific-advantages, that is, business-model specific advantages. These can be location-bound or non-location bound. Hence, BM-specific components (value creation, delivery and capture) that are location-bound need to be recombined and modified to fit the host country. Non-location bound components can be transferred internationally without major change. Overall, BMs that firms adopt in a domestic market differ from those in foreign markets, because just copying one workable BM from the home to host country may be detrimental (Landau et al., 2016; Child et al., 2017).

Among the plethora of different BMs, the internationalization studies have largely been interested in platform BMs (PBM), as scalability and global reach are inherent to them almost from the outset (Luo, 2021; Nambisan et al., 2019; Li, 2019). In this study, we follow the market-intermediary view of platforms (Rochet & Tirole, 2006), which pinpoints that “the platform enables a marketplace (typically, electronic), creating market efficiencies in (at least) two-sided markets. In this stream, the market platform provides the device for connecting supply and demand and establishes and exploits market power” (Thomas et al., 2014; p. 201). Further, McIntyre and Srinivasan (2017; p. 143) stipulated that “platforms can be conceptualized as interfaces—often embodied in products, services, or technologies—that can serve to mediate transactions between two or more sides, such as networks of buyers and sellers... or complementors and users...”. The research on platforms builds on two theoretical perspectives: economics and engineering design. The former approach understands platforms as two-sided markets, and the latter as technological architectures. Taken together, they help us understand the competitive dynamics and platform innovation. Given the theoretical roots, technological platforms come in a variety of forms (Gawer, 2014). Gawer (2014) suggested differentiating between internal or firm platforms (e.g. SAP), supply-chain platforms (e.g. Boeing), and industry platforms (e.g., Facebook, Amazon, Google). In turn, various types of platform drive the development of sharing and the circular economy by providing the organizing logic for circular business models (Fehrer & Wieland, 2021). In this chapter, we look at PBMs that rely on the Internet and computer-based technologies, and that are different from traditional-e-commerce models (Brouthers et al., 2016). For these PBMs, the Internet is seen not only as a delivery channel but also a space for interaction and connectivity. They enable non-linear co-creation and value exchange across supply and demand sides, resulting in the emergence of platform ecosystems (Choudary, 2015). Thus, value is created in PBMs through multiple sides, through the network effect (Korhonen et al., 2017).

Despite acknowledging the unprecedented scalability of digital-platform firms, their internationalization pathways have not been fully understood and continue to puzzle international business scholars (Stallkamp & Schotter, 2018; Chen et al., 2019; Hennart, 2019). For example, their expandability and global reach into foreign markets is often explained by their special business models (McIntyre & Srinivasan, 2016; Evans & Schmalensee, 2016), making the BM concept central to understanding the internationalization of digital-platform firms. However, studies in this direction are scarce, because in general the BM concept has not been widely applied in the context of internationalization, and little is known on how BMs are adapted to internationalization (Bohnsack et al., 2020). Largely, even though international BMs are common in practice, they are a rare topic in academic research (Rask, 2014). The complexity of internationalization decisions is even greater for digital-platform firms, as their BM dynamics unfold not only in physical geographic place but also in digital online space (Monaghan et al., 2020).

In international business (IB) research, the discussion around PBMs has predominantly positive connotations, emphasizing PBMs different internationalization advantages over other BMs. Studies accentuate that PBMs enable more efficient exchange of knowledge, labor and other resources between geographically distant but connected digital communities (Langley & Leyshon, 2016). Also, they facilitate cheaper and faster transactions due to their high reliance on communication technologies, low resource commitments in foreign markets, and sparse physical assets (Reuber & Fischer, 2011; Brouthers et al., 2016). Their major principle of connectivity results in direct and indirect network effects that increase the value of the platform, and almost automatically bring supply and demand together across countries (Stallkamp & Schotter, 2018). These network effects allow for vast scalability, the emergence of platform ecosystems of users that are in principle borderless, and increase foreign sales (Korhonen et al., 2017; Chen et al., 2019). Naturally, PBMs’ connectivity and scalability features explain platform-

based firms' high internationalization speed and decreased time to initial markets, so they often resemble born globals (Parente et al., 2018).

