

Institutional Reinforcement in a Newly Emerged Digital Industry

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Abstract

There is a growing number of newly emerging digital sectors where firms have potential for a rapid scalable expansion. One of them is mobile gaming, being triggered by development of smart devices, where Finland-based entrepreneurial firms have captured global markets in an extremely fast pace. How and why have these Finnish firms achieved a global market positioning, particularly in the light of Finland's small home market, relative cultural isolation, and peripheral location? By building on the institutional polycentrism approach, this paper sheds light on how global industry-specific and informal socio-cultural institutional arrangements have been reinforced by local formal, government-sponsored ones to create the conditions for global leadership in a digital industry. This paper makes important contribution to the better understanding of the role of institutions in driving emergence of digital industries and shaping global competitiveness of home country firms in these digital sectors.

Keywords: Mobile Gaming, Digital Industry, Institutional Polycentrism, Finland.

1. Introduction

The digitalization is rapidly changing the pace and means of international expansion. These changes create opportunities for firms in newly formed digital industries that operate differently from those generally studied in the international business field (Monaghan et al., 2020; Shaheer, 2020). The nature of these firms differs from the internalized organizational forms such as traditional multinational enterprises (MNEs) (Buckley, 2011), and they are also different from the newer form structures that Buckley (2011) has labelled 'global factories', with their myriad of externalized exchange arrangements. These are entrepreneurial digital firms, but they are not disadvantaged by liabilities of newness (Stinchcombe, 1965), smallness (Aldrich & Auster, 1986), or foreignness (Zaheer, 1995). They were labeled as born digitals (Monaghan et al., 2020) that have captured global markets with lean and flexible organizational structures. Also, they can be located in parts of the world that are not traditionally associated with global enterprise.

Working in a phenomenological field (Liesch et al., 2011) international business and management scholars have interests in both describing and explaining new phenomena as they emerge. This perspective produces robust scholarship, as the strength of a field's theorizing is closely associated with its ability to explain new phenomena using existing theory. It is in this context that I observe the Finnish mobile gaming industry. These Finnish gaming firms have rapidly expanded across the globe and gained dominance in mobile segment. That firms in Finland have achieved market leadership in an industry reliant on the global market is deserving of enquiry; until the middle of the 20th century, Finland was relatively economically isolated from many international markets and economically reliant on the traditional industries as a result of location, history, language, and then post-WWII reparations. Thus, many Finnish firms were accustomed to doing business within a system in which exchange occurred outside of a pure market-based regime and production was regulated through the governmental mechanisms. Until recently, relatively few Finnish companies dispersed across different sectors were able to successfully expand on the global scale. In order to explain this phenomenon, I ask the question: Against a background of the country's previous institutional context and relative cultural isolation, *how and why have firms in Finland achieved a global market positioning in the mobile gaming industry?*

To address this research question, I adopt an institutional perspective (Batjargal et al., 2013; Scott, 1995) that recognizes the interconnectedness of multiple organizations and actors in settings in which degrees of institutional informality and formality conflate with socio-cultural and technological norms and exchange mechanisms.

This paper contributes to the existing knowledge on internationalization and global competitiveness. It shows how the case of mobile gaming firms that have achieved successful application to the global market since this period of time suggests proficient adaptation across several jurisdictions. Individuals have created and responded to global technological opportunities and have adapted business practice to realize these opportunities. The national government has adapted to the emergence of this sector and has responded to reinforce the realization of these global opportunities.

Finally, the national context has embraced this new sector. This represents example of an ecosystem (Iansite & Levien, 2004) that supports entrepreneurial behaviors. These behaviors are affected across multiple levels of engagement between individuals and organizations in diverse regulatory contexts -contexts that produce an environment conducive to extreme internationalization. This ecosystem of individual cultural proclivity for entrepreneurial endeavor (Autio et al., 2013) exists in the context of a technologically sophisticated sector. People in this sector possess an acute understanding of marketing appeal to a global audience. It was made possible by the nexus among creative individuals, facilitating technologies, a regulatory context that not only permits, but actively encourages, creativity, and a global market system that, in this particular industry, operates with few imperfections. Alongside this nexus are institutions that permit this interconnectedness across multiple institutional levels worldwide (Peng et al., 2008).

This paper considers the rapid and successful development of born digital firms, having aimed at the world-wide market from inception and developed truly global customer bases immediately upon the release of their products. In doing so, study sheds light on an interesting application of cross-border exchange that might offer some prospect for better understanding how firms in an entrepreneurial digital context master multiple institutional settings to bring a product to global market. As IB traditionally has been about the nature and cross-border behaviors of firms, the internationalization of ideas and of creativity has not until relatively recently attracted empirical attention (Wang et al., 2020). This context may offer scope for bridging the boundaries between international business and entrepreneurship in cultural industries (Jones & Coviello, 2005; McDougall & Oviatt, 2000).

