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Economics

# **Why Finnish start-ups fail internationalization: an investor perspective**

International Business

Master's thesis

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In small, open economies like Finland, early internationalization is often not a choice for start-ups, but a necessity due to limited domestic market potential. However, despite Finland's strong ability to innovate and an ecosystem that supports entrepreneurship, many Finnish start-ups face substantial challenges in international expansion. This master's thesis explores the reasons behind these failures from the perspective of investor, a perspective that remains underrepresented in existing academic literature.

The study uses a qualitative research approach data was collected through structured questionnaires with ten investors who have direct experience in funding Finnish start-ups that are expanding to foreign markets. The findings reveal that Finnish start-ups are frequently underprepared for internationalization, with shortcomings in market knowledge, resource allocation and strategic planning. In addition, the dynamics between investor and start-up, such as distorted expectations and underutilisation of investor support often creates challenges to successful international expansion.

The study contributes to the literature on international entrepreneurship by highlighting investors' roles not only as financial providers but also as strategic enablers in the internationalization process. Practical recommendations are offered for both start-ups and investors, emphasizing the importance of early collaboration planning, closer cooperation and realistic planning. These insights are particularly valuable for decision makers seeking to improve the success rate of Finnish start-ups in international markets.

**Key words:** Start-up internationalization, Finnish start-ups, investors, failure factors, international growth, strategic alignment.

Pro gradu -tutkielma

**Oppiaine:** Kansainvälinen liiketoiminta

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Pienissä ja avoimissa talouksissa, kuten Suomessa, kansainvälistyminen ei ole start-up yrityksille usein valinnainen mahdollisuus, vaan useimmiten elinehto rajallisten kotimarkkinoiden takia. Vaikka Suomessa on vahva innovaatio-osaaminen ja yrittäjyyttä tukeva ympäristö, moni suomalainen start-up yritys kohtaa huomattavia haasteita laajentuessaan ulkomaille. Tämä pro gradu -tutkielma tarkastelee kansainvälistymisen epäonnistumisen syitä sijoittajan näkökulmasta. Tämä on näkökulma, jota on käsitelty aiemmassa tutkimuksessa varsin vähän.

Tutkimus toteutettiin laadullisena tutkimuksena, johon aineisto kerättiin strukturoiduilla haastatteluilla kymmeneltä sijoittajalta, joilla on kokemusta suomalaisten start-up yritysten rahoittamisesta kansainvälisen kasvun vaiheessa. Tulokset osoittavat, että pääsääntöisesti start-upit ovat puutteellisesti valmistautuneita kansainvälistymiseen, erityisesti markkinatuntemuksen, resurssien allokoinnin ja strategisen suunnittelun osalta. Lisäksi sijoittajan ja start-upin väliset jännitteet, kuten odotusten ristiriidat ja sijoittajien tarjoaman tuen kokonaisvaltainen hyödyntäminen, voivat estää onnistuneen kansainvälisen kasvun.

Tutkielma tuo uutta näkökulmaa kansainvälisen yrittäjyyden tutkimukseen korostamalla sijoittajien roolia paitsi rahoittajana myös strategisina kumppaneina kansainvälistymisprosessissa. Käytännön suosituksia esitetään start-ypeille kuin myös sijoittajille, erityisesti korostaen alkuvaiheen strategista yhteisymmärrystä, tiiviimpää yhteistyötä ja realistista suunnittelua. Nämä havainnot ovat erityisen arvokkaita niille toimijoille, jotka pyrkivät parantamaan suomalaisten start-up yritysten menestystä, sekä onnistumista kansainvälisillä markkinoilla

**Avainsanat:** Start-up, kansainvälistyminen, suomalaiset start-upit, sijoittajat, epäonnistumisen syyt, strateginen yhteistyö

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# 1 Introduction

Start-ups have been experiencing a change in their operations because of globalization, which has facilitated smoother international operations for start-ups early on (Schepis 2020). The business sector operates much faster what contributes to reaching targets faster and setting bigger goals than ever before. It is more expected than unusual for companies at any size to look outside the domestic market and grow across national borders. The change in the business environment has made it easier for small businesses, like start-ups, to internationalize and achieve the growth new markets offer. (Cote 2021.) In small open economies such as Finland this trend is not only visible but essential. Due to the small and limiting domestic market, Finnish start-ups are often forced to consider foreign markets at an early stage of their lifecycle. (Kuivalainen et al. 2007) Even though Finland has significant amount of innovation capacity and access to skilled labour, Finnish start-ups struggle to succeed among international competition (Gabrielsson & Gabrielsson 2013).

To survive and thrive in this rapidly growing environment, companies need to search for new markets and opportunities constantly. Mistakes are unavoidable, but the circumstances encourage even the smallest companies to take remarkable risks in search for success. Even the smallest companies, also known as start-ups, are looking for opportunities outside their own familiar markets. This causes a lot of failures for companies in their early stages that often has significant effects to their future (Cavusgil & Knight 2015.)

Start-ups internationalization from small economies like Finland, is more and more vital in the globalized business environment. Globalization has encouraged start-ups to search for growth abroad rather than domestic. Going abroad offers substantial growth opportunities for Finnish start-ups, but it comes with a risk (Koskinen 2022). It is common for Finnish start-ups to face difficulties that can hamper or prevent successful expansion abroad. In this research I examine why such ventures struggle, bringing out the investor's point of view.

The small size of Finland's market forces start-ups to seek other markets for growth and opportunities, that the local market does not offer. Though, many fail in this process, even when their potential and position for growth seem fine. Internationalization offers an avenue for scaling, but it also brings challenges like liability of foreignness, regulatory complexity and cultural barriers. (Zaheer 1995; Johanson & Vahlne 2009; Coviello & Munro 1997.)

Finland's domestic market is relatively small compared to the neighbouring markets. Because of this small domestic market, internationalization is vital for start-ups to increase market share and

improve competitiveness or even in some cases to become profitable. With internationalization companies can reach larger customer bases and diversify risks. Yet many Finnish start-ups fail at this stage when entering foreign markets. Internationalization's importance is well-noticed and there is a great amount of research done regarding internationalization especially from operational or business perspective, meanwhile the investors perspective has gathered much less interest (Kuivalainen et al. 2012). Moreover, the investors perspective on challenges that Finnish start-ups face has limited prior research. Investors as key stakeholders have an important role in providing essential financial and strategic support for international growth. Understanding the reasons why investors tend to believe that these efforts fail is vital for improving success rates (Prohorovs 2020).

This research is relevant because it investigates the challenges Finnish start-ups face in internationalization, that can help investors and entrepreneurs avoid common mistakes. Also, understanding the investor's perspective of failure can guide more informed investment strategies and possibly contribute to more successful international projects. This research also aims to contribute to academic literature, by tackling the research gap regarding the investor's role in start-up internationalization. This thesis aims to address this research gap by analysing investors insights to better understand failure in Finnish start-up internationalization. By exploring difficulties and challenges from the investor's perspective, this study contributes to both academic literature and practical understanding.

The goal of this study is to understand Finnish start-ups' internationalization, having key focus on why Finnish start-ups often encounter challenges and failures during these operations. This research seeks to uncover investors' perspectives regarding failures and identify similarities or patterns among the reasons behind such challenges. The study also aims to dig deeper into the investors' role in Finnish start-up internationalization and examine how their insights and experience can be used to improve start-ups' success rate. This research aims to answer these objectives through four research questions. The first and primary research question is:

- How do investors perceive the challenges faced by Finnish start-ups in their internationalization efforts?

The sub research questions are:

- What challenges do investors see as critical to the failure of Finnish start-ups internationalization and expansion?

- How can investors insights be used to improve the internationalization strategies of Finnish start-ups?

Creating the base for understanding subjective interpretations of the challenges start-ups' encounter, providing understanding of common features of failed internationalization efforts. When answering this question, the study aims to reveal the nature of these challenges and shed light to the collaboration between investors and start-ups during different phases of internationalization. The research also aims to enlighten the wider picture of the common difficulties start-ups face. The research also aims to enlighten the investors and start-ups collaboration and view the failures from the investor perspective.

The second research question is: "What challenges do investors see as critical to the failure of Finnish start-ups internationalization and expansion". This research question handles investors' perspective on the factors that make internationalization especially challenging for start-ups. In this question the similarities in difficulties between start-ups will be handled. Helping understands the recurring themes in challenges start-ups face in internationalization. The research also handles how investors assess the readiness of a start-up to internationalize and common mistakes they look for in the strategies. Last research question is: "How can investors insights be used to improve the internationalization strategies of Finnish start-ups". By answering this the study aims to gather insights to functional internationalization strategies form investors' experiences. By analysing these perspectives, the research aims to find practical ideas for start-ups to enhance their internationalization efforts and better understand the investors' desires. This part will also handle how investors observe their effect on the internationalization process. This part also examines how investors view their tolerance for risk and how it affects their decision making.

The goal of the study is to deeper the understanding of challenges Finnish start-ups encounter when expanding outside domestic market from the investors point of view. By focusing on the reasons behind failure and factors that contribute to challenges, the study tries to uncover valuable insights into the collaboration between start-ups and their investors. By researching the investors' perspectives this study aims to recognize critical challenges, repetitive patterns and examine investors' impact and influence on the internationalization process.

Figure 1 illustrates how the study on Finnish start-up internationalization from the investor's perspective is structured and operationalized. It outlines the breakdown of the research objective into sub-question, the corresponding theoretical frameworks, themes guiding data collection and analysis and final contributions obtained from these analyses.

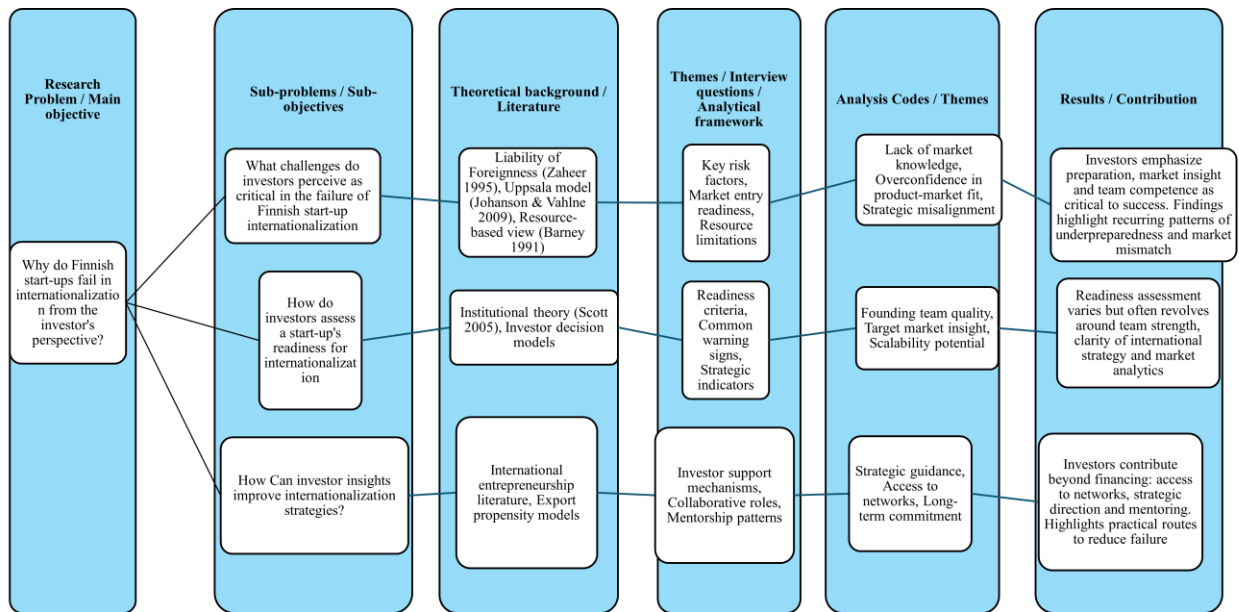


Figure 1 Operationalization framework of the research

## 2 Finnish start-up internationalization

### 2.1 Defining what start-ups are

Start-up is a term that almost everyone is familiar with, but in reality, it is difficult to define what is considered as start-up and what are start-ups characteristic features. People do not have clear definition of what it means or have beliefs that are inconsistent or other ways conflicting with themselves (Cockayne 2019). This ambiguity is due to the changing nature of the business worlds and the different contexts where the term is used. The term “start-up” was first used to describe a specific type of firm or a way of operating in the 1980s. Initially, the term was mainly associated with firms operating in technology sector and more specifically ones located in Silicon Valley. Those firms embodied exponential innovation and business models that represent high risk, high reward. (Blank 2013.) However, start-up as a term has since evolved to include firms across various sectors and industries (Cockayne 2019).

In today’s world every year around 100 million start-ups are founded annually, and they impact heavily the economies they operate in (Ehsan 2021). While the term was originally incorporated with small technology firms, it is now broadly associated with firms in diverse business sectors and areas. This expansion reflects the increasing importance of innovation and entrepreneurial behaviour across different sectors, driven by technological advancements and globalization. (Ries 2011.) The term “Start-up” goes far beyond just the technology sector and more often it is associated with firms in any area of business. Nowadays classification between what a start-up is and what it is not, comes down to several key factors. Considering the size of firm, duration of activity, level of informality, growth potential, absence of finished product and financing methods. These characteristics are usually considered together, forming a compound definition of a start-up. (Cockayne 2019.) Moreover, start-ups are often distinguished by their capability to adapt rapidly to market changes, a feature that is vital for survival in highly competitive markets (Spigel 2017).

The European start-up monitor gives three characteristics that in their opinion defines a start-up. They believe that start-ups should be less than 10 years old, utilize highly innovative technologies or business models and aim for exponential growth in either sales or workforce (ESM 2015). This definition aligns with the broader academic consensus that start-ups are naturally growth oriented and innovation driven firms (Aldrich & Ruef 2006).

In the context of this study, a start-up is defined as a company that is less than 10 years old, utilizes novel technologies or business models and it is growth oriented (ESM 2015; Cockayne 2019;

Aldrich & Ruef 2006; Robehmed 2013). On a high level, start-ups operate like all the other companies. Employees work together to create a product that will be sold to customers. What distinguishes a start-up from others is the way start-up does it. Start-ups pursue new ways of doing or new things to offer. Start-ups rarely copy something that is done prior and mainly aim to create rather than copy (Baldrige 2024). This innovative approach often consists of remarkable levels of experimentation, where failure is a significant part of the learning process (Blank 2013). The criterion for a start-up helps distinguish start-ups from traditional small and medium sized enterprises, which may not prioritize rapid growth or innovation to the same extent. Small and medium sized firms often focus on stable, localized operations, while start-ups are typically characterized by their ambition to disrupt existing markets and expand quickly, often beyond home markets. (Robehmed 2013.) This global orientation, also known as “born global” phenomenon, is relevant in the Finnish start-up context, because limited domestic market size requires early internationalization (Knight & Cavusgil 2004).

Firm size and duration of existence is most often considered as the key determinants of what is considered to be a start-up. The size of a firm can be considered from many perspectives, such as the number of people that are the employees of the firm, or it could be related to the revenue of the firm. There are not any specific terms what is considered a start-up, but universally start-ups are considered to be small and often young firms. (Cockayne 2019.) For example, firms that have less than 50 employees and annual revenues below 10 million euros are often categorized as start-ups under EU definitions for small enterprises (European Commission 2020). Firms can fall in the start-up category for absence of a viable product or lack of customer base. Therefore, start-ups are often considered as firm that is still developing client and customer base or does not have a service or product to sell (Cockayne 2019). A defining characteristic of start-up is their focus on speed and growth.

It distinguishes them from other companies, because they build on ideas quickly. They often improve the products or services through feedback and usage data, meaning they put their product or service to the market before it is finished. This is called iteration, it speeds up the process and offers the possibility to rapidly expand customer bases. Through this growth they gather larger market shares, which contributes to raising more money. This is all done for the greater goal known as exit, where the early investors have the opportunity to cash out and get their rewards (Baldrige 2024). There are common reasons what makes a start-up stop being a start-up, it can be because of an acquisition by bigger company, revenue exceeding 20 million, growing number of offices, number of employees exceeding 80 or the founders have personally sold shares. Therefore, it can be

said that start-ups are most often start-ups for a relatively short time, but during this time their key ability is to grow. For a start-up the key factor is the ability to grow, and it is the focus of its operations. That is also how it differs from regular small businesses, start-ups are often not bound to a specific location but aim for growth unconstrained to a location (Robehmed 2013). Start-ups are typically considered to exist for a relatively short period, during which their primary focus is on achieving rapid growth. This growth focused approach is a key difference to traditional small businesses, that often prioritize safe, localized and long-lasting operations. Unlike traditional firms' start-ups are not tied to specific location but pursue opportunities for international expansion from early stages. (Knight & Cavusgil 2004.) Scalability and adaptability make these firms uniquely positioned to succeed in highly competitive markets.

