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The Institutional Prerequisites Required for Fin Tech Companies and Their Impact on Entry Mode Strategies

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Abstract

This study enquires into the institutional prerequisites required from a transitional economy in order to be attractive for international Fin Tech companies operating in payment industries. The study was conducted based on comparison between Armenian and Swedish markets. I used conceptual frameworks proposed from the previous literature in order to recommend entry modes for FinTech companies in payment industries. The results reveal that Fin Techs will likely not to have extra challenges when entering transitional economies compared to developed markets.

Keywords: Institutional theory, payment companies, Fin Techs, entry mode strategies, transitional economies

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1. Introduction

The impact of institutions on private enterprises has long been in the center of interest of scholars. There are plenty of research done to understand how the country level institutions and institutional distance affect the behavior of Multinational Enterprises/Corporations (MNE, MNC) on market entry stage. There is also research on how MNE can capitalize on their differences and affect local institutions, thus creating their unique position in the market (Regnér and Edman 2014). However, there is little research on industry specific constraints and enablers for entrance to a market of their choice. The primary reason why this differentiation is essential to make, is that industry specifics are varying from one to another (Kohli and Kettinger 2004; Chiasson and Davidson 2005; Wang 2010). Some industries are under heavy pressure from the local institutions and thus the conduct and strategy of the firm will be more constrained, while in other industries where institutional logic is not dominating, companies have more space for differentiation and unique value proposition. For example, banking companies, which conduct is considered to be greatly influenced and shaped by institutions, is currently experiencing an industry-wise transformation.

The reason for this, or so it has been claimed by Malone, Laubacher, and Johns (2011), is that the world is moving toward the "Age of Hyperspecialization." Adam Smith, in his book *The Wealth of Nations* explains the importance of the division of labor and envisages that it will be the central driving force for economic progress. Indeed, throughout centuries, tasks that were done by a single party, are divided to micro-tasks and completed by different parties. Having a glance on today's enormously complicated supply chains, one might think that we are already reaching the limits of specialization. Although many incumbents are increasing their spheres of business conduct through mergers and acquisitions, it is also true that corporate specialization, especially in start-ups is increasingly taking place. In the banking industry, many small Fin Tech companies are entering the market and taking the functions traditionally performed by banks, thus aiming at disrupting the industry set standards and changing the normative and cognitive pillars of market institutions.

As private enterprises increasingly tend to specialize on narrower functions within their industry of conduct and at the same time, institutional norms and their impact is varying across the industries (Kam, Mattson, and Goe, 2019), it is important to make industry-wise differentiation for institutional impact on MNE's targeting to enter new markets. The purpose of this paper is to understand the institutional maturity of transitional economies and the existence of the prerequisites required for Fin Tech companies in order to succeed when entering those markets, I intend to reveal that the markets are mature enough and have the potential to be profitable investments for Fin Tech companies operating in payments industries. Since the developed market economies are already experiencing huge transformations in this industry, my main focus will be on transitional economies where such innovative approaches to payment methods are not experienced yet. In addition, the problem at hand, that this paper is designed to address is the general perception in the FinTech company representatives that the transitional economies are costlier for them to enter and might even bring potential threats to the operations of these companies in their home markets. The former understanding is the result of the need of educating the participants in the transitional markets. The general opinion is that people in transitional economies are more accustomed to cash usage, and the companies will need to bear extra costs in the pursuit of educating the end customers to new methods of payments. While the latter opinion is based on the fear that home country actors in the industry will disapprove the firms conduct in transitional economies, since those markets are seen as high risk in terms of financial operations, due to increased money laundering, corruption and fraud threats.

1.1. Organization of the Study

In the next section I will discuss the development of payment industries throughout history and the current state of its ecosystem. Section 3 will focus on previous literature review on institutional theory and its impact on the operations in the market. Sections 4 and 5 will present the research objectives and the conceptual framework used to assess my findings. Section 6 is designed to reveal the economic differences in transitional and developed economies, thus it is helpful in understanding potential challenges connected to entrance to markets in transition. In Section 7 the research questions and propositions can be found, which are addressed in Section 10, Discussions. Section 8 contains information about research design and methods used to address my proposition, while in Section 9 actual finding from the interviews can be found.

2. Understanding the Payments Systems Evolution of Payments Industries

The payment takes place when one of the parties, the payer, transfers the asset to the second party, the payee, in the aim of dismissing the debt incurred by the payer. Similarly, a payment may be constituted of the payer, instructing to the third party to initiate such a transfer (Roberds, 2008). While generally the payment might be made with the use of any asset, practically almost all contemporary payments comprise transfers of debts claim on either a central bank (which is considered ‘outside money,’ as currency and deposits) or private banks (as ‘inside money,’ as deposits).