2.Theoretical Foundations

Historically, the IB field has accepted that the two key entities – the market and the firm, and how they relate – lies at the core of IB theorizing. When markets are imperfect, the incentive exists to internalize exchanges and the firm delivering these exchanges will hence take on a more hierarchical organizational form. In contrast, the preferred organizational form when markets are functioning with fewer imperfections is more like Buckley's (2011) global factory. Interactions between the market and the firm are fundamental to the IB field, as are the governance structures put in place to manage these interactions.

While unfettered market exchange is rarely observed, it has provided a standard against which the

evolution of the firm is measured. The organizational form of the firm and many of its behaviors is determined by the extent and costs of market imperfections, both national and international. In this context, the government plays an important role and can provide resources for firms that firms cannot provide themselves. Governments can intervene in market settings to alter the mix of market imperfections, both extending and lessening imperfections to achieve policy outcomes. Different countries intervene differently, as their local priorities mandate.

Political and regulatory interventions are motivated by many factors. Among them, remedying scarcities (e.g., knowledge, such as scientific, market information and the like) is vitally important, as voids can both preclude exchange and restrict production. The government's perceptions of its role in the national ecosystem (Iansite & Levien, 2004) with its regulatory settings and governance ordinances, has long occupied the minds of economists, international business scholars, and now, increasingly, management scholars. In all, institutional polycentricism (Batjargal et al., 2013), with its interests in the multiplicity of rules, regulations, and norms that define our systems of production and exchange, and in the manner in which organizations, firms, and actors negotiate to make adjustments in these systems, provides a useful framework to understand the emergence and growth of industries and economic sectors. As a theoretical framing, the notion of institutional polycentrism has attracted application in explaining new venture growth (Batjargal et al., 2013). It is recognized that complex enterprise such as new venture formation and growth cannot be fully explained by recourse to the institutions of the firm and the market alone, but that multiple institutions come into play to create the conditions that enable new ventures to seed, form, and grow – and to internationalize (Peng et al., 2005). As such, a key postulate of institutional polycentrism (Batjargal et al., 2013) is that variation and multiplicity define these environments and that the portfolio of institutions – formal and informal – that interact at any one point in time and interplay to influence outcomes will be defined differently for different participants and will not be consistent through time. A polycentric institutional order (Aligica & Tarko, 2012) is realized when all adjustments of each actor to all others have played out and the system stabilizes, however momentarily. When all of the associated direct and indirect effects have been realized, at a particular point in time, a new phenomenon may emerge – such as Finnish firms excelling internationally in the mobile gaming sector.

This paper aims to investigate the reasons for the emergence of the Finnish mobile gaming industry, whose member firms represent extreme examples of

international digital firms. Rather than institutional substitution to accommodate structural holes that result from weak and inefficient institutions, *paper postulates that the consolidation and buttressing of formal and informal institutions through institutional reinforcement has created the conditions for this sector to emerge at this point in time in Finland.*

3. Mobile Gaming Industry

3.1. Global mobile gaming industry

The mobile gaming industry is relatively young. It began to develop after the introduction of smartphones (e.g., the iPhone in 2007) and tablets (e.g., the iPad in 2010). Their market penetration was extremely quick (Meeker, 2014). The popularity of these devices, and those that have followed, has resulted in the rapid growth of mobile gaming in both developed and developing markets. With a new segment of potential customers (“gamers”) being created, a new breed of game development studios has been spawned. In both developed and many developing nations, smartphone and tablet penetration is now far more extensive than computer access (Meeker, 2014). Gaming on these devices has become a mainstream product, whereas “classic” gaming on consoles (e.g., Nintendo, Xbox, PlayStation) and high-end personal computers has higher entry barriers, in terms of cost, time and knowledge. Consequently, for the first time in history there are ubiquitous gaming devices accessible to a mass market.

Another contributory technological advance is the proliferation of cloud-based services and general SaaS (“software as a service”) solutions, and their rapid decrease in cost. These factors have made it much easier to start an IT-based business that is characterized by both lower risk and tremendous scalability that is close to infinite in the short-to-medium term. For example, prior to these recent advances, establishing a mobile gaming company would have required expensive investments in hardware and the hiring of large numbers of employees solely to manage this hardware. Absent this requirement, firms are able to focus their resources on the design and implementation of the games themselves.