Funding has also a role in defining a start-up and especially the type of funding that start-ups pursue (Cockayne 2019). Start-ups are commonly seen as firms that look for equity capital that will help them grow exponentially and finally achieve an exit (Bussgang 2010). Start-up funding generally consists of multiple rounds. These rounds are often tight to the growth of a start-up, because in different rounds the investors are different and look for different things. In the first round the money invested is often gathered from the founders themselves, their families and friends. If the start-ups have not failed at this point the next investment round is often gathered from angel investors, they are individuals with high net worth that invest in early-stage companies. If a firm keeps growing and shows potential the next rounds are often funded by venture capital firms, which invest much bigger amounts to the companies, often there are multiple rounds where firm will gather investments from venture capital firms. The last step for a start-up would be becoming a public company, at this point anyone can invest in the company (Baldrige 2024). Exit for a firm can mean many things, it can be for example an acquisition or initial public offering. The idea behind exit is to gather enough capital and grow the value of the firm (Cockayne 2019). The way start-ups are often financed ties it closely to the circumstances of failure, and multiple sources suggest that around 70% to 90% of start-up firms fail (CBInsights 2018). This is mainly because Venture funds work with high-risk firms in short-term. Therefore, only a small part of the firms they are invested with will reach significant growth and good returns. This type of funding and business environment is often connected to start-ups. When the firm starts to generate revenue and its level of growth can be considered healthy, it is not often anymore considered a start-up and rather a normal firm. This does not mean that all start-ups need or have this type of funding, but it is popularly connected with start-ups (Cockayne 2019). There can be drawn similarities considering funding inside Europe. The primary source for funding typically comes from the entrepreneur's personal savings. Start-ups are

often considered to be significant financial commitments by the founders. Behind savings are the gathered investments from friends and family, what often plays a crucial role in providing initial capital. Thirdly start-ups rely on government funding and business angels, these offer assistance, guidance, capital and expertise to the start-ups. Together these funding sources form the foundation of capital for European start-ups (ESM 2015).

Finland has set a remarkable goal to become one of the world's best start-up and growth company ecosystems. Start-ups are very beneficial to the markets and to the business environment they operate. Start-ups boost the creation of innovations in the market and offer better probabilities to find more sustainable solutions and increase economic growth. International growth is key for start-up firms especially in Finland, because of the small domestic market that limits the opportunities for significant expansion inside national borders. (Ilmari 2024.) Finland offers high level of education in technology, making it a natural place for start-up activity. The culture of innovation, great education and strong working ethic among employees provides a distinct competitive advantage for Finnish firms (Salonen 2007). Moreover, Finland has been considered one of the worlds competitive and business friendly economies globally, that has supporting systems for entrepreneurs and many innovative enterprises. Finland is considered as one of worlds innovative-driven economies in terms of its business climate and overall economic performance (Stenholm et al. 2013.)

The importance of new and growth-oriented start-ups for the renewal of business life in Finland is central. Start-ups have a remarkable role in creating employment opportunities and challenging older companies to renew and modernize their operations. The role of start-ups in promoting the competitiveness and innovativeness of the national economy is important and Finland is aiming to harness the potential start-ups offer. In Finland around 4 000 start-ups are founded annually, through only a small part of those generate real growth. Most of the Finland's growing start-ups operate either in knowledge-intensive service sector or construction sector. Especially knowledge-intensive sector offers great opportunities for internationalization and expansion to other markets. Also, among the Finnish start-ups the search for growth has increased considerably over the past years and they are eager to take bigger risks than before. (Kotiranta et al. 2016.)

The concentration of start-ups in Finland has also shifted towards more innovative ventures, which has become one of the key points in their operations. This has caused Finnish start-ups to search for growth more often than before from international markets (Lahtinen et al. 2016). When considering worldwide, Europe is behind the global pace concerning the creation of new businesses. When

comparing the proportion of early-stage entrepreneurs to the number of working people, Asia and North America emerge as the clear leaders. To keep up with these economies it is crucial for Europe to foster innovative start-ups that are destined for growth and capable of competing in the global stage. (ESM 2015.) Furthermore, Finland's start-up environment has benefited from government support, including different funding programs, easier taxing and assistance on expansion. Initiatives like Business Finland and Slush, what is one of the world's largest start-up events, have had a remarkable role in positioning Finland as substantial start-up centre in Europe. (Business Finland 2024; Slush 2024.)

Start-ups affect the environment they operate in and their contributions to a thriving market can be remarkable. They have a direct impact on employment growth and new production. Start-ups contribute significantly to immigration, attracting talent from other areas, enhancing the domestic market with skilful professionals. Start-ups boost the innovation and growth in the market they operate in and especially in smaller markets their contribution to regional productivity can be significant (Wennekers & Thurik 1999; Carree & Thurik 2003; Fritsch & Mueller 2004). Start-ups also affect the companies already existing in the market. They cause incumbent companies to operate more efficiently, increase the competition in the market and boost the innovation. This dynamic fosters an environment where technological advancements and continuous improvements are necessary for success. Therefore, it is also favourable for governments and markets to foster good conditions for growth and creation of start-ups since it is closely tied to economic growth (Fritsch & Mueller 2004). It is important to have a common understanding of what a start-up is, so that governments and other influencers can in mutual understanding create a favourable environment for start-up firms (Ehsan Z. 2021). Coherent definitions and common goals improve the governments capability to implement initiatives necessary for start-ups success (Heinonen et al. 2009).

The business environment for all markets is getting more and more international, and European start-ups are increasingly formulating internationalization plans. Start-ups that have already been internationalized are also all the time looking for new opportunities to enter new markets and grow their business. This trend reflects the growing importance of collaboration over national borders. (ESM 2015.) Furthermore, as start-up's role in shaping economies grows, their influence broadens to social and cultural impacts. Start-ups have a remarkable role pushing innovation, contributing to sustainable development and creating new types of work environments. In this sense, favouring a stable start-up environment is not only an economic necessity but also a social one. Ensuring

benefits from innovation and growth are widely distributed in different groups of society. (Carree & Thurik 2010.)

## **2.2 Finnish start-up internationalization**

Internationalization refers to the process through which firms progressively increase their sales and investments in international markets (Welch & Luostarinen 1988). This definition can be expanded to include operational adaptation to foreign markets. This means bringing in strategy, structure and resources in the international market (Calof & Beamish 1995). There is a great connection between internationalization and globalization, but they represent distinct concepts. While internationalization focuses on firm's deliberate efforts to expand its operations and presence in foreign markets, globalization refers to a broader process of increasing interconnection and interdependence among different areas. It is driven by people, services, flow of goods, technology and information. Globalizations shape the environment where internationalization takes place (Knight 2003). Internationalization describes different pathways and strategic choices firms make when entering foreign markets. There are multiple ways to enhance commitment in new markets and all of them bring their own degree of risk, control and needed resources. Firms may enhance their commitment by engaging in exporting, joint ventures, licensing or wholly owned subsidiaries. Each of them offering different levels of potential returns and exposure. (Anderson & Gatignon 1986.) Firms adopt multiple approaches to decision making and risk management during internationalization, influenced by their readiness to take risks and seize opportunities. The outcome is that they adapt to evolving conditions and other differences that distinguish foreign market from their domestic one. (Johanson & Vahlne 1977.)

For Finnish start-ups internationalization tends to be a necessity, because of small domestic market that limits growth potential. Therefore, early expansion to foreign markets is crucial for Finnish start-ups to achieve scale and competitiveness. (Kuivalainen et al. 2007.) This phenomenon is often incorporated with the concept of born global, firms that expand rapidly leveraging their innovative products and existing networks to compete in international setting (Knight & Cavusgil 2004). Internationalization practices are therefore the frameworks that each firm develops based on their level of commitment, acquired knowledge, experience and willingness to face risks and opportunities that they will encounter on international markets (Johanson & Wiedersheim-Paul 1975; Schulz et al. 2009). The Uppsala model, for instance, considers that firms internationalization process is gradual. It starts with foreign markets that are culturally similar or geographically close, from there it gradually expands when knowledge and experience is gathered. (Johanson & Vahlne

2009.) However, Finnish start-ups especially in high technology sector often diverge from Uppsala model, choosing accelerated expansion strategies, because of technological advancements and need to access bigger markets rapidly (Oviatt & McDougall 1994). Moreover, the resource-based view from (Barney 1991) offers a valuable way to understand how Finnish start-ups leverage their unique resources and capabilities. Finnish start-ups unique resources and capabilities, like expertise in technology, skilled individuals and innovative products. Despite these, Finnish start-ups face difficulties related to regulatory barriers and cultural differences which tend to effect success in international markets. (Zaheer 1995.)

### 2.2.1 What type of start-ups internationalize?

Start-up internationalization is affected by many factors, these factors include the industry they operate in, what is their resource base and their strategic objectives. Finnish start-ups face the difficulty of small domestic market, this creates the necessity of expansion to foreign markets to find growth opportunities. Therefore, Finnish start-ups often consider internationalization on the early days of their lifecycle. (Gabrielsson et al. 2008.)

One of the most popularly studied internationalization category of start-ups is born global, which are firms that expand to foreign markets in the early stages, often in the first years of their existence. For that reason, they do not tend to follow the gradual expansion model. (Oviatt & McDougall 1994; Knight & Cavusgil 2004). Finnish start-ups often possess born global abilities, especially firms that operate in high-tech and knowledge intensive industries (Gabrielsson & Pelkonen 2008). Finland has a strong foundation in engineering and technology innovation that has affected the birth of many start-ups in industries like information technology and software development. Many of these firms are forced to expand outside Finland rapidly because their products are offered to a niche market that has a limited demand in domestic market. Multiple studies highlight how Finnish start-ups need to enter international markets in a fast pace to get competitive advantage. (Luostarinen & Gabrielsson 2006.)

Finnish start-ups that expand internationally are often from specific high growth industries. From information technology and software industry there has been multiple start-ups from Finland that have achieved success with internationalization. Many successful Finnish start-ups have been able to scale in foreign markets with low physical presence in those markets. Because of Finland's well-developed digital knowledge and governments support for innovation, start-ups in this sector often enter new markets through partnerships, digital distribution and foreign investments. (Gabrielsson & Gabrielsson 2013; Autio et al. 2000; Luostarinen & Gabrielsson 2006.) Start-ups that operate in

the digital industries, especially gaming, have advantages in internationalization. When distribution can be done digitally it reduces barriers and costs that are normally faced when entering foreign markets. (Marchand & Hennig-Thurau 2013.) Unlike, in the traditional internationalization digital start-ups are not constrained as much to physical locations and can scale rapidly without certain localization requirements (Knight & Cavusgil 2004). Finnish gaming industry has demonstrated its capabilities for digital internationalization. Finnish firms have been expanding early and efficiently through digital distribution. The small domestic market forces digital start-ups to execute rapid internationalization operations, because the local demand is not sufficient for sustainable growth. The mobile and online characteristics of the gaming sector allow firms to reach a wide audience without the need for physical presence. (Neogames 2022.)

Start-ups that are involved in digital health and medical technology often expand to new markets in the early stages of their life, because of the high level of regulation and economic structure affecting their market. Firms operating in medical or health related sectors often require access to larger markets to foster innovations. The health sector is capital intensive what encourages start-ups to expand to secure international investments. (Gabrielsson & Gabrielsson 2013; Laurell 2018.) Start-ups that operate in sectors like cleantech and sustainability face environmental concerns and global regulation that influence internationalization opportunities. Firms that focus on renewable energy and battery technology often reach international markets

because their innovations are applicable in other markets as well and there is often a demand for sustainable solutions. (EIB 2024.) Deep technology start-ups focusing on artificial intelligence and machine learning often expand into new markets because research collaboration is often done in global environment. Another remarkable reason for deep technology start-up internationalization is to secure funding from international investors. (Feicheng et al. 2022.) This type of firm often requires partnerships with multinational corporations or research institutions, creating international engagement an integral part of growth strategies (Gabrielsson et al. 2008).

The industry that start-up operates on has a significant effect on determining what start-ups expand to new markets, but several other factors contribute to the readiness for internationalization (Gabrielsson et al. 2008). Start-ups that attract foreign and institutional investors are more likely to expand, because of investors' expectations of scalability (Hitt et al. 2000). In addition to industry specific drivers, entrepreneurs and investors impact shape the expansion actions of start-ups. (Johanson & Vahlne 2009). Reaching international partners and venture capital speeds up the internationalization, when firms integrated into global networks offer market knowledge and

credibility (Hitt et al. 2000; Coviello 2006). Finland's start-up ecosystem has grown into a globally substantial innovation centre, driven by the need for expansion due to small size of internal market. Start-ups and especially ones that operate in technology related industries are increasingly pursuing internationalization. Finland's skilful workforce mixed with government support and investment encouraging environment are contributing to the rapid growth of Finnish start-ups expansion. (Pickering 2024.)

### 2.2.2 Why start-ups internationalize?

Evaluating the competition solely within the domestic market is no longer sufficient for start-ups. The competitive environment has evolved to a combination of local players and international rivals, which creates a dynamic of cross-border competition. (Cui & Liu, 2001.) Today's business world is more globally connected through networks than ever before. For many start-ups early days internationalization has become a necessity, especially for firms that operate in technology-driven or other ways niche sectors that need to access bigger markets to maintain growth (Knight & Cavusgil, 2004; Gabrielsson & Gabrielsson, 2013.) The internet has also its part in creating an environment where it is impossible to fully avoid international competition. This makes small firms like start-ups vulnerable to competition guiding them deeper into the globalized world. In today's global business environment, a competitive advantage can be attained through persistent innovation management, a crucial aspect inherent in start-ups (Dereli 2015; Schumpeter 2021). Operating in the international markets improves firm's ability to handle competitive pressure, cultivate innovation and make use of knowledge spillovers from partners, competitors and other players in the market (Autio et al. 2000). Exposure to international markets enables start-ups to understand and be aware of upcoming trends and firms that operate in international markets often get their hands-on cutting-edge technology earlier than it would be available in domestic market. This makes it vital for Finnish start-ups to reach international markets, because of the relatively small domestic market and the need to scale globally to remain competitive. (Kuivalainen et al. 2012.)

The key thing that internationalization offers for any size of company is growth and expansion opportunities (Gonzalez-Rozada & Yeyati 2008). Long-term survival for start-ups builds around growth and increasing global competition has made internationalization necessity for most of the start-ups. Passivity in expansion operations gives competitors an edge to expand to new markets. This creates a vulnerability for competitors to enter the domestic market, resulting in a decrease in market share. Therefore, being passive and not involved in international markets activities is seen more dangerous than internationalization (Roberts et al. 2015). As the economy has shifted more

towards digital, start-ups have started to offer products and services that are easily scaled internationally, making expanding to new markets a strategic must rather than a long-term goal (Oviatt & McDougall, 1994).

Even though, competition is the key reason behind internationalization, more and more start-ups internationalize because of the influence from their networks (Johanson & Mattsson, 1988). The role of different type of strategic alliances, foreign investors and participating in programs meant for start-ups acceleration are recognized to facilitate rapid expansions in domestic markets, with the benefit of lowering costs and reducing uncertainty. Using networks as the way of internationalization is particularly useful for firms that do not have the sufficient resources to carry out extensive market research or are not able to invest remarkably in foreign market entry. (Coviello & Munro 1997.) For Finnish technology start-ups it is relatively common to enter new markets by establishing partnerships with international companies, investors or industry specific actors that offer guidance and funding (Lahtinen et al. 2016).

Johanson and Vahlne (2009) expand the traditional Uppsala model of gradual internationalization by highlighting that firms do not struggle in international markets because they are foreign, but because they are not part of the correct business networks. Start-ups that utilize global networks tend to form strong positions in business ecosystems already from early stages, this grants them creditability and access to important market knowledge. The forming of global start-up ecosystems has accelerated the pace of internationalization for new firms by creating direct access to experienced investors and possible business partners. (Nummela et al. 2004.)

Another crucial reason for start-up internationalization is to avoid the liability of foreignness and ensure the benefits of being first in emerging markets or markets with high growth (Zaheer 1995; Lieberman & Montgomery 1998). Delay in internationalization can compromise start-ups to new barriers, like high adaptations costs when entering a new market because competitors are already highly established in the market (Eiche et al. 2011). There are lot of benefits for entering a foreign market early, mainly because it allows relationship and recognition building with all important groups before competition intensifies. Accessing new markets early is more valuable and necessary in specific industries. For industries like high technology and digital services, early market penetrations have a remarkable effect on long term success. (Gabrielsson & Gabrielsson 2013.) In past years Finnish gaming start-ups have expanded rapidly to international markets and have established their place among global competitors and using their international user base to scale effectively (Neogames 2022).

The reason for start-up internationalization is not always profit maximization. Instead, many firms expand to new markets to secure long-term survival, recognizing that staying within the domestic market leaves them vulnerable for competitive disadvantages (Roberts et al. 2015). Finland's limited customer base and intense competition forces start-ups to foreign markets in early days (Luostarinen & Gabrielsson 2006). Additionally, entering foreign markets makes it possible for start-ups to diversify revenue streams and decrease dependence on single market. Remarkably lowering the risks associated with economic hardships or harmful regulatory changes in the home market. (Coviello 2006.) In addition to revenue growth, expanding to new markets functions as a way to secure funding, especially for start-ups that need to demonstrate scalability to attract investors (Cumming et al. 2014). Investors often value start-ups that have prior evidence of growth potential in international markets, because it provides more predictability on the outcomes (Gabrielsson et al. 2008). As an outcome, start-ups that have conducted successful operations in external markets tend to attract higher rounds of funding in comparison to those that remain focused in domestic market (Cumming et al. 2014).