2.2 PBMs as a liability of internationalization

While the benefits of PBMs for firms' global expansion are appreciable, an increasing number of studies point to serious downsides of PBMs, which become liabilities for the internationalization process. Our examination of the extant literature divides these into two classes, external and internal. External liabilities are largely associated with the digital nature of internationalization, meaning that it is not led by a firm but contingent predominantly on growing the user network from both the supply and demand side (Reuber & Fischer, 2011; Chen et al., 2018; Shaheer & Li, 2020). For instance, Brouthers et al. (2016) indicated that despite the low costs of transferring digital-platform firms across borders, and low liabilities of foreignness, these companies can still experience considerable liabilities of outsidership; they often lack embeddedness in the user community in a foreign market, which hinders user adoption and retention. In a similar vein, Stallkamp & Schotter (2018) argued that platform-based firms' geographic scope, foreign market selection, and choice of entry mode are highly dependent on cross-country network externalities. Thus, they question the borderless nature of PBMs, and posit that user networks can be difficult to transfer from one country to another. In this respect, the study by Gerwe et al. (2020) is illustrative, showing that there are geographical differences in how property owners (e.g., service providers) enter the Airbnb hosting platform. Shaheer and Li (2020) reached a similar conclusion, and showed that online platforms' international penetration is dependent on cultural, administrative, geographic, and economic distances. Also, while the user network is the essence and main resource for digital-platform firms, they often have very limited control over its supply and demand sides (Chen et al., 2018). This can result in increased complexity, and conflicts of interest between multiple sides of a platform (Gawer, 2020). For example, Wentrup et al. (2019) identified conflicting relations between Uber's platform and its digital workers from the supply side, demonstrating the phenomenon of digital mistrust that results in falling commitment levels soon after the market entry. Overall, platformization brings not only benefits in entering new markets but also threats; Jean et al. (2020) proposed that these platform risks are triggered by product specificity, foreign market competition, domestic institutional barriers, and foreign market uncertainty.

As for the internal liabilities of platformization, Nambisan & Baron (2021) identified entrepreneur-level costs in digital-platform firms. They pinpointed that the entrepreneurs running these firms can experience a role conflict related to their dual identity of simultaneously being an ecosystem member and venture leader. This ambivalent role can increase stress and, consequently, negatively affect venture performance. Also, the entrepreneurs face additional complexity associated with the fact that their business intersects the physical and digital environments. In this respect, Dillon et al. (2020) postulated that the internationalization of digital-platform firms requires the accrual of a new type of experience, namely digital internationalization experience, and combining it with traditional experiences needed for foreign expansion. Importantly, if firms' learning efforts focus only on the digital environment and neglect the physical setting, they may end up in so-called "virtual traps" that undermine the firm's ability to learn about location-specific peculiarities such as local cultures and institutional norms (Sinkovics et al., 2013). Overall, the above discussion demonstrates the intensifying evidence that PBMs are not a straightforward and effortless panacea guaranteeing fast and easy international growth. They are saddled with multiple and diverse liabilities. However, the research to date goes no further than identifying those, and the mechanisms and processes that platform-based firms undergo to mitigate them remain unexplored. We aim to address this issue in our empirical study.

3.0 Methodology

Driven by the inductive exploration of how digital-platform businesses overcome liabilities of platformization during internationalization, our study follows the qualitative methodology with a multiple-case study strategy (Eisenhardt & Graebner, 2007). We employed the purposeful sampling approach (Gartner & Birley, 2002), and selected cases according to the following criteria: their BMs 1) are based on a digital platform, and 2) the firm must have international operations in at least one foreign market besides their domestic market. The case selection yielded six firms for our study, which is an adequate number of cases (Eisenhardt, 1989). To grasp the dynamic mechanisms of overcoming different liabilities of platformization, we employed a process-based approach (Langley, 1999; Langley et al., 2013), and conducted two rounds of interviews with the firms' key decision-makers (see Table 1). In total, we conducted 27 semi-structured interviews, which were later transcribed verbatim. In addition, we incorporated a diary method (Zimmerman & Wieder, 1977), which allowed us to grasp nuanced details of BM dynamics without a retrospection bias. We asked our informants to write an online diary created through Webropol. The entries were made every 2-3 months during the time between the first and second interview rounds. In total, we received 39 diary entries of around a half-page each.