In its turn, the payment system consists of complex of laws, contracts, and technologies that enable payments to take place and determine the settlement stage of the payment. These systems include checks, electronic fund transfers, currency, credit and debit cards, digital banking etc. In developed world economies heavily depend on the efficient operations of payments systems. Firstly, by offering debtors accurate and low cost means of settling debts, these systems encourage the utilization of credit, thus stimulating the overall economic activity. Alternatively, inefficient, and unsafe payments may frustrate the effective transfer of funds among private individuals and economic agents (Humphrey et al., 2006).

The payment involves the transfer of particular value from one party to another. When two parties exchange products or services directly, these transfers are called barters. There is, however, a considerable amount of conflict entailed with barter agreements. According to Mengerian theory about the origination of money as means of exchange, argues that money derives its importance from the means that it dismantles the problem of the "double coincidence of wants" that is the main restricting characteristic of barter trade (Jevons 1875; Menger 1892). The approach proposed by Menger, develops upon the ideas of Jevons that claimed that for the transaction to be initiated in a barter economy, the consumer of the good needs to find someone who not only has the good desired by him, but in addition, will also have the demand of the good/service that the former is offering in return. In practice, this can occur very rarely and on top of that, if we add that both parties should be able to supply the desired quantities, agree on the value of the product that they are offering and these all should coincide at the same time, in order for the transaction to take place.

While money has come to an aid and revolutionized the institution of trade exchanges for a very long time, the payments among actors in an economy were for the most time limited to simplest mutual relationships—one actor would supply the product, while the consumer would make the payment with some type of money. The emergence of banking systems was pivotal for the payments systems revolutionization. They created the conditions for the very first sophisticated payment systems to develop.

It is now important to make some definitions for payments terminology. In short, the payment process consists of Authorization, Authentication, and Settlement and Clearing stages. In case of credit card purchase, during the authorization process the seller is required to gain an approval from the client's card issuer bank. When the cardholder enters the card's digits either online or physically the payment process is initiated. The card details are wirelessly sent to the issuer, which forwards them to the credit card network. The payment, after verification from the credit card network is sent to the purchasers' bank. Once the details are gained by the card issuer bank payment reaches the second stage of authentication. Now bank validates the card number, funds available on the card and the rest of the details entered. The bank will than either approve or decline the transaction. In case of approval, the bank puts a hold equal to the amount of transaction, allowing the seller to collect this amount (this is generally done by batch at the end of the working day). The last stage of the payments process is the clearing and settlement. Clearing is a process, whereby the accounts of transacting parties are updated and the arrangements for money and securities transfer is made. There are two types of clearing processes: central clearing and bilateral clearing. In case of bilateral clearing, transacting parties undergo the legally necessary steps to prepare the settlement of the payment. Alternatively, central clearing uses a clearinghouse (third-party) to clear trades. The settlement process is the actual exchange of securities and money between the transacting parties on the date of settlement after earlier agreeing on the transaction.

Modern banking developed from various starting points in various parts of the world. For instance, banking in medieval Middle East was not only performing lending and money exchange functions but was also regularly involved in different payment methods. As the trade was developed between Europe and Muslim territories, it is logical to assume that these banking practices were observed by European merchants, however there is no evidence to suggest that European payments methods were originated from here (Astor, 1973). Rather it is assumed that moneychangers enlarged their roles of valuation of valuable metals, to also offering payments and other services which were based on the deposits of assets held with them (Mueller, 1997).

By the 1660s the goldsmiths in London were conducting a business by issuing notes for specie (valuable metals, e.g., gold, silver) deposits, and profiting by further issuing notes to borrowers. Every few days, the claims that banks had on each other were redeemed on mutual basis, with the settlement of the net differences in specie. The creditworthiness of issuer was the main factor determining the frequency of settlement and payment cycle. The better reputation the banker had, the longer others were willing to hold the notes issued by him (Quinn, 1997).

In parallel to the growth of the economic activity (advances in the 18th and 19th century) increasing need arose for the payments over further distances. This resulted in the increase of volumes and values of obligations between banks, which consequently resulted in more formalized clearing and settlement arrangements. Further development of the payments system resulted in centralized clearing and settlement houses and the role is typically performed by central banks.

In Sweden for example, between the 1850’s and 1901the engagement by the Swedish Central Bank, Riksbanken, in settlement and clearing was limited. Instead of it, the function of clearing of the Swedish banking systems were executed by two local commercial banks. The Stockholms Enskilda bank, which started in 1856, immediately involved in acting as a clearing bank and performed that role for other local note-issuing banks. However, in 1860’s Skandinaviska Kreditaktiebolaget, which was a non-issuing bank, took over the large portion of clearing function. This was possible largely because it was offering better terms. Starting from 1897 a new regulation was adopted that monopolized the notes by the Central Bank (Riksbanken, 2021).