Internationalization works as an important learning opportunity for start-ups, it helps them gather knowledge on the market and how to adapt in different business environments. Also, expanding to new markets allows start-ups to develop new capabilities and refine their business models. (Schulz et al. 2009.) Start-ups often make many changes based on the insights they gather from new markets. Gathered knowledge can lead to several changes in all areas of start-ups business. These opportunities to learn by internationalization contribute to the start-ups long term advantage (Welch & Luostarinen 1988). Reason behind start-up internationalization is a combination of multiple drivers, like competitive pressure, market positioning, financial inducements and concerns on long term survival. While internationalization includes risks, the benefits of expanding beyond local markets often outweigh the possible risks. Finnish start-ups specifically face pressure to internationalize in the early days, because of much larger markets abroad, compared to the small domestic one (Kuivalainen et al. 2012).

### 2.2.3 How start-ups internationalize

Finnish start-ups internationalization strategies often follow two approaches, one is the traditional gradual internationalization, and the other one is accelerated internationalization, what is also in some contexts called born global (Gabrielsson & Gabrielsson 2011; Knight & Cavusgil 2004; Oviatt & McDougall 1994). The traditional approach to internationalization is a popular theory in international business literature. It has served as the basis for numerous studies examining how

companies expand to foreign markets beyond their domestic market. This approach is often associated with the stage model of internationalization, also known as Uppsala model (Forsgren 2016). The Uppsala model focuses on increasing knowledge of the market and how it is used in internationalization operations. Firm's gather knowledge and increase their market presence or resources committed to external markets. When experience is low on foreign market, meaning the level of knowledge on the new market is low, risks appear greater than opportunities. As experience on the market grows it decreases the uncertainty on the market, resulting in higher commitment. The Uppsala model describes the internationalization process as growing meaning the start-up gradually grows commitment to foreign markets as their knowledge and experience grows. The Uppsala model highlights that further investments and resource commitments should be made gradually and incrementally (Johanson & Vahlne 1977). The Uppsala model has been updated since and it is known as the business model on the internationalization process, it introduces the concept of the liability of outsider ship. This suggests that uncertainty primarily grows from the position as outsider in a business network. In essence, firm is always operating within a network, and internationalization is the firm's attempt to strengthen its position in the network (Johanson & Vahlne 2009) Initially the term start-up was closely associated with technology firms, but its definition has since expanded to include beyond the technology sector (Cockayne 2019).

Start-ups operate differently than most other firms, from this was identified the phenomenon of accelerated internationalization approach, particularly dominating among high-tech start-ups. In accelerated internationalization approach start-ups expand quickly and with high commitment to multiple markets with fierce competition concurrently. The reason why start-ups prefer this type of internationalization occurs primarily because it offers advantages to start-ups rather than exposing them to significant risks. Start-ups expanding to new markets often aim for critical resources, while keeping costs low. Because of this, markets where needed resources are available turns into a strategy. Additionally, operating in dynamic markets rapid adaption to changing conditions it required to sustain performance (Oviatt & McDougall 1997). Finnish digital start-ups, like in the gaming industry are capable to scale internationally by using digital channels, what reduces the need for physically existing in the market. When market is more dynamic flexible strategies and quick adaptation to changes in customer needs are needed. (Neogames 2022; Gabrielsson & Gabrielsson 2011.) The first days of start-up internationalization are driven by entrepreneurial features and benefit the most by operating this way (Keupp & Gassmann 2009). It is not uncommon for start-ups to actively use multiple modes of internationalization consistently. This leads to the

conclusion that one mode does not precisely leave another out, but they can coexist to find the most benefits from new markets (Perks 2009).

International entry mode usually refers to the method internationalizing firms adopt to conduct their operations in new markets (Rodriguez 2008). Entry mode has a heavy influence on the outcome of international operations for a firm. Firms often tend to favour the modes that offer the best returns on investment and include reasonable risks. High control modes, like wholly owned subsidiaries, provide fully kept control, but at the same time increases the exposure to the market risks. On the other hand, lower control modes, like licensing, reduces risks, but at the same time strategic flexibility and possible profits are lower. Internationalizing firms want to have a high level of control, meaning they want to maintain control of business operations and decisions in the new market. Maintaining high control leads to also having a high level of risk, because they are responsible for decision making, providing more resources and are also more exposed to a new market environment that they are not familiar with. For enduring higher risks better returns are expected and on the other hand lower control reduces the risks on the cost of lower returns (Anderson & Gatignon 1986). Finnish high technology start-ups often prefer direct exports, distributors familiar with the target market and partnerships, when planning to expand in early stages. Start-ups that have internationally experienced investors or founders involved and possess strong entrepreneurial orientation can decide to use more committed entry modes enduring higher levels of risks as well. Finland's limited domestic market, investors risk tolerance and networks influence shape the internationalization of Finnish start-ups. The modification of traditional and accelerated internationalization modes shows how Finnish start-ups design their strategies to fit different markets they are expanding to. (Gabrielsson & Gabrielsson 2013; Gabrielsson & Luostarinen 2006; Nummela et al. 2004.)

#### 2.2.4 What markets do start-ups target when internationalizing

Finnish start-ups first steps in the internationalization journey are often targeted to similar and familiar markets. First contributions to internationalization are made to markets that are geographically or culturally close, often being the safest and least financially demanding option. This is often followed by expansion into larger and more distant markets as they grow. (Luostarinen 1994; Johanson & Vahlne 1977.) Initially, Finnish start-ups expand to other Nordic markets or nearby European markets, such as Sweden, Norway, Estonia, Germany and United Kingdom (Gabrielsson et al. 2008; Lahtinen et al 2016). These markets have many similarities with Finland's domestic market, cultural and institutional similarities are important for easing the market entry

(Johanson & Vahlne 1977). The EU single market and regulatory alignment make it even easier to expand inside Europe (Gabrielsson & Luostarinen 2006). For digital and technology focused start-ups expansions are often driven by demand and growth possibilities more than geographic nearness. Because of that, Finnish start-ups in gaming and digital sector often target North America and Asia already in the early stages of their internationalization. (Neogames 2022; Laurell 2018.) The United States has been notoriously attractive because of its large customer base, advanced technology environment and its remarkable access to venture capital (Coviello & Munro 1997). It is not unheard of for Finnish start-ups to expand to emerging markets, especially in Asia and Central Europe, to capitalize on their growing customer bases and arising opportunities (Feicheng et al 2022; Kuivalainen et al. 2012; Gabrielsson et al. 2008). While the Nordic and Western Europe markets are often viewed as safe for early-stage internationalization, Finnish start-ups that bear knowledge and often international investors have a growing habit of entering distant markets more rapidly, sometimes not entering closest markets at all (Gabrielsson & Gabrielsson 2013).

### 2.2.5 How start-up internationalization has changed over time?

The internationalization of start-ups located in Finland has grown in popularity in recent years at the same time the necessity of finding new markets has increased. These actions have been driven by strategic development and structural changes in the global business environment. Early-stage expansion for firms operating in small economies like Finland's has long been recognized as a vital factor for firms and start-ups. (Luostarinen & Gabrielsson 2006.) The pace and frequency of Finnish start-ups internationalization on the other hand has increased significantly. This can be seen especially in rise of born global ventures, whose goal is to go international in the first couple years after being established. (Knight & Cavusgil 2004; Gabrielsson et al. 2008.)

There are multiple reasons behind growing popularity for internationalization among Finnish start-ups. Technological advancements and digitalization have lowered the barriers for start-ups to enter new markets, one of the main reasons being the less needed resources for market entry. This has made it possible for resource constrained start-ups to reach wider audiences without high costs. (Oviatt & McDougall 1994; Gabrielsson & Gabrielsson 2013.) Especially, Finnish start-ups operating in gaming and software industry have successfully taken advantage of technology development to internationalize rapidly without forming a physical presence in new markets (Neogames 2022). Internationalization has also taken its part in strategic consideration. Investors and entrepreneurs have recognized and included internationalization as a core part of their growth strategies. Finnish start-ups are more internationally oriented than ever before, the views have

shifted from viewing internationalization as a long-term objective to seeing it as an existing opportunity and competitive necessity (Lahtinen et al. 2016; Kuivalainen et al. 2012.)

Start-up ecosystem in Finland has evolved to endorse this trend. Government has taken initiatives to improve and develop the environment, an example of this are Business Finland's different funding programs and widely known start-up event Slush. These contributions have created a great environment that encourages cross-border ambitions. (Business Finland 2024; Slush 2024.) In addition, incoming venture capital from outside Finland and different investor networks are pushing Finnish start-ups to grow globally to meet the expectations of growth (Pickering 2024; Gabrielsson et al. 2008). Kuivalainen et al. (2007) and more recently Koskinen (2022) show that Finnish start-ups have adopted a way of operating where early and more frequent internationalization is more common than before. The number of start-ups that consider expansion as an essential part has risen, especially in sectors that are knowledge intensive (Gabrielsson & Gabrielsson 2013; EIB 2024).

Internationalization has not only become a daily occurrence among Finnish start-ups, but it is also crowingly viewed as a stable part of Finnish start-ups business models and survival strategies (Gabrielsson & Gabrielsson 2013; Kuivalainen et al. 2012). Support from institutions, advances in technology and increased investors expectation has led to remarkable shift towards earlier and more extensive internationalization operations than before (Lahtinen et al. 2016; Business Finland 2024; Pickering 2024).

### 3 Investors in the start-up context

Investors have a vital position in advancing and shaping the growth and success of start-ups. Investors' role is not only to provide financial resources, but they also often provide strategic support, network and expertise that can be as valuable for success. Therefore, investors are increasingly recognized as strategic actors that shape the start-ups' future with their expertise and networks. (Busenitz et al. 2017; Manigart et al. 1996.) Especially when expanding into new markets investor involvement can influence the ability to access, adapt and manage the challenges faced when entering and operating in a new market (Bertoni et al. 2011).

#### 3.1 Investors' role in start-ups

Investor's role is widely recognized as significant for start-ups development and growth, especially in environments that require rapid growth and expansion to new markets is essential. Their contributions are much more comprehensive than just providing financial capital. Investors often take part in forming the strategy, provide access to international networks, offer credibility and expertise. (Busenitz et al. 2017; Manigrat et al 1996.) Start-ups that are located in small economies like Finland, where the domestic market is relatively small and does not offer significant growth opportunities, investors act as enablers of internationalization by minimizing risks and accelerating access to new markets (Gabrielsson & Gabrielsson 2013).

Investors' aim is often to enhance the start-ups competitiveness, they try to do this by influencing business models, changing market entry strategies and organizational capabilities. For example, venture capitalists are known to bring remarkable value by having active involvement in governance and decision making especially in the first steps of scaling. (Bertoni et al. 2011; Manigart et al. 2002.) This type of investor involvement is relevant for Finnish start-ups that operate in knowledge-intensive sectors, start-ups in this industry are often highly scalable, but at the same time require capital and face market uncertainty (Neogames 2022; EIB 2024). Prior research highlights how Finnish start-ups benefit from investor networks when entering and expanding to new markets, especially if the market possesses high risk or there is not enough knowledge of the market. Investors often possess the capability to connect the start-up with other companies to create international partnerships and have know-how on regulatory and legal difficulties. Investors' role during internationalization can often be connecting potential customers to the expanding start-up or even finding the talented workforce from the market and connecting it with the start-up. (Gabrielsson et al 2008; Lahtinen et al. 2016.) The strategic resources that investors bring to the

start-up can be especially valuable for early-stage start-ups that do not possess prior global experience. Furthermore, investors and especially international investors are a sign of approval and increase the attractiveness of a start-up. (Cumming et al. 2014.)

The amplitude of investor involvement differs very much between different investor types, and it also depends on the stage of the start-up. Angel investors are an investor type that can be involved at a very early stages, therefore they generally focus on mentoring and providing venture capital. A good comparison is venturing capital firms that often insist on structured governance and anticipate visible progress towards scaling and entering foreign markets. (Bussgang 2010.) Finnish market has also significant public actors like Business Finland that also operates as institutional investor. These actors often offer funding combined with mentoring and internationalization programs, highlighting the diverse nature of Finnish investment landscape. (Business Finland 2024.)

### **3.2 Different types of investors**

Start-ups pursuing expansion to international markets almost always need external financing to support innovation, rapid growth and market entry (Gompers & Lerner 2001). The diversity of investor types reflects the different needs of start-ups at different stages of growth (Mason & Harrison 2008). Funding ability is not the only difference between investor types, strategic orientation, tolerance of risk and involvement rate on operations differs between investor types (Busenitz et al. 2017; Politis 2008).

Angel investors are normally wealthy individuals that provide early-stage capital to start-ups and in return want equity. The motivation behind these types of investments is often the combination of financial return and investors' personal interest. (Mason & Harrison 2008.) Angel investors often participate actively in the everyday operations of the start-ups they have invested in. Common ways to help the start-ups are mentoring, strategic advice and offering access to networks. (Politis 2008.) Angel investors are often the first external investors that start-up encounters, which makes their influence critical considering internationalization planning and overall strategy (Wiltbank et al. 2009).

Venture capital firms provide larger amounts of funding than angel investors, they also invest in start-ups that have some type of track record already, it can be some type of demonstration about scalability or strong result making ability. Venture capital firms expect to take an active role in governance, often requiring board seats and measurable achievements in exchange for the capital. (Gompers & Lerner 2001.) Venture capital firms look for start-ups that offer high growth that can

often be achieved quickly and offer exit opportunities. This makes venture capital firms essential for later stage internationalization (Bertoni et al. 2011). In Finland venture capital firms are often present in technology and knowledge-based sectors, where also early internationalization happens more often (Gabrielsson & Gabrielsson 2013).

Institutional investors, which are generally perceived as pension funds and banks, are interested in start-ups at later rounds of funding because they favour lower-risk investments. Their involvement in start-up funding is relatively limited compared to other actors, they can invest through venture capital funds and public investment programs. Institutional investors' role is often a passive one and their focus is on financial return. (Busenitz et al. 2017.) Government funded investors have a remarkable role in Finnish start-up scheme. A good example of this type of active operator is Business Finland. Their goal is not financial returns alone but encourage and foster innovation and international competitiveness. One of their primary objectives is also fostering the employment in Finland and increase these opportunities with investments. To stand behind these goals government funded investors in addition to funding they also offer mentorship and programs that support internationalization objectives. These operators have a significant role in Finnish innovation, they help start-ups get funding at points where other investors would not be interested in and reduce the risk for other investors as well. (Business Finland, 2024.)

There are also smaller investor categories, like family offices and crowdfunding platforms. Family offices have an influential role in Finnish start-up ecosystem, even though their total investment volume is limited. They often offer strategic value to start-ups and are helpful for internationalization because of their networks. (Block et al 2019; Billing 2025.)

Different types of investors create an environment that offers diverse types of capital and possibilities. Different investor types are suitable for different types of start-ups, the stage of start-up, industry it operates on, and many other factors affect what investors are suitable for it. Angel investors have a significant role for Finnish start-up ecosystem and especially early-stage funding, often meaning they are also the most involved supporters during internationalization. (Gabrielsson & Gabrielsson 2013.)

### **3.3 How can investors affect start-ups**

Investors' role is easy to realize only as financial capital providers, but their influence extends from decision-making of the start-up to market positioning. This means investors participate in the

management of start-ups. (Busenitz et al. 2017; Bertoni et al. 2011.) Investors impact to start-ups will be observed next with three primary dimensions: financial, strategic and relational.

The most basic role of investing is investing financial resources that are needed to achieve growth and reach international markets. The capital gathered from investors enables the start-up to improve their operations by focusing more capital on areas they could not afford earlier. These areas could include hiring new talent, conducting market research, the main point being improving the start-ups' growth plans. Especially, at the early stages of internationalization external funding can be the deciding factor whether a start-up can exploit opportunities in new markets. (Gompers & Lerner 2001.) For Finnish start-ups external funding is essential because of the limited resources offered in the domestic market compared to expensive international markets (Gabrielsson & Gabrielsson 2013).

Different investors participate with different extents in the development and modification of strategy. Especially angel investors and venture capitalists want to take part in the strategic development of the start-up, their main interest is often on the growth strategy and different ways to achieve it. Therefore, investors often take board seats or take a role as advisors. Investors participation makes sure that start-up maintains a growing and scalable model as well as aligns actions and operations to the demands of global competition. (Manigart et al. 2002; Wiltbank et al. 2009). Investors knowledge of foreign markets is highly important for Finnish start-ups because their own knowledge level is often limited to local market insights, investors fill this gap by offering knowledge and experience on foreign markets (Gabrielsson et al. 2008).

Another important factor that investors offer to start-ups is access to various networks. These networks can mean access to different advisors, partners, customers, financiers and investors. These networks can be beneficiary already in the domestic market, but their role in accelerating internationalization has been recognized to be significant. Connections and relationships gained through these networks can help start-ups to integrate into foreign markets and reduce the liability of foreignness as well as improve the acceptance of local stakeholders. (Zaheer 1995; Coviello & Munro 1997.) These networks are especially vital for Finnish start-ups because they often do not possess prior relationships or contacts outside domestic market (Lahtinen et al. 2016).

Investors have many ways to shape the development of the start-up. Investors often offer different types of mentorships and participate in team building that shapes the firm. Investors are also often capable of attracting talented employees and often take part in talent acquisition. Investors often improve the human capital of start-ups by coaching and courage hiring international employees to

ensure that start-ups have needed human capital for successful internationalization. (Politis 2008; Busenitz et al. 2017). Investors participation also works as a way to establish trust and interest among possible partners and new investors (Cumming et al. 2014).