In addition to the technological factors, the other key element that has facilitated the growth of the mobile gaming industry is the birth of global, zero friction commercial platforms (i.e., AppStores) such as Facebook, Apple (iOS / AppStore) and Google (Android / Google Play). These have triggered the creation of new distribution and billing ecosystems that are suitable for the full range of providers, from small, entrepreneurial

game developers to the huge, multibillion dollar, incumbent game companies (e.g., EA, UbiSoft, Activision).

As often happens when there is a paradigm shift in technology or market conditions, newer and smaller players tend to have advantages related to speed and flexibility over incumbent organizations; this related to what Autio, Sapienza, & Almeida (2000) referred to as a learning advantage of newness. On this basis, during the past decade several new gaming firms, including Zynga, King, Miniclip, Supercell, and Voodoo, have developed into billion-dollar companies. The new developments allow companies to sell their products and services globally at the press of a button, without having to negotiate terms or clear taxes such as VAT. The fact that they are able to deal, effectively without extra cost, with local regulatory contexts allows these firms to be extraordinarily lean and permits them to focus on their core business – and core competency – of developing games. While these global trends create a fundamental foundation for rapid growth in the online gaming sector, in this paper I argue that there is more to the story. Specifically, *there are critical national-level institutional factors in Finland that have reinforced the impact of these global forces to the great benefit of Finnish mobile gaming firms.*

3.2. Finnish mobile gaming industry

By any measure, Finnish companies are over-represented among the firms that have gained dominance in the global mobile gaming industry. Such names as Supercell, Small Giant Games and Rovio have become well-recognized across the globe, and their business performance represents remarkable success (The Guardian, 2014). There are several reasons why Finland, a country of 5.5 million people in the very north of Europe, has become a hotbed of mobile gaming companies.

This phenomenon has a strong institutional foundation; there has been a relatively long and rich history of target-oriented technology policy instituted by the Finnish government, aimed at fostering a dynamic and rich ICT sector (Åhlgren, 2013). Since the 1980s, the Finnish government has taken an active part in assisting the formation of new ICT companies (Åhlgren, 2013). Prior to this, Finland’s economy was largely reliant on the export of raw materials – primarily wood and wood-related products such as pulp and paper. Change happened with the rise of Nokia as a global leader of “first generation” mobile phones. This development had a now-legendary and widely-recognized impact and, in many ways, encouraged further national institutional support. Nokia also spawned a plethora of companies that acted as service

and technology providers for the large MNE, creating a very specific ecosystem. As Granquist (2004) describes ICT sector has been legitimized around Nokia and this has later contributed to the gradual emergence of the Finnish gaming industry.

Furthermore, after the decline of Nokia in the latter half of the 2000s, and its near-demise and acquisition by Microsoft, a large number of talented and experienced engineers, programmers, and managers left the company; many of these people are now leading game developers (The Next Web, 2011). Nokia also had a more direct impact on the Finnish games industry a decade earlier (Fortune, 2014). Prior to launching its 2003 flagship mobile gaming device, the N-Gage, Nokia directly funded and supported local developers, in order to make sure its device would have games available for its release (Nelskylä, 2012). The N-Gage was, by all accounts, a failure, but it led to some Finnish developers becoming familiar with working on high-end mobile devices to create games.

In 2003, the gaming industry gained further support from the Finnish national government when Finland's national technology agency (TEKES) included the mobile games industry in its Fenix technology program, and Neogames, the Finnish gaming industry association, was established (Åhlgren, 2013). These developments were intended to facilitate the domestic game development process (Granqvist, 2004). In recent years, TEKES has been both active and supportive in helping game developers, offering favorable loans, grants, and overall support. In fact, all of the major Finnish mobile game companies, including Rovio, Supercell, Seriously Entertainment, Next Games, and Small Giant Games, have received support from TEKES at some point in their development.

This background of the ICT sector and gaming industry's development in Finland has, in many ways, shaped the current trends regarding the rapid growth of Finnish mobile gaming companies. Even before the current swathe of mobile game companies had become recognized on a global scale, Finland was home to several well-known and highly regarded "traditional" game studios that produce games for consoles and personal computers, including Remedy, Housemarque, and Bugbear, which have created very popular games such as Alan Wake, Max Payne, and Ridge Racer. Finland one of the leading countries in terms of "game industry employee per capita". This also has had an impact. In Finland, it is very socially acceptable and respectable for talented young people to pursue careers in the games industry, as opposed to expectations that they follow a more traditional career path; this is entirely consistent with the country's traditional focus on, and appreciation of, design. The view of Finland as a gaming superpower is reinforced by the local media, which often

reports positive news and success stories about Finnish games companies. The former chief marketing officer and "Mighty Eagle" of Rovio (of Angry Birds fame), Peter Vesterbacka, is one of the best-known personalities in Finland.