Company, year of inception, core business	First international market entry and international markets	1st round of interviews Interviewee, date, duration	2nd round of interviews Interviewee, date, duration	Electronic diary entries
A (2011): B2C platform that connects individual consumers and merchants, and allows consumers to get cashback from different purchases	2012, 16 countries Russia, Sweden, Turkey, Singapore, India, Malaysia, Poland, Estonia, Latvia, Lithuania, US, Hungary, Romania, Czech Republic; the Netherlands	CEO, Nov 25, 2019; 80 min. CTO, Dec 11, 2019; 35 min. Co-founder, Dec 20, 2019; 32 min.	CEO, Dec 7, 2020; 73 min. Co-founder, Dec 8, 2020; 42 min.	CEO: Feb 27, 2020; Apr 20, 2020; Aug 15, 2020; Oct 30, 2020 Co-founder: Feb 30, 2020; May 4, 2020; Sept 15, 2020
B (2013): B2C digital marketplace platform bringing together individual consumers and sustainable-product brands	2013 US, Sweden, UK, Germany	CEO, Co-founder; Dec 2, 2019; 70 min. Co-founder; Dec 19, 2019; 25 min.	CEO, Co-founder; Mar 26, 2021; 63 min. Co-founder; Mar 30, 2021; 37 min.	CEO: Jan 29, 2020; Mar 3, 2020; June 12, 2020; Oct 10, 2020; Jan 30, 2021 Co-founder: Feb 15, 2020; June 12, 2020; Oct 10, 2021
C (2013): online B2C booking-service platform bringing together venue providers and people/organizations looking for event spaces	2015, Sweden Possibilities to book from Denmark, Poland, Estonia, Germany, Spain, Italy, and in the UK	Co-founder 1; Dec 11, 2019; 51 min Co-founder 1; Jan 15, 2020; 75 min. Co-founder 2; Jan 20, 2020; 65 min. CEO, Co-founder; Jan 30, 2020; 67 min.	CEO, Co-founder; Dec 9, 2020; 71 min. Head, Expansion; Jan 7, 2021; 69 min.	CEO, Co-founder: Mar 15, 2020; June 20, 2020; Dec 10, 2020 Head, Expansion: Mar 16, 2020; June 21, 2020; Nov 10, 2020
D (2014): B2C food delivery service that operates as an online platform bringing together restaurants, delivery couriers and food consumers	2016 Sweden and Estonia, Denmark, Latvia, Lithuania, Croatia, Czech Republic, Norway, Hungary, Georgia, Israel, Poland, Serbia, Greece, Azerbaijan, Slovakia, Slovenia, Kazakhstan, Cyprus, Malta, Japan, Germany	CEO: Nov 7, 2019; 60 min; Director, New Markets; Feb 14, 2020; 53 min. Head of Expansion; Feb 20, 2020; 78 min.	Head of Expansion Dec 18, 2020; 45 min. Director, New Markets; Feb 3, 2021; 65 min.	Head of Expansion: May 20, 2020; Aug 22, 2020; Oct 2, 2020; Feb 2, 2021 Director, New Markets: May 31, 2020; Aug 17, 2020; Oct 11, 2020; Jan 27, 2021
E (2015): online B2C marketplace platform that brings together sellers and buyers of second-hand clothing and accessories	2018 Denmark, Germany	CEO, Co-founder; Feb 13, 2020; 64 min	CEO, Co-founder; Jan 27, 2021; 76 min.	CEO, Co-founder: May 10, 2020; Aug 31, 2020; Nov 3, 2020

F (2015): end-to-end online platform that enables scalable reselling of refurbished mobile phones	2017 Belgium, Denmark, Estonia, Hungary, Latvia, Malta, Austria, Slovakia, Sweden, Croatia, Germany, France, Ireland, Lithuania, the Netherlands, Poland, Slovenia, Czech Republic, Spain, Greece, Italy, Luxembourg, Norway, Portugal	CEO, Co-founder; May 20, 2020; 45 min CEO, Co-founder; May 26, 2020; 57 min. Co-founder, May 26, 2020; 55 min.	CEO, Co-founder; June 3, 2021; 58 min. Co-founder, June 4, 2021; 55 min.	CEO, Co-founder: Aug 13, 2020; Nov 14, 2020; Feb 4, 2021; Apr 16, 2021 Co-founder: Aug 13, 2020; Oct 23, 2020; Feb 1, 2021
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Table 1 Data collection