Investors' influence on start-up varies from one investor type to another and depends on the start-ups level of development and strategy. Angel investors tend to offer mentorship while venture capitalists are interested in growth and governance, on the other hand institutional investors provide support for internationalization. Overall, investors participate in ways other than capital, as mentioned before by shaping strategy, offering access to networks and reducing risks of internationalization.

### **3.4 Investor's role in start-up internationalization**

Start-up internationalization is a critical and often necessary move for firms that are from small domestic markets, like Finland. Investor's role is remarkable in facilitating and affecting internationalization efforts. The ways investors can affect start-ups are extensive and not limited to capital. (Gabrielsson & Gabrielsson 2013; Bertoni et al. 2011).

#### **3.4.1 Critical challenges**

Internationalization possesses several challenges for Finnish start-ups, that investors are often familiar with. These risks are not always the same and there are many factors that influence the challenges start-ups will have to face during internationalization. One of the hardest challenges Finnish start-ups faces during internationalization is a combination of unfamiliarity with the market, complex regulation in the new market and cultural barriers. Investors have recognized that it is common for start-ups to enter a new market without possessing real deep insights into the specific characteristics of the market. Entering a new market while having a limited understanding of customer behaviours, competitive dynamics in the new environment and local business practices, weakens start-ups capability to effectively position their product or offering in the new market. (Knight & Cavusgil 2004; Gabrielsson et al. 2008.) Another common challenge that start-ups tend to not prepare well enough for is the legal and regulatory requirements that guide business operations in foreign countries. Also, differences in standards and licensing pose a major risk to start-ups if they are not properly anticipated and handled. (Coviello & Munro 1997.) Cultural differences can also present challenges for start-ups, these challenges are often more discreet but equally critical challenges. Differences in basic communication and behaviour can damage the

relationship creation with customers, partners and even employees, that will limit the ability to integrate into new environments and markets. (Zaheer 1995.)

Financial constraints affect international growth significantly. It is not unheard of that a start-up has underestimated the financial resources needed for internationalization and tries to scale prematurely. (Cumming et al. 2014.) Financial limitations are not the only obstacle to international expansion, weak business networks in the target market often prevent successful entry and operation in new markets (Coviello & Munro 1997). The liability of foreignness is also a significant challenge in internationalization, because start-ups struggle to create legitimacy and trust among foreign stakeholders (Zaheer 1995). In addition to other challenges, start-ups must also face operational difficulties during internationalization. One common difficulty faced during expansion into new markets is recruiting and keeping a talented workforce from the target market. Investors have recognized that forming an international team is significant for successful internationalization, however start-ups often do not have experience or knowledge of building international teams or even of its basics. (Laurell 2018.) Lastly, strategic mistake where the start-ups expansion strategy is unreal or unrealistic, is generally recognized as a critical problem leading to failure (Johanson & Vahlne 2009).

### 3.4.2 How do investors assess the readiness for internationalization

Investors invest a lot of time and effort to have an accurate and comprehensive image of start-ups readiness for internationalization. Investors often look for a clear and feasible internationalization strategy that is backed with reliable information and possibly collected data. Investors expect and look to find evidence that the start-up has conducted thorough market research on the target market and has created a realistic deep understanding of target customers and their needs. Start-ups also need to be up to date on the level of competition in the target market and have identified competitive advantages they possess compared to the market. (Gabrielsson & Gabrielsson 2011; Coviello 2006.)

Financial readiness is another major factor, start-ups need to demonstrate that they possess or have access to sufficient financial resources to sustain the costs and risks associated with expanding to new markets (Gompers & Lerner 2001). It is generally expected that a start-up has a scalable business model and proven market demand in the domestic market before internationalization is even considered (Knight & Cavusgil 2004). Start-up management that possesses prior international experience and capabilities is something that investors value and may influence their investment decision and its scope. Investors also often examine other investors that are onboard to strengthen

their own opinion. It has been also recognized that founders or management that display strong strategic thinking and adaptability are favoured by investors. (Busenitz et al. 2017.) Additionally, start-ups that have established networks to the target markets are often perceived as better positioned for success than others without an existing connection to the market (Johanson & Mattsson 1998). Investors do not assess the readiness solely based on hard metrics but take into consideration other factors as well. Investors can value for example start-ups culture and resilience that may not be as easily recognized but can turn out to be significant for efficient market entry and successful internationalization overall. Start-ups approach to internationalization has also substantial impact on investors opinions and decisions. Start-ups that approach internationalization from a long-term, expanding operations perspective rather than treating it as a rapid short term profit goal, are often valued higher in investors' eyes. (Manigart et al 2002; Wiltbank et al. 2009.)

## 4 Why start-up internationalization fails so often

In the context of start-ups, failure typically refers to the inability of the venture to achieve its intended goals, sustain operations or generate sufficient returns for its founders and investors. Unlike established firms, start-up failure often occurs at early stages and is not always due to depletion of capital. Common reasons include the inability to achieve product-market fit, difficulties in scaling operations or failure to secure additional funding (CBInsights, 2024). Start-up failure can manifest in various ways, such as winding down operations, selling the business at a loss or ceasing activities related to growth (Blank 2013). Studies suggest that approximately 90% of start-ups ultimately fail, with many failing before their fifth year due to internal challenges such as dysfunctional business models, lack of market demand or relationship issues inside the team (Marmer et al. 2011; Start-up Genome 2025).

In the context of start-ups internationalization failure does not necessarily mean a final or absolute collapse in international markets but may instead reflect temporary setbacks or strategic exit. Rather than following a linear success or failure path start-ups often engage in experimentation, testing of the markets and withdrawal before committing fully to international expansion (McDougall & Oviatt 2000; Autio 2015.) Failure in this context can include incapability to achieve intended growth in the new market, early withdrawal from the market or facing uncontrollable financial or operational challenges abroad. For start-ups such outcomes can be a result of limited market insights, poor timing, weak strategic positioning or failure to adapt with the demand in the foreign market (Gabrielsson et al. 2008; Knight & Cavusgil 2004.)

The internationalization of start-ups is widely recognized in academic literature as a process that includes significant number of risks, especially for firms that originate from small economies like Finland (Knight & Cavusgil 2004; Gabrielsson et al. 2008). Even though expanding into new markets provides considerable opportunities for growth, it concurrently unveils start-ups to number of complex challenges that many are not prepared to manage. Understanding the underlying reason behind these challenges is essential to improving internationalization outcomes, especially when viewed through the perspective of investors experiences and insights.

One fundamental difficulty for internationalizing start-ups is their liability of newness and smallness, that arise from limited resources, lack of legitimacy in foreign markets and poorly established routines (Stinchcombe 1965; Rugman & Verbeke 2011). In addition, the concept of liability of foreignness (Zaheer 1995), although originally developed in the context of multinational

enterprises, can still be useful in understanding the difficulties start-ups face when entering unfamiliar international environments. These difficulties include lack of local regulatory knowledge, underestimating cultural differences or overestimated networks. It is common for start-ups to face difficulties in building trust and credibility with local partners and customers that are crucial for successful market entry and survival (Johanson & Vahlne 2009). However, international entrepreneurship literature also recognizes that some start-ups may intentionally pursue distant markets early on, the driver behind this being existing international networks or the chase of great opportunities (Mainela et al. 2014).

Another significant cause of failure in start-up internationalization is insufficient market knowledge and preparation. Prior research points out that many start-ups internationalize without conducting adequate and accurate market research or neglects adapting their business models to fit the market conditions. (Coviello & Munro 1997; Gabrielsson et al. 2008.) However, international entrepreneurship research also shows that some start-ups enter foreign markets early through network connections or by recognizing opportunities, even without formal preparation, which reflects strategic experimentation rather than mere negligence (Coviello 2006). Lack of preparation will often appear as poor product-market fit, mistargeted strategies for marketing and inefficient operations. Investors have stressed the shortcomings in market research as a recurring mistake among start-ups expanding to new markets for the first time. (Coviello & Munro 1997; Knight & Cavusgil 2004.)

Limited amount of capital is often considered to be a major reason for unsuccessful internationalization. Expanding to new markets consumes remarkable amounts of resources for establishing physical activities in the new location as well as fulfilling requirements of the new market. These could be hiring local talent, navigating legal requirements and building distribution channels. Many start-ups do not allocate enough capital required to fulfil the costs and are not financially backed enough to sustain prolonged entry phase, leading to premature withdrawal or failure. (Cumming et al. 2014; Gompers & Lerner 2001; Gabrielsson et al. 2008.) However, international entrepreneurship literature also emphasizes that some start-ups are constrained by resources and therefore often use alternative strategies such as establishing partnerships, joining accelerators or participate in a phased and low-commitment market entry in attempting to reduce the risk and capital requirements (Autio et al. 2000; Cavusgil & Knight 2015).

Furthermore, organizational readiness has a remarkable role for start-ups survival in foreign markets as well as for attracting investors. However, from a dynamic capabilities perspective,

readiness may also evolve during the early stages of internationalization as start-ups adapt, learn and configure again their operations (Sapienza et al. 2006; Hitt et al. 2000). Investors often consider the readiness through scalability of the business model, leaders' competence and operational flexibility. Investors value these things in assessing start-ups readiness, because internationalizing without scalable structure or without leaders that have experience managing cross border operations have a remarkably higher risk of failure in internationalization. (Gabrielsson & Gabrielsson 2011; Busenitz et al. 2017.) Building on international entrepreneurship research, start-ups tend to rely on informal or emergent networks to overcome early disadvantages in foreign markets (Chetty & Stangl 2010). Without creditability and local connections obtained through networks, start-ups may face prolonged entry period, weaker competitive position and more significant operational risks. Although some start-ups enter foreign markets through opportunistic or through chance events this approach can also reflect founder-led opportunity identification rather than poor strategy (Oviatt & McDougall 2005; Mainela et al. 2014.)

Cultural challenges bring another complicated layer to internationalization. Cultural barriers influence negotiation, communication, customer expectations and leadership style. (Zaheer 1995.) Finnish start-ups are often equipped with strong technical expertise but struggle adapting communication and practices to culturally distant markets. Limiting their ability to cultivate committed customer relationships and establishing local partnerships. (Gabrielsson et al. 2008.) However, international entrepreneurship research also highlights that culturally distant markets may hold opportunities, such as underserved niches or early adopters, especially for innovative or market niche-oriented start-ups (Freeman et al. 2006). Some born global firms use partnership, sequencing or founder networks to enter such markets despite cultural challenges (Cavusgil & Knight 2015; Chetty & Stangl 2010). Furthermore, regulatory and legal obstacles in foreign markets produce significant risks. Often Finnish start-ups are not prepared well enough to face the complexity of foreign regulatory environments, causing compliance difficulties, prolonged market entries or even forced exits. (Coviello & Munro 1997; Laurell 2018). This is especially important in specific sectors where regulatory standards can be highly variable and complex across countries, for example healthcare (EIB 2024; Laurell 2018). However, international entrepreneurship literature also shows that regulatory competence can develop over time as entrepreneurs learn through market interaction, often adapting their models or engaging with local partners to navigate legal complexities (Autio et al. 2000).

Misalignment between start-up founders and investors can turn catastrophic when facing challenges during internationalization. These two groups can have differences in risk tolerance leading to

opposing opinions. As well their strategic visions may vary and when both groups push for their own vision conflicts are easily ahead, also time horizon can create tensions that affect negatively the internationalization process. (Wittbank et al. 2009; Busenitz et al. 2017). Start-up internationalization failure is rarely caused by a one single issue. It is often a result of challenges related to each other that accumulate over time (Autio et al. 2000; Sapienza et al. 2006). While some studies have highlighted the risk of premature internationalization, international entrepreneurship research also shows that early expansion can succeed when supported by dynamic capabilities, niche strategies or strong international networks (Cavusgil & Knight 2015; Freeman et al. 2006). Identifying and addressing these risks that affect each other is vital for improving results, especially in small open economies, like Finland, where early expansion to foreign markets is often inevitable (Luostarinen & Gabrielsson 2006; Kuivalainen et al. 2012).

## 5 Methodology and data analysis

### 5.1 Research approach

Qualitative research is a humanistic approach to inquiry that centres on understanding the deeper meanings and complexities of human behaviours, experiences, and social phenomena. Unlike quantitative research where the goal is to measure and quantify different variables, qualitative research prioritizes the investigation of subjective experiences, observations and the meanings behind specific actions and interactions. Qualitative research is not typically attached to specific sample size or rigid research design. Alternatively, qualitative research is considered flexible, that includes multiple methods, like questionnaires. (Creswell 2014). One of the main aspects of qualitative research is scepticism to prior knowledge of things that are considered to be true or as the only truth. The researcher needs to keep an open mind when approaching the topic, trying to understand the construction of meanings and realities in different contexts. This type of behaviour drives the collection of qualitative data, that often constructs from unstructured sources or naturally occurring ones that reflect complexity and nuance of the real environment. (Denzin N. et al. 2007).

A key feature for qualitative research is its focus on exploring processes and functioning in their natural environment, what allows the researchers to appreciate the depth of human experience without imposing assumptions. Subjectivity is important for this approach, because individual experiences and perspectives are crucial parts of understanding the whole topic. Hoped outcome is not to generalize findings to a wider population, but to get insights into the complex ways in which people interpret and respond to their world. (Patton 2015). Qualitative research can often be considered to circle around “what” and “how” questions. With these questions the researcher is guided towards understanding the underlying dynamics, meanings and contexts surrounding the research question. In qualitative research the analysis is often driven by the data itself. This has the outcome of a more exploratory process that may evolve throughout the study, by being adjusted by new insights or by shifts to the perspective as the research unfolds. With these characteristics it is often shown that it is exactly qualitative research. (Juhila 2021).

Often, qualitative research focuses on topics that are previously recognized and somewhat familiar. Therefore, it often critically examines the subject rather than assuming it as an established truth. Additionally, qualitative research needs extensive definition and conceptual clarification, as these elements are vital for framing the research topic. Qualitative research is often based on non-numerical data and rather consists of questionnaires, observations and discussions. It does not

convert the data to a numerical form but rather handles it in its original form. Moreover, data is kept in its context and interpreted as an integral part of the broader framework in which it exists. Meaning it is often built on naturally occurring data, meaning that the information emerges independently of the researcher's influence. For qualitative research, focusing on human behaviour is another key characteristic. Examining how people act in different situations and what kind of habits or routines they develop. Qualitative research values individuals' unique approaches, experiences and perspectives that contribute to the research. Therefore, qualitative research often recognizes subjects more as active participants rather than as passive research subjects. It also embraces complexity, acknowledging that experiences and interactions are not straightforward or easily categorized. Qualitative research does not aim to find specific causes for specific effects but explores how different actors influence each other. Because of this, qualitative research tends to be data driven rather than theory driven, meaning that findings are found from the analysis of collected data and not strictly guided by predefined theoretical frameworks. (Juhila 2021)

Key aspect of qualitative research is the way of treating data as a whole and not isolating individual factors from one another. Mutual connection of multiple factors is important, because meanings and interpretations are found through these relationships. There are often two key phases in qualitative analysis. Simplifying the observations and bringing out deeper meanings. In practice these phases are not strictly separated and tend to intertwine with each other. The process of refining observations to core themes often leads to deeper interpretation, where researchers try to make sense of the patterns and structures that are noticed from gathered information. This is important for qualitative research, because it aims to construct a comprehensive understanding by considering all aspects and their relation to one another. (Alasuutari 2011) Qualitative research is mostly centralized around individual cases, meaning different types of experiences, perspectives and their meanings. Because of this researcher's own interaction with these aspects is remarkably significant in qualitative research. When observations are gathered in qualitative research they are approached inductively. This means that the assumptions are based on the findings and developed throughout the process. (Koskinen et al. 2005.) Characteristic for qualitative research is also understanding and describing the topic. Research aims to gain insight into specific themes and to the factors that influence them. However, it is not only about understanding, but it is also about how the findings are shaping the theory and how the theory is based on the findings. For qualitative research it is also essential that people who participate in the research have a reasonable level of knowledge on the topic and have the ability to discuss and describe it in sufficient detail. Therefore, selection of the

participants plays a significant role and should be done carefully, because it ensures the quality and relevance of the research. (Tuomi & Sarajärvi 2018.)

This research adopts a qualitative research approach mainly because the primary goal is to understand and explain investor's perspectives on the challenges Finnish start-ups face in internationalization. Qualitative research is specifically suited for exploring subjective experiences, interpretations and complex phenomena which cannot be easily measured (Creswell 2014). Because investor perspectives are shaped by experience of the industry, strategic decision making, market trends and interaction with the start-ups, a qualitative approach offers the flexibility necessary to capture the fundamental insights. The research aims to find and establish connections between empirical findings and theoretical frameworks by integrating investor perspectives with theories such as Zaheer's (1995) Liability of foreignness, Barney's (1991) Resource-based view and Johanson and Mattsson's (1988) Network theory. The analysis aims to discover patterns in failed internationalization efforts and how investors perceive risk factors, cultural differences, market barriers, regulatory obstacles and start-up readiness. These frameworks are used to frame the background and discussion, but they did not guide the coding or analysis of the qualitative data, which was conducted inductively.