3.3. Socio-cultural elements of Finnish mobile gaming industry: Collective and Collaborative Creativity

Some specific features of the socio-cultural elements of the Finnish gaming industry have played a major role in the development and growth of these companies. The Finnish business mentality in general, and the game industry in particular, is generally collaborative and characterized by an open, community attitude. Unlike in many other industries, where the tools-of-the-trade and proprietary knowledge are closely guarded, the culture in the gaming sector is helpful and the praxis is widely shared. One reason for this is that many of the stalwarts and veterans in the industry have worked together in different contexts and have stayed connected after moving on to new companies or projects (Niipola, 2014). This mentality has become well institutionalized and supported by virtually all of the sector's participants. Niipola (2014) describes this phenomenon as "Team Finland", which has a very strong spirit of community and sharing.

This openness and collaborative spirit represent an essential element for development of successful games represents a creative and innovative process. Thus, Finnish supportive and open environment can be regarded as a culturally embedded advantage that is difficult to create in other markets and sectors. In addition, there is the relatively low egotism of most Finns, which means that the ambition to be a superstar is not as pronounced as in, for example, Silicon Valley and American culture in general. An illustrative and often-cited example of this is Supercell CEO Ilkka Paananen, who calls himself "the least powerful CEO in the world" (International Business Times, 2013), since the teams in his companies have almost a complete autonomy.

There are a few key informal institutional elements that maintain and strengthen this cultural phenomenon. One is the monthly IGDA (International Game Developers Association) events that are organized by the Finnish chapter and Neogames. These events are extremely well attended and are free to all IGDA members. Companies take turns in sponsoring the event, which is characterized by a party atmosphere. There are also active Facebook groups with thousands of members, through which developers share their ideas, knowledge, and early-stage game prototypes, and which

are available for general networking. Two other key events are the bi-yearly Global Game Jam and the Assembly Conference.

The above factors, combined with the Finnish brand of nationalism and country pride, have resulted in the creation of the “Team Finland” spirit within the gaming industry. The gaming sector became an important “cultural export” (Neogames, 2010).

3.4. Role of government support of Finnish mobile gaming industry

The emergence of the ‘Team Finland’ philosophy has been strongly supported by government initiatives (Niipola, 2014). These initiatives were well planned and structured and resulted in the development of various national-level tools and mechanisms for the support of the gaming companies and industry as a whole (Niipola, 2014). There are a number of key organizations that responsible for implementation of the government initiatives. The most visible and important part of this system is ‘Business Finland’ (formally ‘TEKES’), which is an organization that provides financial support to technological innovation and research. Gaming companies have derived great benefit from ‘Business Finland’-based assistance. Moreover, ‘Business Finland’ also encourages the cooperation between companies and universities that supports implementation of innovations in gaming firms and industry as a whole. Internationally, one of the key players is Finpro, which helps Finnish SMEs to internationalize and provides export assistance (Niipola, 2014).

To summarize, the national-level formal and informal institutional elements have been closely integrated, and even synergistic, resulting in their having a reinforcing influence on the growth of the Finnish mobile gaming industry. This has important implications for the business models adopted by Finnish online gaming companies, which has determined the pattern of their development and global expansion.

3.5. Business model of mobile gaming firms

The majority of mobile game developers operate using a relatively new free-to-play (F2P) business model for their games, which has emerged in the past decade (Seufert, 2014). The games are completely free to download and to play on digital devices, and the entire game experience is available for no cost to the user. Developers earn their revenue by selling optional virtual goods or currencies that can be used within the game to enhance the player’s experience, to speed up the in-game progression or, in some instances, to obtain a

direct advantage over other players (Seufert, 2014). This model may seem counterintuitive to the external observer, but these are monetization mechanics that work extremely well, given that the game is of a high quality and people enjoy playing it. However, it is very rare that any game achieves more than a 5% conversion of “player to payer” (Seufert, 2014). Nonetheless, as a result of technological advances, the incremental cost of a player is close to zero. As such, having non-paying users is still beneficial, as this helps keep the game community active, it helps the firm in its AppStore rankings and word-of-mouth spread. The importance – and financial impact – of a small subset of players has led F2P developers to be extremely advanced in terms of analytics, market segmentation, data analysis and predictive analytics.