The data analysis involved both manual (within-case and cross-case displays in the form of field notes, matrices, tables, and mind maps to find patterns and themes in the data), and electronic techniques assisted by NVivo 11 software. Both authors were involved in the analysis. We identified themes based on the extant literature through a priori codes (Lichtman, 2013); these themes relate to the three types of liability of platformization. At the same time, following Corley & Gioia et al. (2011), and Gioia et al. (2013), we inductively distinguished emerging codes and themes in the data; they relate to the three concurrent mechanisms of overcoming the liabilities of platformization (see Figure 1). In what follows, we present these findings and discuss them against the extant literature.

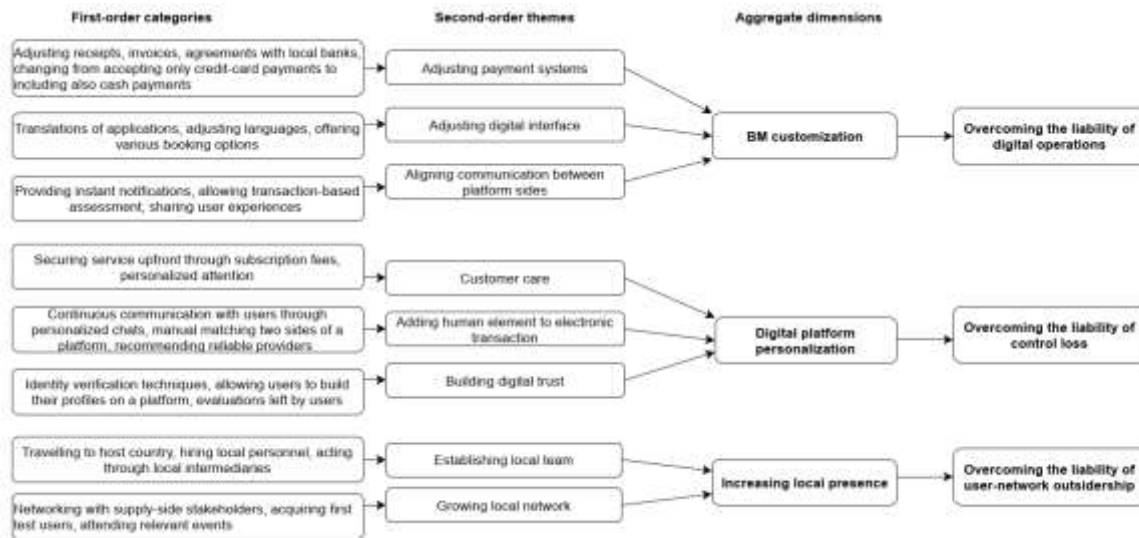


Figure 2 Data structure

4.0 Findings and discussion

Whereas our data include evidence that PBMs enabled and enacted the international activities of the studied firms, which is consistent with the received research (Parente et al., 2018; Fu et al., 2017; Ondrus et al., 2015), we also observed that these PBMs created obstacles to entering foreign markets. Because the focus of this chapter is specifically on the liabilities of platformization, we concentrate our further discussion on those, and discuss the dynamic BM mechanisms for overcoming them.

4.1 Liability of digital operations

In line with Monaghan et al. (2020), the complexity of the internationalization decisions of the studied digital-platform firms was high due to the presence of their operations in two location dimensions, namely the physical place and digital space. Consistent with Sinkovic et al. (2013), the studied firms initially considered entering new markets by almost copy-pasting their BMs from the home to host country. Relying on the universality of their BMs, the firms did not expect their BMs would need to be calibrated to local specificities (Gerwe et al., 2020; Jean et al., 2020; Shaheer and Li, 2020), especially in relation to digital space. However, the firms' decisions proved to be bounded by the locational dimension of digital space (Monaghan et al., 2020; Bohnsack et al., 2020). Adhering to predominantly digital operations on a platform in digital space limited potential business growth in physical place, that is, foreign markets. This happened, for instance, to Company D in Kazakhstan; it faced a situation where a prevailing number of platform users wanted to pay in cash due to the country's undeveloped electronic-payment infrastructure. However, the platform did not allow this as it was fully digitalized. Therefore, the firm could not quickly obtain a bigger market share, and partly missed the opportunity in that country. The following quote evidences this:

Company D, Head of Expansion, diary excerpt 12.3.2020: "We didn't accept cash at first. But then we realized we were missing a lot of opportunities as a result. We saw that conversion was low because there was no cash option ... if someone had told me 4 years ago, that we would do cash, I would have been stunned. Because it doesn't make any sense in my view. Or didn't make sense to accept cash because you just cannibalize your own business model. But in the end it's actually been pretty good in the markets where cash usage is huge. So, we changed to accepting cash."