Qualitative research does not focus on a single method but instead incorporates multiple approaches depending on the main research questions and research objectives (Denzin & Lincoln 2018). In this research the sample has been carefully and purposefully selected, as is characteristic of qualitative research ensuring that part-takers in the research provide valuable insights based on their experiences. The target group in this research consists of investors, because their experience is vital for identifying factors that influence failure, common challenges that start-ups face during internationalization and overall, on the investors and start-ups dynamic in global markets. The research is also particularly interested in understanding investor's role in start-ups and obtaining their experience about working with start-ups. While the structured questionnaire included both open- and closed-ended questions, this study adopts a primarily qualitative approach, with emphasis on identifying themes from open-ended investor responses. The research process typically starts from the researcher's interest in a specific topic, that is followed by defining the research questions and problems (Alasuutari 2011). After that theoretical frameworks are identified and these act as reference points for observations. Next the data is collected and analysed, while conducting the analysis there is an intention of not being influenced by theoretical assumptions. By savouring this perspective, findings will emerge naturally from the data. Finally, a structured analysis and discussion are presented, where findings are compared with existing frameworks and theories. Whit

this there is also the goal of highlighting patterns, inconsistencies and new insights. (Tuomi & Sarajärvi 2018.)

The data for this research is collected by conducting a structured questionnaire. The structured questionnaire is aimed to investors who have funded Finnish start-ups attempting international expansion. Structured questionnaire-based data gathering method was chosen because it allows the opportunity to reach a bigger number of target groups while still maintaining a qualitative focus on subjective experiences and viewpoints (Fink 2015). Unlike a structured quantitative structured questionnaire, this study uses qualitative structured questionnaire format in which the majority of the questions are open-ended, even though the same set of questions was presented to all participants. In this sense, the structure of the structured questionnaire resembles a structured questionnaire, where each respondent answers the same pre-determined questions without follow-up probing. However, the emphasis in this study is on the open-ended responses, which were designed to allow participants to elaborate on their experiences and perspectives in their own words. Open-ended questions provide participants with the freedom to elaborate on their perspectives, experiences and observations. The structured questionnaire was administrated electronically during the beginning of 2025, ensuring ease of access for responders across different locations. The structured questionnaire was administered through multiple distribution channels to maximize its reach among relevant respondents. First a link to the structured questionnaire was sent directly by email to 49 individually selected investors with experience in Finnish start-up internationalization. Second, the structured questionnaire was shared by FiBAN (Finnish Business Angels Network) through their internal communication channels. Third, a researcher's personal contact shared the structured questionnaire link with an email group of start-up investors, though the exact number of recipients reached through that group is unknown. In addition to the initial round of distribution, the researcher later sent email to 63 individuals that were known to have experience as investor in start-up internationalization and approached one person to ask for help in distributing the structured questionnaire with his network. Altogether, these channels helped distribute the structured questionnaire widely, and according to Webropol the structured questionnaire link was opened by 262 individuals, indicating substantial visibility among the target audience. The structured questionnaire was designed to be anonymous, allowing investors to share their views openly and without bias.

The target group consist of investors who have directly funded Finnish start-ups expanding abroad. To fit the target group a person was expected to have experience in start-up investments, particularly in Finnish start-up firms attempting internationalization. The participant was also

expected to have prior involvement in venture capital, angel investments or advisory roles related to start-up growth. As a requirement to be included to the target group was also to have experience or knowledge on international market dynamics, funding challenges and risk assessment in early-stage start-ups. The structured questionnaire managed to gather 10 answers from investors, ensuring a diverse perspective from venture capital firms, angel investor networks and independent start-up advisors. This compilation of investors allows a comprehensive understanding of investor concerns, decision-making process and common pitfalls observed in internationalization.

The objective of this study is to examine investors perspectives on the challenges, difficulties and failures of Finnish start-ups in internationalization. Specifically, the research aims to identify critical factors that investors perceive as contributing to failure in foreign markets. Additionally, the research aims to understand how investors experience can help recognize risks on internationalization at an early stage. Furthermore, the research aims to explore the ways how investors assess the readiness of start-ups for internationalization, and what expectations investors have regarding strategy, market knowledge and resources before they are committing to funding. The purpose is not to evaluate and focus on the capabilities of individual start-ups or their business models. Research rather focuses on investors' general experience and insights on start-ups expanding across national borders. The main emphasis of this research is on the investor's role and influence on Finnish start-ups internationalization process. The research does not aim to analyse successful cases of internationalization or the broader development of start-up ecosystem. Instead, the focus is on investors' observations of failures and the lessons that can be drawn from these experiences. By creating an understanding of the investor's perspectives, the research aims to provide practical insights into improving start-up internationalization strategies and the collaboration between investors and start-ups.

Artificial intelligence tools, specifically ChatGPT and Consensus, were used at the early stages of this thesis to support topic development and source discovery. ChatGPT was helpful in brainstorming ideas, structuring early outlines and exploring key themes around start-up internationalization. It provided general explanations and clarification on concepts, which helped shape the research development. None of its outputs were used directly in the final text. Consensus was used as a research-oriented search engine to find peer-reviewed articles and refine the focus of the literature review. These tools served as complements to traditional research methods, assisting in the early stages of the thesis process more efficiently without replacing critical thinking or human judgement. The use of artificial intelligence in this thesis followed the guidelines provided by the University of Turku.

## 5.2 Data collection

In the research a structured questionnaire was chosen as the main data collection method. This decision was made since a greater number of responses will offer a greater amount of experience and knowledge. However, in collecting the data for the research, it is a qualitative structured questionnaire, because specifically wanted are the experiences and thoughts of participants regarding the topic. By deciding to collect data by structured questionnaire it enables collecting comprehensive enough description of human experiences and it can be used to conclude end results. Experiences are vital for the research and therefore in the structured questionnaire asks the participants to assess them more. The structured questionnaire also includes open-ended questions to gather also experiences by participants in a written form.

Structured questionnaire research is often considered as a fully structured questionnaire, that consists of predetermined questions based on a theoretical framework. The main objective is to gather responses to all questions included in the structured questionnaire. Structured questionnaires often only include questions that are relevant for research, leaving no room for additional questions or follow-up questions. Each question that is presented in the structured questionnaire should have a connection to the theoretical background of the study, ensuring that the information collected is relevant and connected to the research objectives. This structured approach enables effective ways to gather a significant amount of research data in an easily manageable straightforward manner. (Tuomi & Sarajärvi 2018; Bryman 2016.) However, one downside of structured questionnaire research is the limited quality of the responses. There is the difficulty of using open-ended questions, because they tend to cut down the number of participants who will finish the structured questionnaire. This has the outcome that collected data may lack the richness and detail that other methods, such as questionnaires could provide. The inflexible structure of structured questionnaires can also restrict the ability to elaborate on answers, potentially limiting the extent of the insights gained. (Tuomi & Sarajärvi 2018.) This research gathered a decent number of responses to the structured questionnaire. The structured questionnaire included multiple open-ended questions, but that appears to not have had a significant impact on the participants. One remarkable reason for this could be the general nature of the target group, investors are used to describing and presenting their opinions, experiences and activities. Therefore, open-ended questions most likely did not weaken the response rate significantly.

The data for this research was gathered with a qualitative structured questionnaire aimed at investors, that possessed experience in funding or playing an active role in Finnish start-ups that

have attempted internationalization. The construction and design of the structured questionnaire was made considering the goals of the research and the research questions. Therefore, the structured questionnaire was planned to explore the challenges start-ups face in internationalization according to investors' perception and to identify key factors contributing to Finnish start-ups failure in international expansion. The structured questionnaire was designed to reflect the research questions and topics presented in the literature review, without being directly tied to a single theoretical framework. This allowed the open-ended questions to capture the full extent of investor perspectives.

The Structured questionnaire (Appendix 1) consisted of 19 questions, combining multiple-choice and open-ended questions. This structure allowed respondents to provide both structured insights and qualitative elaboration on their experiences. The structured questionnaire was divided into sections and each of them focused on a different aspect of the investor's perspective regarding challenges on internationalization. At the beginning of the structured questionnaire, respondents were given a brief introduction explaining the purpose of the study, its academic nature and the importance of their participation. It was also noted that participation was completely voluntary and anonymous, with data being stored securely and used solely for research purposes. Respondents were informed that all collected data would be deleted by 31.12.2025, ensuring compliance with ethical research practices.

The first section of the structured questionnaire gathered background information on the respondents, including their role as an investor, years of experience, and involvement in Finnish start-ups' internationalization efforts. This section ensured that the responses came from individuals with relevant expertise. The second section focused on challenges in internationalization, where respondents were asked to identify the most significant barriers start-ups face when entering foreign markets. These included issues such as lack of market knowledge, insufficient funding, regulatory barriers and cultural differences. Investors were also asked to highlight the most common mistakes Finnish start-ups make in their internationalization strategies.

The third section examined investors' criteria for assessing start-ups readiness for internationalization. Respondents were asked to evaluate factors such as market research, financial resources, leadership capabilities and scalability of the business model. Additionally, they were asked how often they think Finnish start-ups are adequately prepared for internationalization. The fourth section explored the role of investors in start-up internationalization, assessing where the involvement level of investors typically is regarding the start-up's construction of

internationalization strategy. Respondents were asked about the types of support they provide and offer, such as financial assistance, strategic advice, networking opportunities and regulatory guidance. Investors were also encouraged to elaborate on which forms of support they consider most critical for success in internationalization.

The fifth section focused on patterns of failure, asking investors to reflect on recurring reasons why Finnish start-ups fail in international markets and internationalization attempts. This section aims to identify common themes in failed internationalization attempts and whether certain challenges are consistently observed across different instances. Finally, the structured questionnaire concluded with questions on improving internationalization outcomes, including what start-ups could do to increase their chances of success and how investors could contribute more effectively to the start-up's success. Respondents were also asked about their risk tolerance in start-up investments and how it influences their decisions regarding internationalization.

The structured questionnaire was distributed electronically during January and February of 2025. The reason behind distributing the structured questionnaire electronically was to ensure accessibility for respondents regardless of their location and because it is the most inviting and effortless for respondents. A total of 10 responses were received, representing a diverse range of investors, including venture capitalists, angel investors and private equity investors. The structured questionnaire link was shared by the researcher through multiple different channels to ensure broad distribution among the target of investors. Initially, the link was sent directly to 49 individually selected investors known to have experience in Finnish start-up internationalization. In addition, FiBAN shared the structured questionnaire through its communication channels. FiBAN is one of the largest and most active angel investor networks in the world, consisting of members who are actively involved in Finnish start-ups both in domestic and international environment. Furthermore, additional 63 individuals were contacted on a second round to increase the number of respondents. Also, one known contact was asked to distribute the structured questionnaire link within their own investor network, which included an email group of start-up investors. Though the exact number of recipients reached through that group is unknown. According to Webropol, the structured questionnaire was opened by 262 individuals, demonstrating that the structured questionnaire achieved substantial visibility among the intended audience, even though the number of completed responses remained more limited.

The estimated time to complete the structured questionnaire was 15 minutes, making it a convenient yet comprehensive method for collecting qualitative data. This structured questionnaire served as

the primary data collection method due to the research's focus on investor perspectives and the need for insights from a broad range of investors. The decision to conduct a structured questionnaire rather than interviews was made to ensure a higher response rate and broader coverage of investor experience. Although structured questionnaires have limitations, such as the potential for less detailed responses compared to questionnaires, the inclusion of open-ended questions helped mitigate this issue by allowing respondents to elaborate on key topics.

### **5.3 Data and data analysis method**

The data for this research was gathered using an electronic structured questionnaire built with Webropol and distributed during January and February 2025. The structured questionnaire targeted investors that possess experience in funding Finnish start-ups that had attempted entering foreign markets. To reach the intended target group, the link was sent directly to a considerable number of persons who were known to have necessary experience, also a well-known and widely operating organization FiBAN (Finnish Business Angels Network) shared the link to the structured questionnaire in their communication channels. FiBAN's role was limited to sharing the structured questionnaire, they were not involved in the research design, execution or analysis. Due to small sample size, no inferential statistical analysis was conducted. The qualitative data was analysed using descriptive statistics only and the qualitative responses were interpreted using inductive thematic analysis.

The structured questionnaire consisted of closed and open-ended questions. The structured questions worked for capturing respondent characteristics and general views, using multiple choice questions and one to five scale evaluations. These questions addressed aspects such as investor type, experience level, risk tolerance, perceived challenges and success factors. The responses were assembled and analysed in Microsoft Excel using basic descriptive statistics. This information was used to investigate the open-ended responses and support the interpretation of broader patterns.

The open-ended questions in the other hand aimed to bring out deeper qualitative insights into investor point of view on internationalization challenges, readiness factors, reasons and causes of failure and investors own roles in the process. A total of ten complete responses were received. Although the sample size is relatively small, the respondents represent a highly relevant group for the focus of the research. Most of the respondents were also highly experienced and had participated in a great number of start-up internationalization attempts. Due to the nature of the research, a qualitative approach was chosen. The structured questionnaire method allowed for the

collection of diverse perspectives while remaining feasible within the scope and timeframe of the research.

The open-ended responses were analysed using a manual, qualitative content analysis approach. The responses were transformed from Webropol into Microsoft Excel for organization and examination. The analysis followed a data-driven content analysis process based on Tuomi and Sarajärvi (2018), which allows themes and patterns to emerge directly from the data, without the use of a predefined theoretical framework. Due to relatively low number of responses, the closed-ended data was analysed using descriptive statistics only, and the open-ended responses were approached through qualitative content analysis to capture investor perspectives.

The analysis proceeded through the following stages:

1. Familiarization: All open-ended responses were read multiple times to form a comprehensive understanding of the data.
2. Initial coding: Repetitive expressions, experiences, phrases and ideas were identified and divided into preliminary categories.
3. Theme identification: The categories were grouped into broader themes that reflected the shared perspectives of investors.
4. Interpretation: The themes were interpreted in relation to the research questions to ensure consistency and relevance.

The research questions provided a structural guide for organizing the findings under thematic headings, such as perceived challenges, investor roles, failure patterns and suggestions for improvement. This approach allowed for transparent and coherent interpretation while preserving the respondents' original intent. All participation in this structured questionnaire was voluntary and no personally identifiable data was collected at any stage. Respondents were informed about the purpose of the research and consent was given through the completion of the structured questionnaire. The collected data was handled confidentially and analysed in accordance with the University of Turku's ethical research guidelines and general good scientific practice.

#### **5.4 Overview of respondents**

To achieve relevant insights into the challenges and failure patterns Finnish start-ups face during internationalization, a structured questionnaire was conducted among investors who have

experience in funding and advising start-ups. A total of ten responses were collected. The sample size, despite being limited, represents a well-targeted and experienced group of investors, whose insights reflect both qualitative depth and practical relevance for the Finnish start-up ecosystem. All of the participants had previously invested in Finnish start-ups and had directly supported firms in their initial efforts to expand to new markets outside domestic one.

The participants were asked to identify their main role as investors. The roles included angel investor, venture capitalist, corporate investor, and other private equity professionals. The meaning of this question was to map the diversity of perspectives and investment philosophies within the sample group. The distribution of investor roles is presented in Figure 2, which provides a visual representation of the participant's background. Figure 2 represents how the structured questionnaire participants identified themselves in terms of their main role as investors. From the respondents 70% were angel investors, 20% were venture capitalists and 10% were private equity investors. This diversity helps reflect a broad range of insights from different investor perspectives to Finnish start-up internationalization.

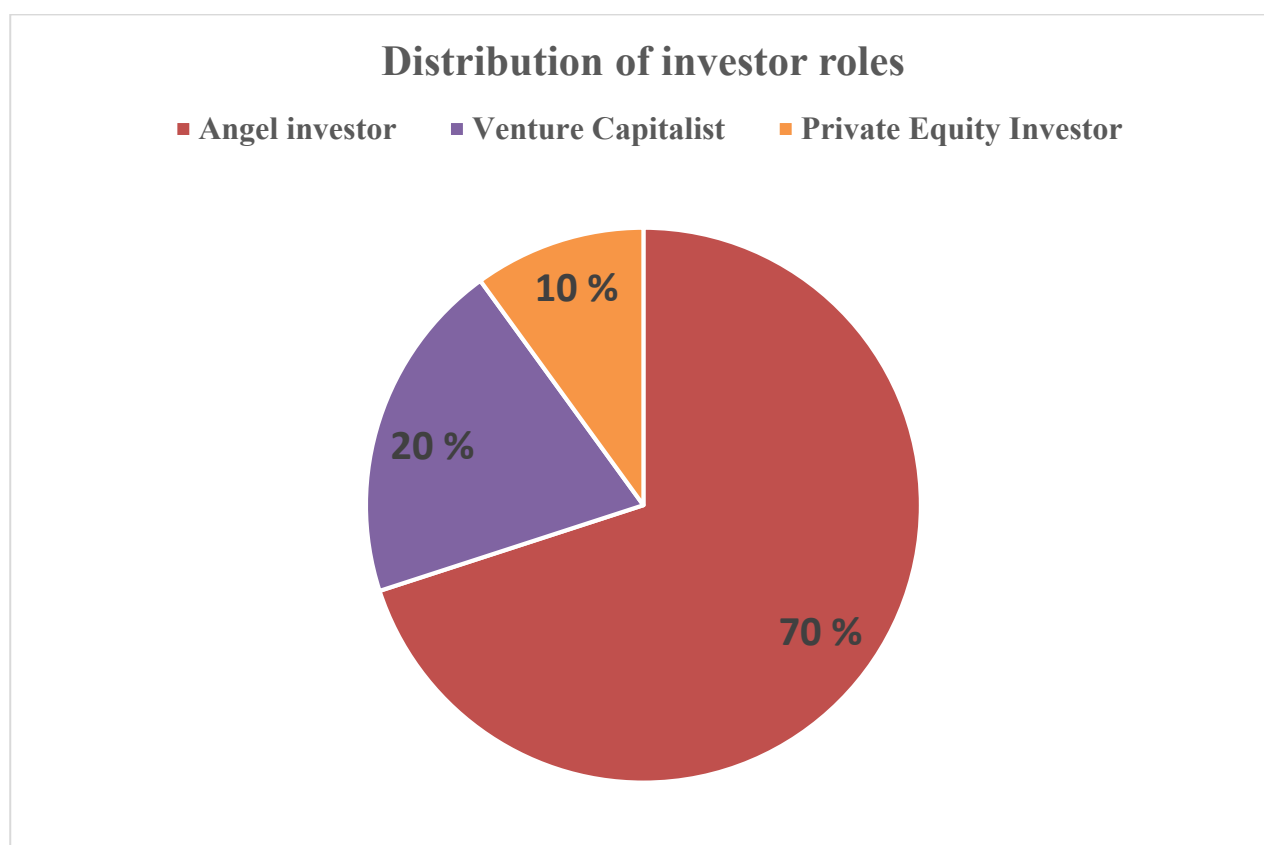


Figure 2 Distribution of investor roles

In addition to their role respondents were also asked to indicate the number of years they have experience in investing and working with start-ups. The meaning of this question was to ensure that

the answers reflect experienced viewpoints and to account for variation in discovered challenges across different levels of professional maturity. The distribution of experience years is shown in Figure 3, which illustrates the range from investors at the beginning of their career to highly experienced ones. Notably, all of the respondents had experience in investments related to internationalization, confirming the relevance of their experiences and perspectives. Bar charts display the number of years of experience respondents have. The majority reported 8-12 years of experience, while others had either 4-7 years, 13-20 years or 1-3 years of experience. This confirms that the responses reflect insights from well experienced investors with remarkable exposure to start-up internationalization efforts.