The design of F2P games sets low financial requirements for starting mobile gaming company with the major costs being the developers’ salaries and paid user acquisition. The Finnish government has a strong vision to support entrepreneurs and provides various funding options such as e.g. TEKES funding or Starter Money schemes. In addition, the recent emergence of local venture capitalists has made resources available to the gaming firms. However, it is important to note that the Finnish mobile gaming firms generally find it important to have strong independence and full control over their creations and are thus rather careful about engaging with external funders such as venture capitalists (Cervantes & Korja, 2014).

The ambition for making good games and an existence of collaborative spirit in the industry inspires gaming firms to innovate and apply new technologies (Lehtonen, 2014). The desire and ability to innovate is an important reason for rocketing popularity of Finnish games and global recognition of their developers. Indeed, it is unique story, graphics, and the design that creates a game’s value and appeal for the customers. The interplay between design-driven and technology-push innovation is at the heart of the success of Finnish gaming companies (Lehtonen, 2014). This business model leads to possibility to develop a competitive and globally appealing product and there are many scalable distribution channels that can be employed for its global distribution. From the technical and administrative perspectives, rapid scaling of the gaming business is relatively easy to manage, largely because it does not face the traditional challenges associated with growth in non-digital sector such as extensive hiring of personnel, fixed costs, physical expansion, office relocation, and opening overseas offices. The production and transaction costs per new organic user (player) are virtually zero. The main cost is frontloaded during the one to three years of game development and, once the success is a -hand, the costs can be scaled in a controlled

way, related to revenues, to ensure high profitability. For example, in 2013, Supercell had about 7 million USD revenue per employee. This is exceptionally high given that even companies such as Facebook and Google operate at about 1 million USD per employee (Tunguz, 2014).

4. Theoretical and Empirical Implications

The discussion above describes how multiple industry-specific and socio-cultural institutional elements have been reinforced by the formal institutional mechanisms that resulted in the successful development of gaming sector national ecosystem. This ecosystem has provided a foundation for development of strong competitive advantages that enabled mobile gaming firms to achieve global leadership. With an emphasis on creativity and cooperation, these firms create an offering that has an appeal to a large segment of global customers with relatively low cost of production and governance, producing large revenue streams. Although “collective creativity” approach was applied by a few successful global companies such as Pixar (Catmull, 2008), we argue that Finnish games sector represents an excellent illustration of this approach, but *on a national scale*. Thus, this paper contributes to existing literature in IB field by showing example of institutional polycentrism where positive reinforcement has been achieved (Batjargal et al., 2013; Iansite & Levien, 2004). The paper extends existing knowledge in international entrepreneurship by showing how industry- and socio-cultural elements that are being well integrated within the national eco-system result in enhanced global competitiveness of digital entrepreneurial firms (Knight & Cavusgil, 2004; McDougall & Oviatt, 2000; Monaghan et al., 2020). In this eco-system, each of the members contributes to its joint success, and the overall development is skillfully supported – and even orchestrated by – the national government and formal institutional forces. This has a significant positive impact on the mobile gaming firms’ operation model that has managed to generate remarkable global success and recognition, in spite of what appear to be some definite home-country disadvantages, including a high cost of living and a remote location that does not have a strong history of attracting skilled immigrants.

While government-level support triggering industry’s development is not a new phenomenon, several aspects make the case of Finnish mobile gaming sector particularly interesting and theoretically insightful. The first has to do with what appears to be the near-perfect alignment of the different levels of the institutional environment. Whether this is the outcome

of a master plan or serendipity, the outcome has been a supportive ecosystem that has facilitated the remarkable success of many of the Finnish mobile game producers. The second pertains to the fact that this case represents success in the context of a rather new delivery system for services that is effectively borderless and requires no local customization. Finnish mobile gaming sector has benefited fully from the disruptive technological change of introduction of smart devices and, as technology continues to develop, it is reasonable to assume that this sort of delivery system will be applicable to a wider range of services. Finally, the fact that the firms in question represent examples of only recently discussed in the literature born digitals (Monaghan et al., 2020) makes this context very topical and allows us to contribute to the literature along the lines of Monaghan et al. (2020) and Hennart’s (2014) call for more investigation into the development of a robust theory of digital firms, by considering the effects of the institutional environment and ecosystem in which they operate.

This study has important implications for policy makers. Finnish mobile game industry provides a clear example of how a national government can facilitate the development of an ecosystem that allows digital entrepreneurial firms to thrive in the global market. Many of these firms are small local firms, who have developed world-wide reach in a remarkably short timeframe. This has meant huge success for these firms, and benefits for their home country, helping to fill a void created by the rapid decline of Finland’s largest company, Nokia, by creation of new leading export sector.

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