In order to overcome this liability of digital space (Monaghan et al., 2020), the studied firms used various customization approaches to calibrate their BMs to a new market. Even though the core value proposition of their BMs remained unchanged, the adaptation was substantial. It related to adjusting online payment systems (e.g., receipts, invoices, agreements with local banks, accepting cash payments alongside the established credit-card system), a mobile application interface (e.g., language, selection of booking options), differences in communication between platform sides). Even though these were essentially operational adjustments, they were costly and time consuming. Below, we present some evidence from the data to support our discussion:

Company B, CEO, 2nd round: "The functionality of our BM stays the same, but the way people search for venues and organize parties is really hyper-local and differs from country to country. The user experience needs to be adjusted to the local needs. For example, in Finland people search for sauna events, it's a cultural thing. In Spain, this option doesn't even exist. But in Spain, there are five words for "ranch", for instance, depending on historical reasons of where the ranch is, so there more categories to tick."

Given the discussion above, we offer our first proposition:

Proposition 1: Internationalizing digital platform firms that customize their BMs in digital space are likely to overcome the liability of digital operations.

4.2 Liability of control loss

Consistent with Chen et al. (2018), and Gawer (2020), we found that the studied firms experienced a loss of control over different sides of their platforms. This was an unavoidable effect of the growing number of users on either the demand or supply side, which is in itself certainly a positive factor. Because becoming a platform user was not meant to be regulated, platforms gained enough scalability in the foreign markets, which is consistent with Hennart et al. (2019). Even though this control loss may also be present on domestic platforms, it was more substantial in the international context due to the increased complexity of interactions around the platforms caused, among other factors, by cultural and regulatory differences across countries (Shaheer & Li, 2020). However, in some instances, it resulted in higher rates of complaints from the demand side, which ultimately lowered user-conversion rates. The following interview excerpts support this evidence:

Company A, CEO, 1st round: “Our profit comes from commissions on each purchase. So if we need to increase sales, we can’t offer discounts because we’re not selling our own products. So we control who sells on our platform, but we can’t control their prices.”

Company C, CEO, 1st round: “There is a user problem ... we’re a two-sided market that we can’t control. If the seller doesn’t send an item, we can’t control it. Actually, people forget that with our business model you’re buying from people and not from us. But we get complaints ... Because we can’t control the supply, some people just put shit goods up for sale ... or they don’t show the full picture of the item, or they cheat about the price ... So of course we go through every item, we tag bad pictures and fake items, and over-pricing ... we need to track this bad behavior. There’s a large number of constant problems we’re solving.”

To deal with this liability, the studied firms implemented the mechanism of personalization, and changed their BM to offer more customer care, personal touches, and additional customer services. In some instances, it worked by introducing some kind of human element to transactions (e.g., possibility to call, live chat, personalized thank-you e-mails, feedback requests, and personal discount codes for next purchases), which helped match the two parties on a platform and enhanced the BM’s value. It helped add a layer of trust to the digital interface. The following interview and diary excerpts illustrate this:

Company B, Head of Expansion, 2nd round: “This personal touch is very important for building trust. For example, in Poland our customers are afraid to book and be scammed. When we handle some things personally, it helps to build this trust, they hear our voice, they believe we’re a legitimate business, and our incentives intertwine. So good old phone calls work! If we start automating everything, it may hurt our relations with venue providers. Personalized trustful relations need to be built. There is no digital solution for this.”

Company C, CEO, diary excerpt, 20.8.2021: “We changed the way users talk about each other on the platform, and how messages are stated to customers to bring more of an emotional attachment to the product. A feeling that reflects the easiness of the service and finding some attractive goods to wear ... proper customer support where people really feel cared about is very important.”

Company D, Co-founder, 2nd round: “If you’re competing, the company that has the better personal touch ... people just slowly start to like you more, and then you’ll win the market.”