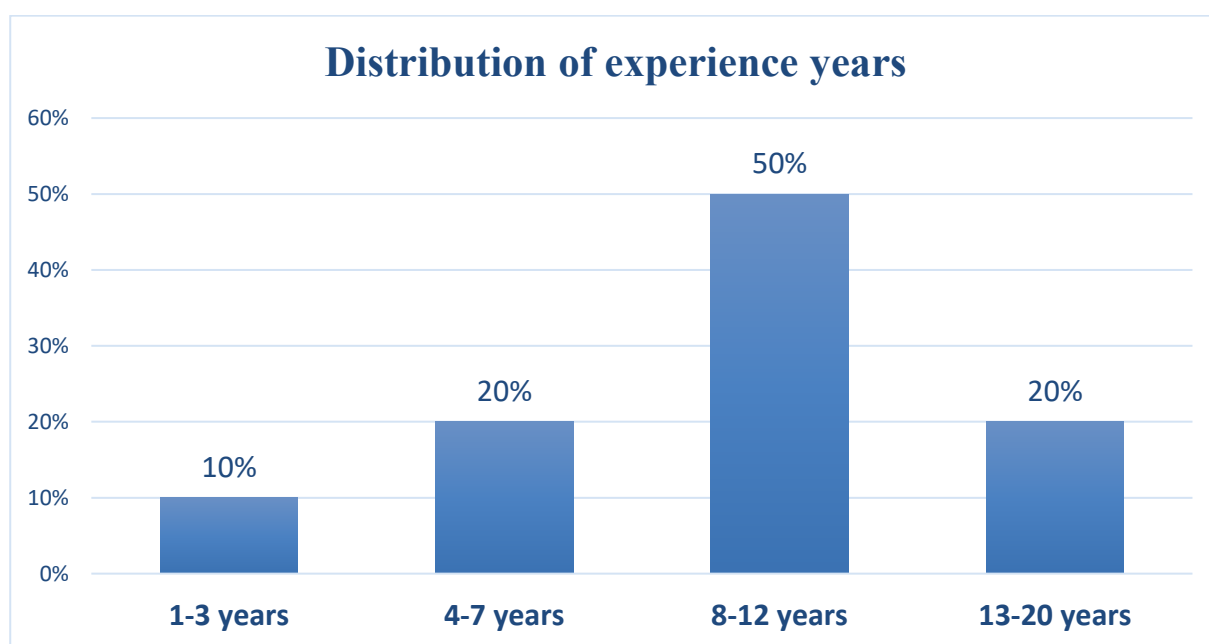


Figure 3 Distribution of investor experience in years

One of the main central questions in the structured questionnaire was whether the respondent had invested in Finnish start-ups to support their initial internationalization attempts. All the respondents answered affirmatively, establishing a consistent baseline for experience. Additionally, participants were asked to estimate the number of such cases they had been involved in. Most of the participants confirmed to have supported at least 4-10 start-ups in this context, indicating repeated exposure to the challenges and dynamics of early internationalization efforts. The multiple respondents had an even more comprehensive experience, as can be seen from figure 4, which illustrates the distribution of investors' involvement in supporting internationalization. Figure 4 shows the distribution of respondent's practical involvement in start-up internationalization. Most respondents stated that they have supported 4-10 start-ups, while a notable part of the respondents had experience with over 20 start-ups. This demonstrates deep and repeated exposure to the

internationalization process, strengthening the reliability of insights gathered on patterns of failure and investor roles.

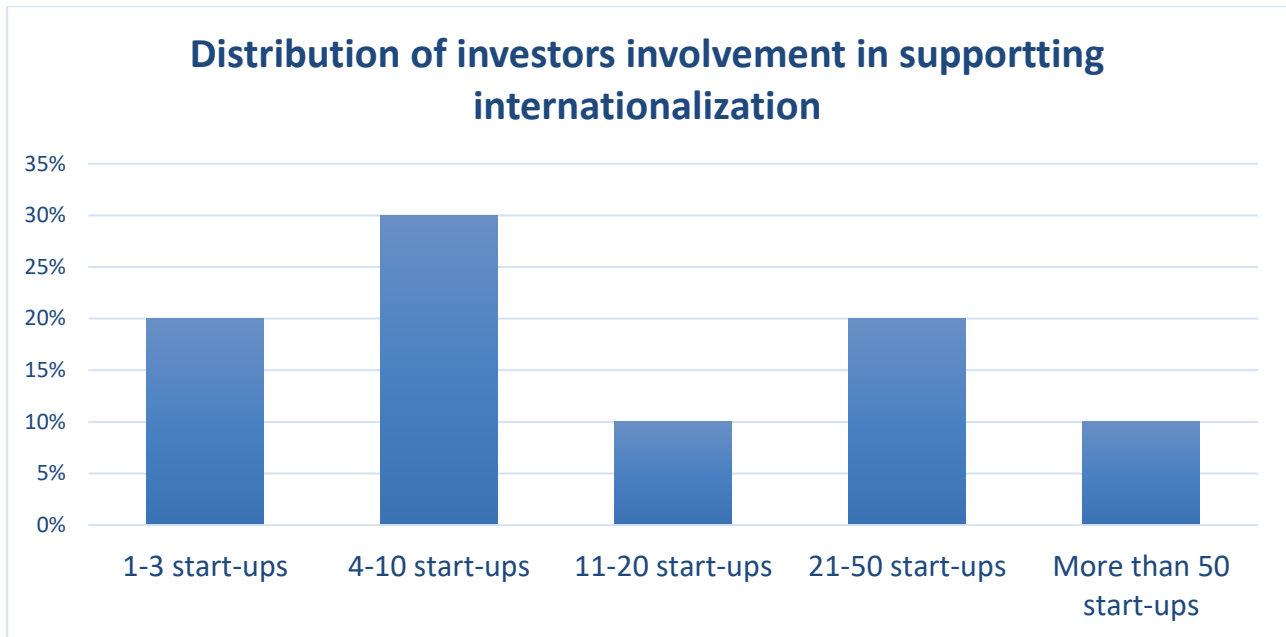


Figure 4 Distribution of investors' involvement in supporting internationalization

This level of exposure further strengthens the validity of the analysis, as recurring investor insights are based on multiple cases rather than isolated experiences. Given the natural challenges of internationalization in small open economies like Finland, this practical experience is particularly valuable for understanding patterns of failure and opportunity.

Respondents were also asked to assess how frequently Finnish start-ups are sufficiently prepared when they begin their internationalization process. The question was measured using a scale 1 – 5, where 1 meant “Never prepared” and 5 meant “Always prepared”. The results revealed an average score of 2.6, indicating a general perception among investors that Finnish start-ups are rarely adequately prepared for international expansion. Figure 5 summarizes investor perceptions of how well Finnish start-ups are prepared when internationalizing. Most respondents evaluated readiness between 2 and 3, with an average score of 2.6. The result highlights a concern that Finnish start-ups are often missing sufficient preparation, particularly in areas like strategy, resource planning and understanding of the market.

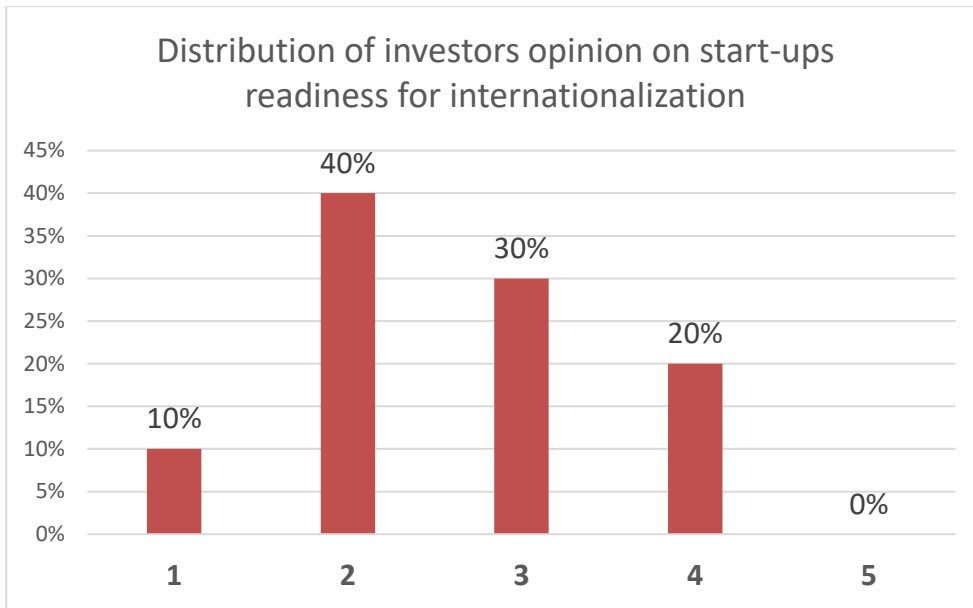


Figure 5 Investors' assesment of start-up readiness for internationalization

Displays how investors rated the preparedness of Finnish start-ups for internationalization on a scale from 1 = never prepared to 5 = always prepared.

This finding is consistent with prior literature that emphasizes the liability of foreignness and the insufficient market understanding that start-ups often face when going abroad (Johanson & Vahlne 2009; Zaheer 1995). From the investor's perspective, lack of preparation can be seen in many forms, including underdeveloped market entry strategies, poor resource allocation and excessive reliance on domestic validation metrics.

The structured questionnaire attempted to understand how actively investors participate in shaping the expansion strategies of the start-ups they have invested in. In the structured questionnaire respondents were asked to estimate involvement on a scale from one to five, one meaning "Not involved at all" and five meaning "Heavily involved". The average score among respondents was 4.0, indicating that investors normally play a moderate to significant strategic role in internationalization process. Figure 6 shows that 80% of respondents rated their own involvement in shaping the internationalization strategies of start-ups they are involved with as 3 or 5. The average of investors score was 4.0, which highlights that investors are not passive capital providers but actively contribute to shaping internationalization strategies.

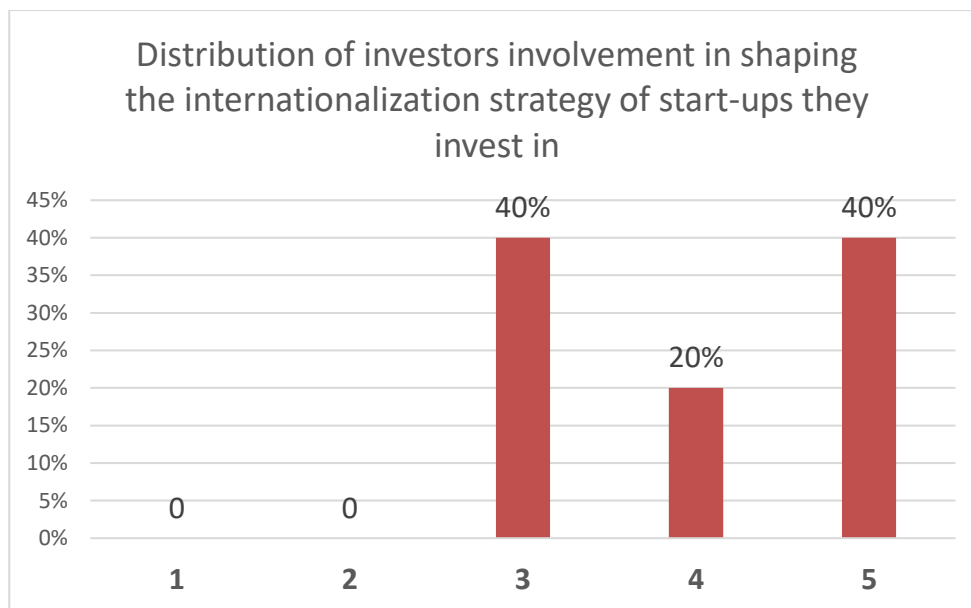


Figure 6 Investors' involvement in shaping start-up internationalization strategy

Illustrates how actively investors participate in forming the internationalization strategies of the start-ups they fund, rated on scale from 1 = not involved to 5 = heavily involved.

This extent of involvement suggests that investor's role is not limited to providers of capital but also acts as strategic advisors. Many of the respondents disclosed offering market entry advice, introducing start-ups to international networks and providing mentoring and strategic guidance. Such involvement reflects the increasingly active and multifaceted role investors play in guiding start-ups through the complexities of internationalization.

## 5.5 Descriptive statistics of the data

This section presents the key quantitative findings of the structured questionnaire conducted among investors who have supported Finnish start-ups in their internationalization efforts and operations. The objective of this analysis is to identify the most popular challenges perceived by investors, the scale of investors involvement in internationalization, the criteria they use to assess readiness and the forms of support they typically offer. The results are based on multiple choice and one-to-five scale questions and are analyzed using descriptive statistical methods.

As shown earlier in Figure 5, investors commonly consider Finnish start-ups to be insufficiently prepared for internationalization. Multiple respondents noted that under preparedness extends beyond the most visible issues and often involve deeper challenges, such as unconfirmed assumptions considering the foreign market, poor alignment of product offerings and demand and overly optimistic expectations considering timelines and growth. These findings are consistent with prior research on the liability of foreignness (Zaheer 1995) and the experiential learning challenges

that start-ups internationalizing early encounter, especially in small open economies (Johanson & Vahlne 2009). The results highlight the importance of fundamental strategic preparation, creation of realistic objectives and cooperation with investors prior to entering new markets.

In order to understand the impact of individual investor preferences on their decision making, respondents were asked to evaluate the extent to which their risk tolerance influences their investment decisions, especially in the start-up internationalization context. As figure 7 shows, the average score of investors answers was 3.8, reflecting a moderately high level of risk acceptance.

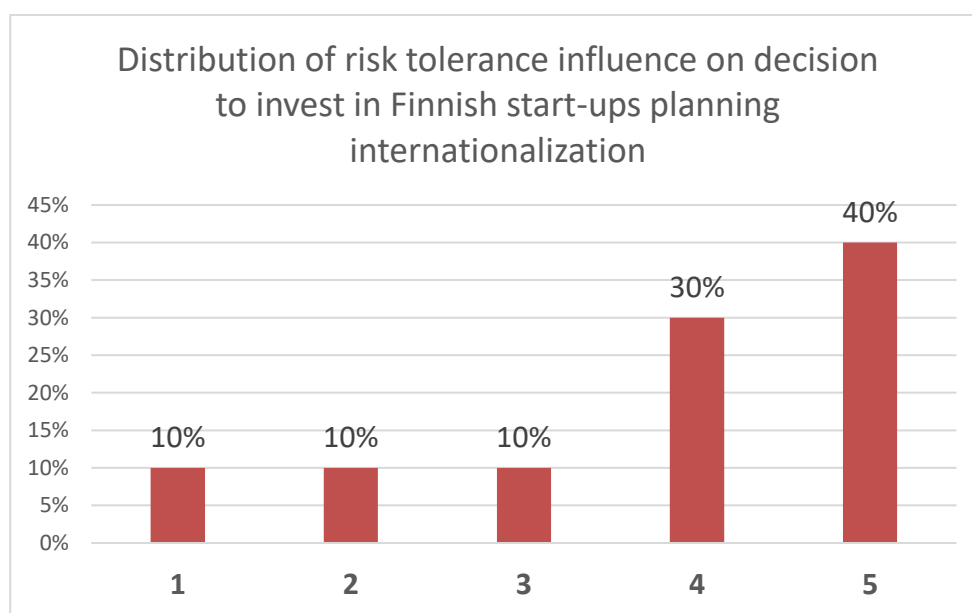


Figure 7 Influence of investor risk tolerance on internationalization funding decisions.

Shows how investors rated the extent to which their risk tolerance affects their decision to invest in Finnish start-ups planning internationalization. Scale was from 1 = no influence to 5 = strong influence.

Although start-up investors are normally accustomed to uncertainty, this result suggests that risk preference still guides the decision-making process. Especially, when start-ups lack clear strategies or sufficient market validation. While investors are generally used to uncertainty in early-stage ventures, this result indicates that decisions to fund internationalization are still guided by caution and depend on case-by-case assessments, especially in terms of the maturity and competence of the founding team.

Respondents were asked to select the most significant challenges Finnish start-ups face during internationalization. A total of 41 responses were collected from the ten participants, with the option of choosing multiple challenges. The most frequently mentioned issues are presented in Figure 8.

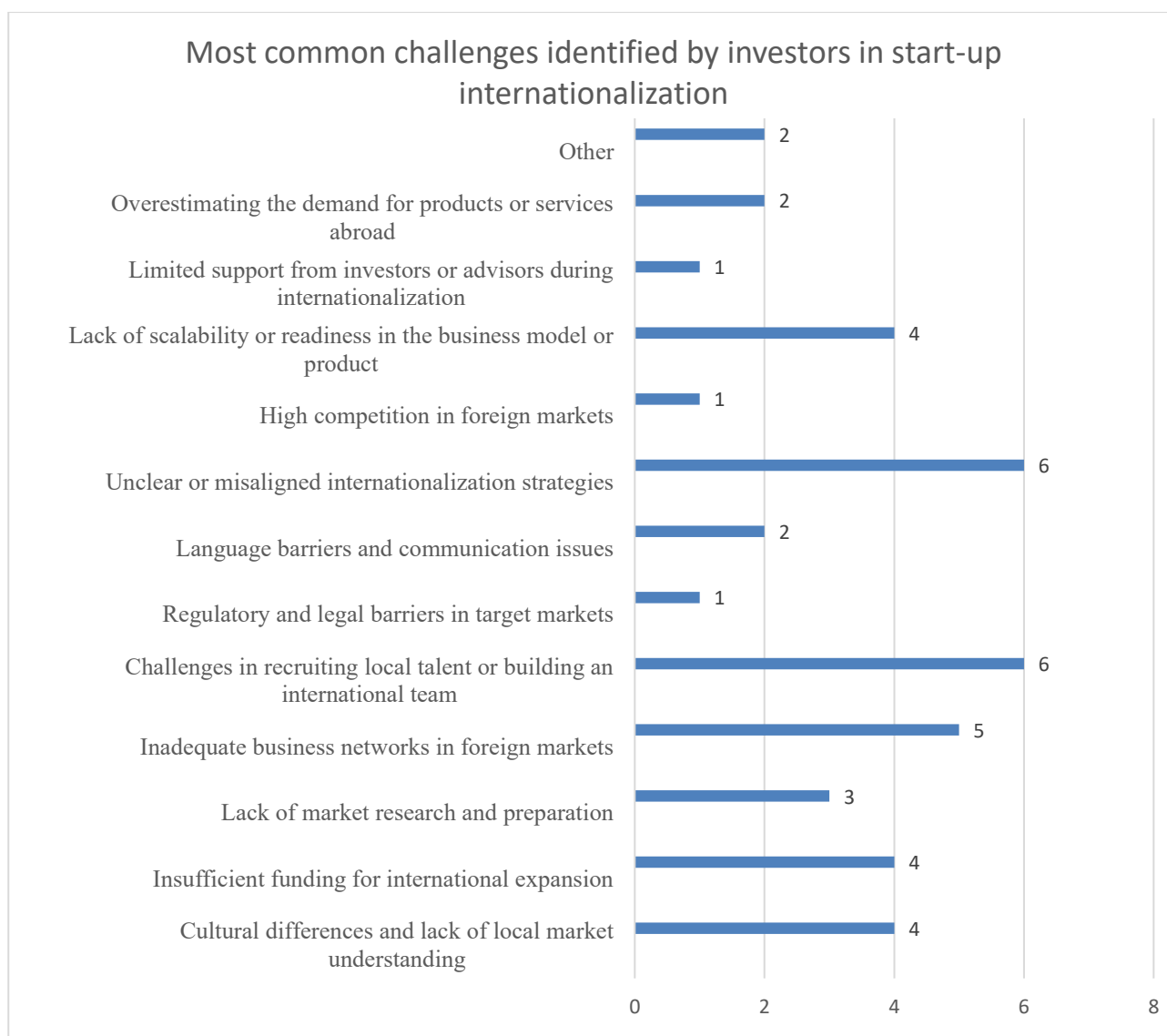


Figure 8 Most common challenges identified by investors in start-up internationalization

The most common challenges cited by respondents were unclear or misaligned internationalization strategies, difficulty in recruiting local talent or building an international team and inadequate business networks in foreign markets, each of which was selected by at least half of the respondents. In addition, challenges such as lack of adequate market research, insufficient funding, limited scalability and cultural differences were frequently selected. These findings reinforce the observation that many start-ups rely heavily on domestic validation and have difficulties adapting to the diverse demands of foreign markets. The results highlight the need for better strategic alignment, higher knowledge of the target market and stronger international partnerships to improve the success rate of Finnish start-up internationalization.

To improve the understanding of how investors evaluate start-up readiness for internationalization, respondents were asked to identify key assessment criteria. There was a possibility of choosing

multiple answers and a total of 59 selections were made across ten participants. These answers are presented in Figure 9.

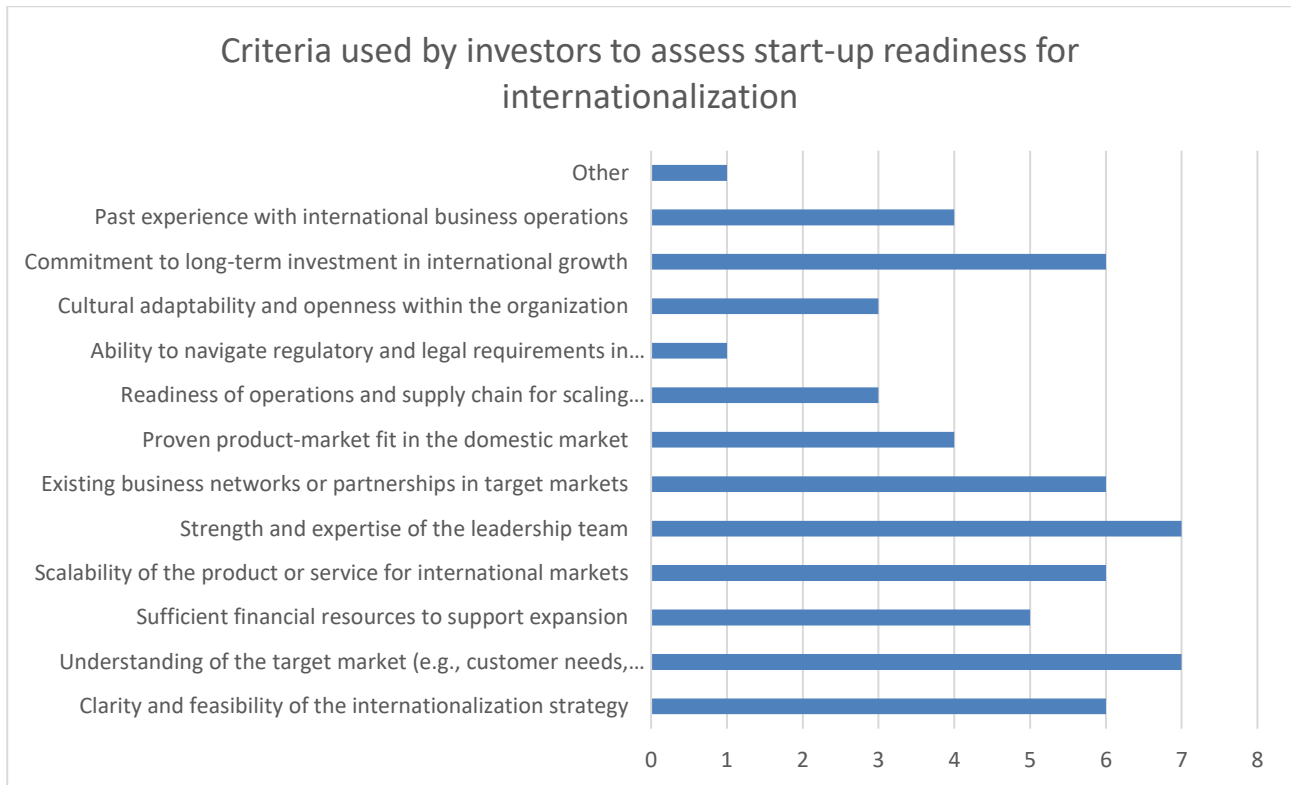


Figure 9 Criteria used by investors to assess start-up readiness for internationalization

Illustrates the key factors investors consider when evaluating whether a start-up is ready for internationalization. From the responses, the two most frequently selected were understanding of the target market and strength and expertise of the leadership team. Both were chosen by seven of the ten respondents. These results indicate that investors place strong emphasis on both analytical market knowledge and the leadership team's capability to implement internationalization effectively. Following these two closely were four criteria, each selected by six respondents. Clarity of the internationalization strategy, scalability of the offering, existing networks in the target market and commitment to long-term international growth. These selections suggest that investors value strategic coherence, potential for scalability and existing external relationships. Other factors, such as sufficient financial resources, selected by five, and proven product-market fit in the domestic market, selected by four, were also viewed as important factors, although to a lesser degree. Notably, regulatory preparedness and cultural adaptability were seen as less critical, with only one respondent selecting regulatory navigation and three selecting internal cultural openness.

The diversity of selected criteria demonstrates that investor evaluations are multidimensional and grounded in both strategic foresight and operational readiness. The emphasis on leadership quality

and market understanding reflects the investor expectation for strong planning before entry and execution capability.

Respondents were lastly asked to indicate the form of support and help they typically provide for start-ups during internationalization processes. Participants were capable of selecting multiple answers and a total of 47 responses were received, meaning multiple respondents selected more than one form of support they typically offer. The most frequently selected forms of support are presented in Figure 10.

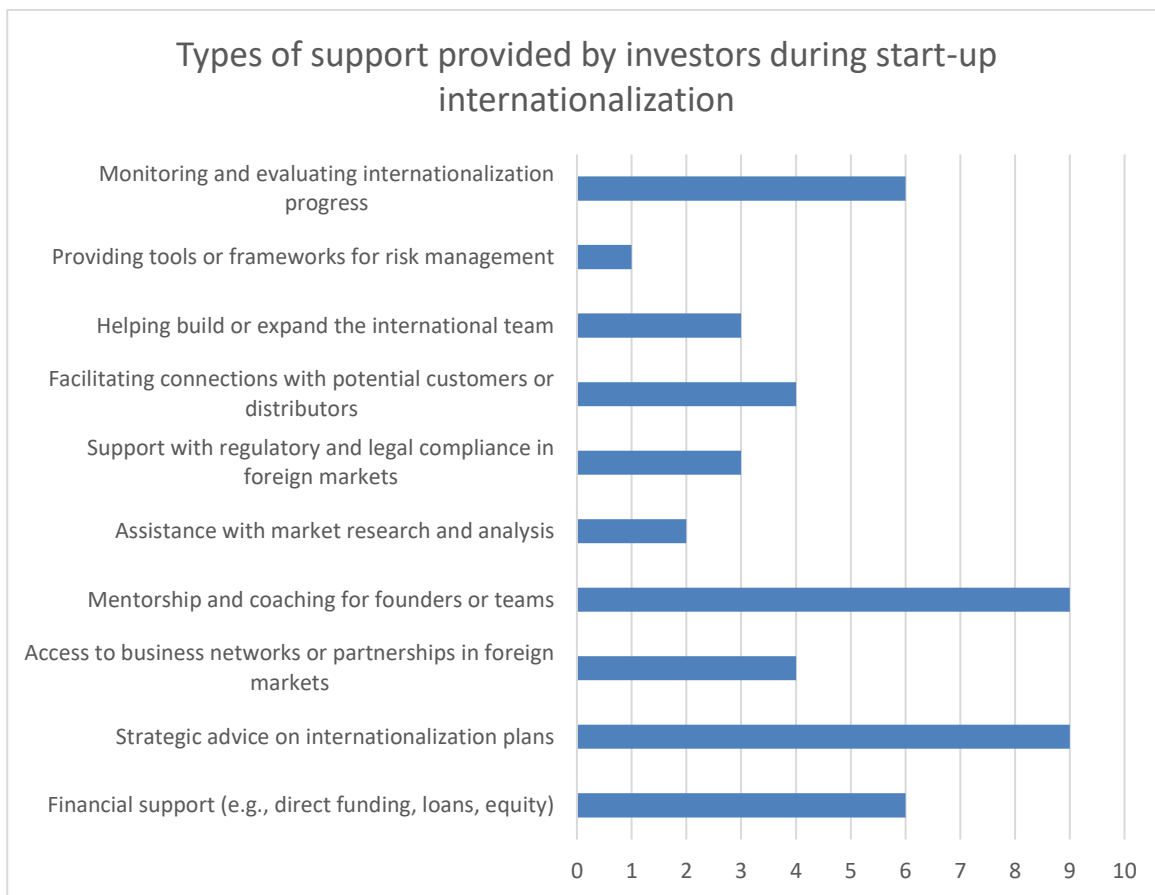


Figure 10 Types of Support provided by investors during start-up internationalization

Displays the most common forms of support investors offer to start-ups in the internationalization process, based on multiple selections per respondent.

The findings suggest that investor participation in expansion to new markets extends well beyond financial support. Strategic guidance and offering a way to international networks appear to be the most frequently provided forms of support. These elements are crucial for overcoming knowledge gaps and improving opportunities for successful market entry to competitive markets. Nearly all forms of support were selected by multiple respondents, confirming the versatile nature of investor involvement in start-ups foreign market entry efforts.

## 5.6 Thematization of data

In addition to close-ended questions the structured questionnaire also included open-ended questions to collect investors insights regarding internationalization challenges of Finnish start-ups. The qualitative data was analyzed through thematic content analysis, consistent with the approach outlined in chapter 5. The analysis revealed four key themes: strategic deficiencies, adaptation issues and market knowledge, organizational limitations and investor-start-up relationship dynamics. These themes reflect recurring observations by investors and bring out critical areas of challenges for start-ups attempting internationalization. Respondent quotations presented in this section have been anonymized and, where necessary, minimally edited for grammar and clarity. The original meaning and content of the response have been retained.

The most visible theme was the lack of structured and functional internationalization strategies. Investors mentioned multiple times that start-ups have a habit of underestimating the complexity of market entry to new international markets and have not formed detailed plans considering timelines, entry tactics, and resources. As a result of this many investors viewed poor preparation as a key reason for failure.

*“Poor market-entry strategy”*

*“Too optimistic expectation of market traction”*

Investors regarded premature entry and overconfidence based on domestic prosperity as critical risk factors. This observation corresponds to the previous results, where only 60% of investors considered start-up internationalization strategies to be sufficiently clear.

The second key theme focused on inadequate market knowledge and limited customer knowledge in foreign markets. Investors pointed out that start-ups often lack basic understanding of customer needs and market conditions while also having difficulties internalizing regulatory requirements in the target market and country.

*“Not understanding how difficult international markets are”*

*“Failure to research and adapt to local markets”*

Respondents expressed that that assumptions based on domestic market experience do not automatically transfer to foreign contexts, especially in markets that are culturally distant to Finland’s domestic market.

Organizational shortcomings were recognized as another critical problem among Finnish start-ups. Several respondents mentioned that start-ups often lack internal capacity or experience to manage simultaneously both domestic and international activities.

*“Lack of resources and experience to handle international expansion.”*

*“Overdependence on founders”*

Common issues included insufficient international requirements, unclear delegation of responsibility and excessive reliance on the founding team.

The final theme related to interaction between the investor and the founder. Even though most investors expressed a willingness to offer strategic guidance and support, some mentioned that founders were hesitant to fully leverage the networks provided by investors or underestimated the value of external advice.

*“Start-ups often do not listen to advice or use investor networks.”*

*“Unrealistic timelines set by start-ups”*

Investors reported occasional tensions regarding risk assessment, expectations for speed of market entry and alignment of long-term objectives.

The qualitative results offer valuable insight into the key areas where investors perceive Finnish start-ups face barriers in internationalization. The four themes, that were insufficient strategic planning, limited knowledge of foreign markets, internal resource constraints and underutilization of investor support, align closely with the patterns identified previously in chapter 6.2.

Figure 11 highlights the four central themes identified by investors as contributors to Finnish start-ups failure in internationalization. Strategic shortcomings were frequently mentioned, particularly in the form of poor or unrealistic market entry plans. Market knowledge and adaptation challenges were also highlighted, including insufficient research and offerings that did not fit the conditions of the target market. Organizational limitations emerged as another key theme, with investors pointing at insufficient internal capabilities and a lack of experienced leadership. Lastly, the relationship dynamics between investor and start-up were identified as a barrier, especially when founders do not fully accept or use the investor support or when expectations with these two are not aligned. Together, these themes create a comprehensive foundation for understanding the recurring patterns that prevent successful internationalization.