The above discussion derives our next proposition:

Proposition 2: Internationalizing digital platform firms that personalize their platform are likely to overcome the liability of control loss.

4.3 Liability of user-network outsidership

In line with Brouthers et al. (2016), our findings show that the studied firms experienced challenges in building a user community and workable user ecosystem around their platform in new international markets. Hence, they were not embedded into host user networks, and suffered from the liability of user-network outsidership. We present the evidence on this liability below:

Company B, CEO, 1st round: “Our domestic user network does not help anyhow to build the user network, for example, in Spain. Our BM is hyper-local, we focus on cities, and in each city we need to build an ecosystem of venue providers and those who’ll book them. Until we have it, we’re outside this network.”

Company A, Co-founder, diary excerpt August 21, 2021: “When you enter a foreign market, you can’t bring your own user network, you need to build it from scratch. We use services for it or just Google. But you must have a local doing it. Following prospects, we use various online software where we upload the e-mails, trying to get them on the phone to talk. Then at some point we send them an offer and hope that they sign it. That’s kind of how we start to get users.”

To mitigate this liability, the studied firms employed the mechanism of increasing local presence in their foreign markets. Despite the scalability of their digital platforms, opening new markets and initiating viable operations required a physical presence, too. The firms’ representatives traveled from Finland to the foreign locations, lived there for several months, and established local teams. In some cases, the teams were just temporary, in others the Head of Expansion needed to hire local personnel, and the team continued to operate after the company’s representative returned to the firm’s home country. Through the first personal contacts, they were able to test the platform and grow the user network further. The mechanism is evidenced as follows:

Company B, Co-founder, 2nd round: “It’s mandatory for someone from the home team to go on location, live there, really try to understand the culture, find the best people to join the local team, and establish an office. There needs to be physical presence, at least with our type of marketplace.”

Company B, Head of Expansion, 2nd round: “After we selected the next countries to expand to, we flipped a coin to decide who’ll go to which countries. I travelled to all of these countries and lived there for some time. We understood that we needed to be there physically.”

Company C, CEO, 1st round: “It’s very challenging ... you really have to go there [to the foreign country], you have to be there, to mix with the local people, and you have to understand everything in a short time. The biggest mistake is that people just sit in Finland thinking “Oh, let’s just put some Facebook add and we’ll grow”. If it were that easy, many platform companies would be global.”

The findings above allow us to derive our final proposition:

Proposition 3: Internationalizing digital platform firms that have a local presence in their foreign markets are likely to overcome the liability of user-network outsidership.

5.0 Conclusions and directions for future research

The aim of this chapter has been to explore how internationalizing digital platform firms overcome the liability of platformization. While the reviewed literature identifies this liability to some extent (Gawer, 2020; Gerwe et al., 2020; Wentrup et al., 2019), it is nevertheless scattered. The extant studies go no further than descriptively recognizing the liabilities, neither categorizing them nor suggesting how they can be overcome. We advance the extant knowledge, distinguishing three facets that constitute a more general aggregate of the liability of platformization. These are the liability of digital space, of control loss, and of user-network outsidership. Consequently, we propose three respective dynamic mechanisms that enable firms to tackle the liabilities: digital platform customization, digital platform personalization, and establishing a local presence. Hence, we contribute to the emerging research on BMs in the international context (Onetti et al., 2012; Rask, 2014).

We believe the context of our case digital platform firms offers an interesting perspective on understanding the meaning of location in IB. Resonating with Monaghan et al. (2020), our study shows how firms' tasks in the physical place can affect its activities in digital space, and connects these two locational dimensions. While the location-boundedness of firms' BMs during internationalization has been discussed in relation to physical context (Bohnsack, 2020), we add a new locational dimension and show that firms BMs can be bounded by digital space. The link between physical place and digital space merits further examination. While physical (re)location (e.g., crossing country borders) has been well addressed in the IB research, our understanding of location and internationalization in digital space requires more attention, as it is virtually borderless. In addition, this study opens up a novel direction for future research in the field of sustainable business models (SBMs). As SBMs have become a largely international phenomenon (Fehrer & Wieland, 2021), future studies could look into how dealing with the downsides of platformization affects various aspects of firms' BMs, for example, sustainability.

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