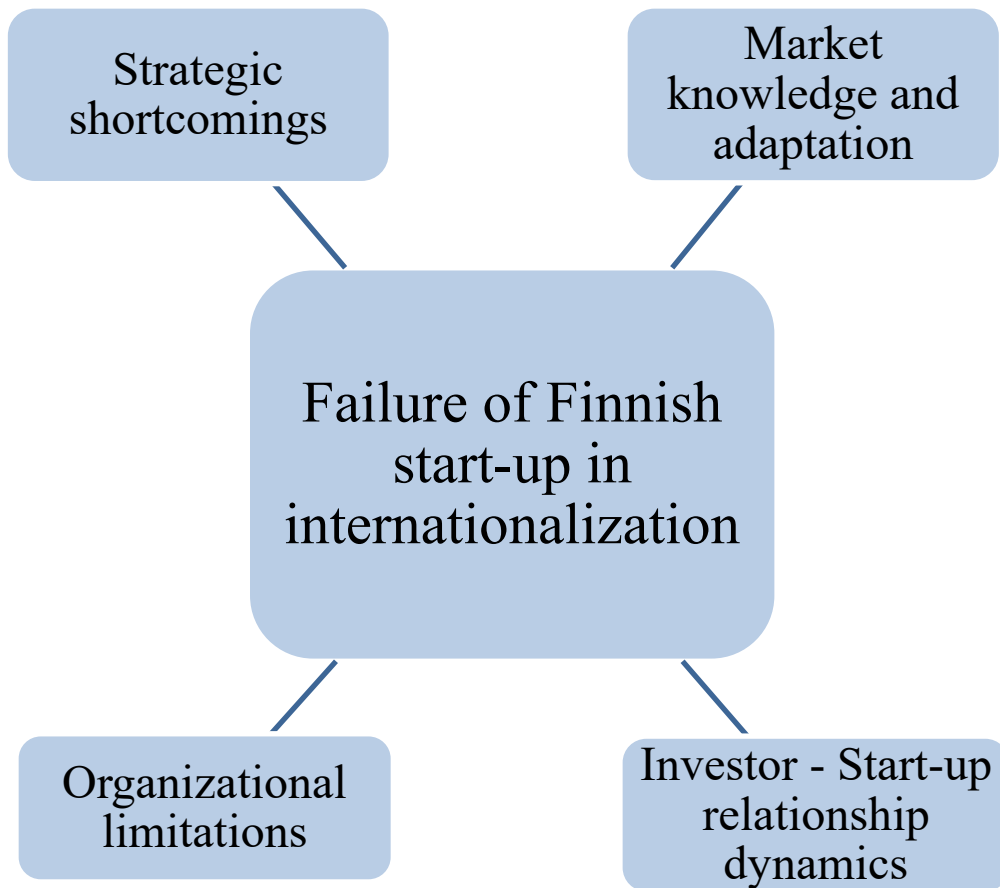


Figure 11 Key themes contributing to the failure of Finnish start-up internationalization.

Visual summary of the four primary themes identified by investors as contributing to internationalization failure among Finnish start-ups.

## 5.7 Patterns and synthesis

The findings of this study, based on both structured and open-ended structured questionnaire responses, reveal a consistent set of challenges and critical issues identified by investors regarding Finnish start-up internationalization. This section synthesizes the results of the analysis to provide a comprehensive view of the recurring themes and patterns according to investor respondents. The analysis of close ended responses pointed out that investors view Finnish start-ups as generally unprepared for internationalization, with an average preparedness grade of 2,6 out of 5. Investors reported a high degree of involvement in start-up internationalization strategies, averaging 4.0 out of 5, indicating that their role extends further than providing capital, having a significant role in strategic and operational support. Investors viewed their risk tolerance to 3,8 out of 5, what is

moderately high, even though investors demonstrate that lack of preparation and ambiguous strategies remain as significant obstacles for funding international expansion.

The most commonly identified challenges in the close ended responses were lack of market knowledge, incompletely defined market entry strategies, overestimation of product-market fit and limited access to international talent. These observations were strengthened by the open-ended response analysis. The open-ended responses revealed four dominant themes, that were strategic shortcomings, insufficient market knowledge and adaptation, resource limitations in the organization and underutilization of investor support. The open-ended responses deepened the quality and detail of patterns identified in the close-ended structured questionnaire results. In the answers there were repeated situations where start-ups entered foreign markets prematurely, underestimating the value of local market knowledge or failing to allocate adequate resources to domestic and international actions. Responses also displayed experiences of tensions forming between investors and founders, including unrealistic expectations and poor communication regarding the use of networks and expertise investors possess.

In combination, the results suggest that Finnish start-ups will continue to face recurring and predictable challenges and barriers when pursuing international markets. The findings show clear consistency between the investor reported evaluation criteria, the challenges most often encountered, and the qualitative examples provided by respondents. Across both open- and close-ended responses, investors highlighted that success in internationalization is remarkably dependent on strong team capabilities, fact-based market knowledge, comprehensive strategic planning and considerable cooperation between start-ups and investors.

The alignment between the open-ended and close-ended data strengthens the credibility of the study and offers a solid foundation for the findings and conclusion presented in chapter 7. The insights obtained demonstrated how investors experience and expectations can serve as valuable guidance for start-ups to enhance their readiness and develop strategies for entering foreign markets.

## 6 Findings

This chapter presents the key findings of the study by addressing the research questions presented at the beginning of this thesis. The purpose of this section is summarizing the main results and highlighting the most significant insights obtained from the analysis of investor structured questionnaire responses.

The first research question focused on how investors observe the challenged Finnish start-ups face when internationalizing. Both open-ended and close-ended results point out that Finnish start-ups are usually underprepared when entering new markets. Investors were asked to evaluate the preparedness, and their responses average was 2.6 out of 5. They identified the most common challenges that were lack of market knowledge, poorly defined market entry strategies, overestimation of product-market fit, and difficulties in attracting international talent. The answers clearly showed that premature internationalization, combined with false expectations, leaves start-ups open to significant risks in international markets. Investors frequently expressed a lack of flexibility and underestimation of competitive intensity abroad.

As one investor put it:

*“Being non-flexible, not trusting local experts, and looking for easy wins – that’s a sure way to fail.”*

Another noted:

*“Even when providing SaaS, companies often target the biggest markets just because ‘we already know the language’ – instead of truly understanding market fit.”*

The second research question focused on the specific factors that investors view as critical to start-up internationalization failure. The findings revealed four main patterns contributing to failure, these were lack of a structured expansion strategy, insufficient understanding of foreign markets and customer knowledge, internal organizational limitations and not accepting or fully utilizing investor support. Investors pointed out that many start-ups enter international markets without conducting thorough market research or even without an adequate plan. That frequently leads to a poor adaptation to the market and results in loss of competitive advantage. Additionally, limited number of resources and inadequate internal functionality were viewed as key barriers to sustaining international success.

One investor commented:

*“Internationalization is seen as an objective in itself, rather than just a way to expand the target market.”*

Another observed:

*“Start-ups often completely underestimate the challenges. It’s a lot harder than the home market – going there before having a grip on the domestic market is suicidal.”*

The third research question focused on the investors’ perceived role in supporting the internationalization of start-ups. The structured questionnaire results indicated that investors tend to play an active role that applies to areas beyond capital. Investors participating in the structured questionnaire estimated the average involvement to 4.0 out of 5, reflecting a strong strategic and advisory contribution from investors. Popular forms of support included strategic guidance, access to international networks, advice on market entry and recruitment assistance. While investors expressed a willingness to offer expertise and resources, they also pointed out that founders often do not exploit the support available, what ends up as missed opportunities for more rapid and efficient market entry.

For example:

*“We help set realistic expectations and make sure they are sufficiently prepared before they expose themselves too much.”*

Another stated:

*“Providing experience-based knowledge on best practices and offering financial support are both key.”*

One investor emphasized:

*“Investors can boost courage, especially when they have deep experience in internationalization – but the mindset must come from the founders.”*

The last research question explored how investor experience and knowledge can be leveraged to improve start-ups internationalization success. The findings suggest that investors expect start-ups to demonstrate clear evidence of readiness prior to internationalization. Investors expect start-up to demonstrate detailed market research, a defined strategy, strong leadership capabilities and the financial and operational capacity to grow and scale. Investors believe that early engagement and alignment between investors and start-up teams can reduce risks and improve outcomes. Moreover, investors emphasized the value of collaboration and that founders must actively leverage and utilize investor networks and strategic advice throughout the internationalization process.

Investors highlighted several specific readiness criteria:

- Clarity and feasibility of the internationalization strategy
- Understanding of the target market
- Sufficient financial resources
- Product-market fit
- Experience of the leadership team
- Cultural adaptability

One investor summarized:

*“They should have a clear idea of their ICP and PMF in the home market and have conducted sufficient market research of the target market to have realistic expectations.”*

These findings collectively reflect the complexity of internationalization from an investor’s perspective. They emphasized not only the operational and strategic deficiencies in Finnish start-ups but also the importance of investor engagement and realistic planning for internationalization success.

## 7 Conclusion

### 7.1 Theoretical contributions

The aim of this thesis was to investigate why Finnish start-ups often face difficulties in their internationalization efforts, with a specific focus on the perspective of investors. Through a questionnaire aimed at investors that had directly supported Finnish start-ups entering international markets, the study identified recurring challenges, causes of failure and the investors role in shaping the internationalization outcomes. The analysis combined both open-ended and close-ended questions data, revealing a consistent pattern of perceived under preparedness, strategic deficiencies, poor market knowledge and organizational limitations within internationalizing start-ups. These findings reflect prior research on internationalization challenges, including the liability of foreignness and externality (Zaheer 1995; Johanson & Vahlne 2009), which can be especially evident when start-ups lack networks and contextual knowledge in new markets (Coviello & Munro 1997).

The findings showed that investors have an active and diverse role in start-up internationalization. Investors are providing capital, but in addition they offer strategic guidance, access to international networks and offer support in operational planning and labor procurement. However, start-ups do not always fully utilize investors' input, also tensions may arise because of differences in expectations, readiness and timelines. These tensions reinforce the earlier findings from investor literature (Gabrielsson & Gabrielsson 2013; Wiltbank et al. 2009) that emphasize how misalignment between founders and investors can hinder internationalization efforts.

The study contributes to international entrepreneurship literature by offering insights into early-stage internationalization from the investor's viewpoint, that is an area understudied. The results reinforce and extend previous research in the fields of born globals and international new ventures (Knight & Cavusgil 2004; Oviatt & McDougall 1994), by showing how investor involvement can mitigate some of the key risks associated with rapid foreign expansion. These include insufficient financial and human capital, as well as weak strategic planning (Gabrielsson et al. 2008). This perspective complements existing research in international entrepreneurship, where investor roles are often overlooked despite their relevance (McDougall & Oviatt 2000).

Moreover, the thesis helps clarify how readiness assessment and strategic alignment, factors often discussed in international theory, are practically applied by investors when evaluating and supporting start-ups. These observations link closely to the Uppsala internationalization model

(Johanson & Vahlne 1977; Johanson & Vahlne 2009) and network theory (Johanson & Mattsson 1988), both of which emphasize knowledge accumulation and embeddedness in business networks. The findings also support criticisms of traditional incremental models by showing how Finnish start-ups often pursue accelerated internationalization due to their small domestic market, aligning with the born global view and prior research on Finnish international ventures (Kuivalainen et al. 2012; Gabrielsson & Gabrielsson 2011).

## **7.2 Managerial implications**

For Finnish start-ups, the findings highlight the significance of truth-based preparation before pursuing foreign markets. Start-ups should invest in well executed market research, create realistic internationalization strategies and be willing to utilize networks and experience of their investors. Failure in these areas may result in avoidable mistakes and lost opportunities in international markets. For investors, this thesis suggests a need for proactive alignment with start-up teams early in the expansion process. Coaching, strategic involvement and clear communication regarding expectations can improve the outcomes and reduce disagreements during higher risk stages of internationalization. Support organizations may also benefit from these findings by customizing their support tools to focus on matching investors and founders, building networks and ensuring readiness.

## **7.3 Limitations of the study**

The primary limitation of the study is the sample size, which, while carefully targeted, included only ten investors. As such, the findings should not be generalized across sectors or geographies. Additionally, the use of qualitative structured questionnaires instead of questionnaires may have limited the depth of some individual responses. Another limitation concerns the scope of investors' profiles. While respondents represented a mix of angel investors and venture capitalists, the study did not separately analyse variations across different investor types or funding stages in depth. Furthermore, the data may be affected by self-selection bias, as investors who chose to respond may have stronger opinions or particularly memorable experiences related to start-up internationalization, potentially influencing the overall tone of the findings. The study's exclusive focus on the Finnish start-up ecosystem also limits the applicability of its conclusions to other national contexts, where institutional regulations, funding environments and internationalization models may differ significantly.

## **7.4 Suggestions for future research**

Future research could expand the sample to include broader range of investors, including international investors working with Finnish or Nordic start-ups. Comparative research between successful and unsuccessful internationalization cases could also shed further light on best practices and risk factors. Additionally, future research could explore the dynamics between investors and founders by including both perspectives in the analysis. This would provide a more comprehensive insight into the strategic decision-making process during internationalization efforts. It would also offer valuable insights into how investors and founders' collaboration or misalignment affects outcomes.

## 8 Summary

The objective of this master's thesis was to investigate why Finnish start-up companies often face challenges and failures in their internationalization efforts, specifically from the perspective of investors. The topic is timely, as Finland's small domestic market forces start-ups to seek international growth early in their life cycle. While internationalization offers many growth opportunities, it also involves substantial risks that can lead to failure. This study aimed to uncover investors' experiences and observations considering the factors that contribute to these failures.

A qualitative research approach was applied, and data was collected by conducting an online structured questionnaire. The target group consisted of investors with experience funding Finnish start-ups during their internationalization efforts. The structured questionnaire included both multiple choice and open-ended questions, and the data was analyzed using descriptive statistics and qualitative content analysis.

The results indicate that investors observe Finnish start-ups as generally unprepared for internationalization. The most mentioned challenges included poor market knowledge, weak market entry strategies, overestimation of product-market fit and internal resources limitations. Additionally, investors provide more than just capital by offering access to their networks and guidance, start-ups tend to not fully utilize these. Four central themes emerged from the analysis, these were lack of strategic preparedness, limited market knowledge and adaptability, internal resources constraints and not taking full advantage from the relationship with investors. These themes represented the most recurring base causes of failure in Finnish start-up internationalization from the investors' viewpoint.

This research contributes new insights to the investor's role in the start-up internationalization process and offers practical recommendations for both start-ups and investors. Start-ups key focus should be in developing realistic strategies, conducting comprehensive market research and collaborating closely with investors. Meanwhile, investors should work to align expectations and provide support early in the expansion process.

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## Appendix Questionnaire

|   | Question   | Answer Type                                   |
|---|--|---|
| 1 | What is your primary role as an investor?  | Multiple Choice<br>(Single Answer)            |
| 2 | How many years of experience do you have in investing in start-ups?  | Multiple Choice<br>(Single Answer)            |
| 3 | Have you invested in Finnish start-ups to support their first internationalization attempts?                           | Yes/No  |
| 4 | If yes, approximately how many such start-ups have you supported?  | Multiple Choice<br>(Single Answer)            |
| 5 | What do you consider the most significant challenges Finnish start-ups face when entering international markets?       | Multiple Choice<br>(Multiple Answers Allowed) |
| 6 | In your experience, what are the most common mistakes Finnish start-ups make in their internationalization strategies? | Open-Ended                                    |
| 7 | What criteria do you use to assess a start-up's readiness for internationalization?                                    | Multiple Choice<br>(Multiple Answers Allowed) |
| 8 | In your view, what do you think Finnish start-ups should at least know when starting to internationalize?              | Open-Ended                                    |

|    |   |   |
|----|---|---|
| 9  | How often do you think Finnish start-ups are sufficiently prepared for internationalization?  | Scale (1 = Rarely, 5 = Always)              |
| 10 | How involved are you in shaping the internationalization strategy of the start-ups you invest in?   | Scale (1 = Not Involved, 5 = Very Involved) |
| 11 | What kind of support do you typically offer to start-ups during their international expansion?  | Multiple Choice (Multiple Answers Allowed)  |
| 12 | Please elaborate on any specific types of support by investors you believe are most critical during international expansion.                                    | Open-Ended                                  |
| 13 | Based on your experience, what recurring patterns or reasons contribute to the failure of Finnish start-ups attempting internationalization for the first time? | Open-Ended                                  |
| 14 | In your opinion, what could Finnish start-ups do to improve their chances of succeeding in internationalization?  | Open-Ended                                  |
| 15 | How can investors contribute more effectively to improving internationalization outcomes of Finnish start-ups?  | Open-Ended                                  |

|    |  |   |
|----|--|---|
| 16 | How would you define your risk tolerance in the context of Finnish start-up financing?                             | Open-Ended                                    |
| 17 | How does your risk tolerance influence your decision to invest in Finnish start-ups planning internationalization? | Scale (1 = No Influence, 5 = Major Influence) |
| 18 | How would you describe the current Finnish start-up ecosystem?   | Open-Ended                                    |
| 19 | Do you believe that the Finnish start-up ecosystem sufficiently prepares companies for internationalization?       | Yes/No  |