2.1. The Outlook of Payments Ecosystem

There is currently a lot happening on the international and national payments markets. The usage of cash is dramatically decreasing, while cashless payments are increasingly becoming the norm, thereby enabling opportunities for earning in parallel with other things.

For instance, in Sweden, it is anticipated that by 2023 all payments will be initiated cashless. In particular the younger generations are showing a high conversion to mobile payment methods, which advances the drastic shift from use of cash to cashless transactions in the recent years. The introduction of instant payment systems was another game changing swing, as it is considered a real cash alternative and offers low cost and is high in convenience. In parallel, the increase in regulatory attention is happening in payments industry. However, not every actor in the payments market— issuers, acquirers, gateways, payment service providers (PSP), processors, etc.—are affected equally by those changes.

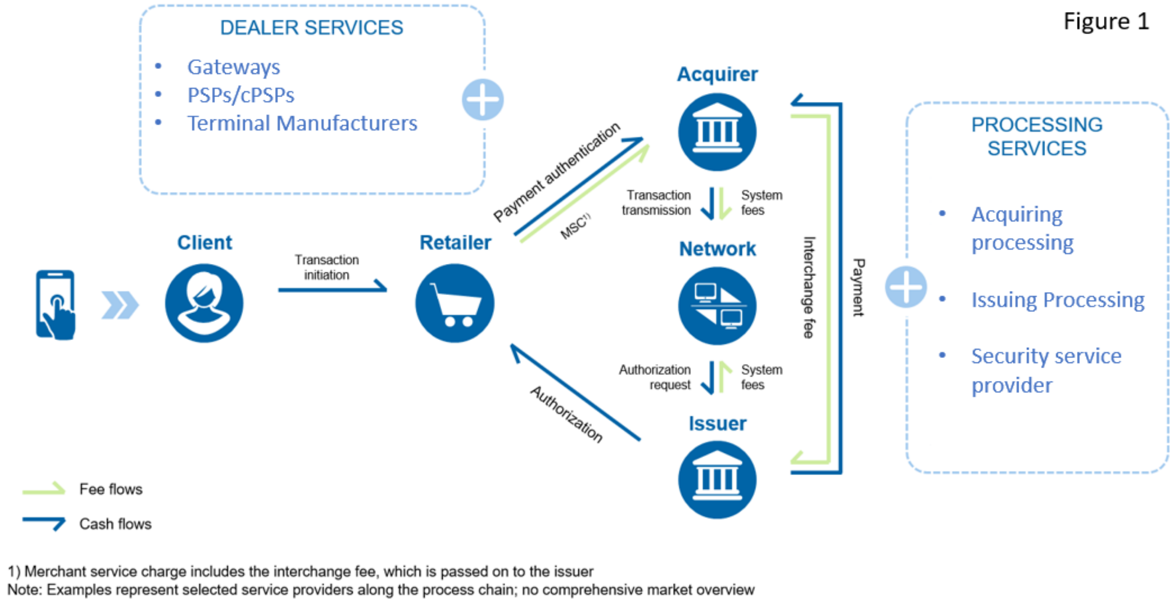

Figure 1: Overview of market actors in payments industry (the example of the credit card payment)(The Figure is redrawn from original source, Banking Hub by zeb).

Many intermediaries are entering the payments market and taking over traditional banking responsibilities such as customer authentication, settlement, and transactions authorization.

In addition to these market disruptions, digitalization is changing the fundamental processes by which transactions are executed at both physical and e-commerce environments. This especially affects the user experience. Fin Techs and big techs are introducing innovative payment tools such as Swish, Klarna or ApplePay to the markets in order to change the standards and increasingly position the smartphones as mobile wallets.

In summary, five factors have the greatest impact on the payment industry overall: new regulatory initiatives, changed customer behavior, new technologies, changed market infrastructure and changed competitive environment.

2.1.1. Customer behaviour: customers’ need for secure, smooth, and fast payment methods

As part of new innovative competition joining the industry and increasing digitalization, PSPs are increasingly confronting with new and changing customer requirements. The characteristics that are essential to succeed here include high degree of flexibility and more focused customer orientation in payment methods.

In addition to these success characteristics, it is also imperative to meet the central demands of payments procedures by the perspectives of customers. In sum, customers need fast, simple, secure, and cost-effective methods for transacting.

- Fast—immediate initiation and settlement of international and local payments all day round (24/7)
- Secure — important aspect is customers' data protection and transparency in order to secure fraud less transactions.
- Simple—customer friendly interface, ease of usage, and smooth processing of the transactions without interruptions
- Cost-effective—international payments with instant settlements should be processed on adequate pricing to justify the advantages of using it
- Anonymous—transactions should not be electronically traceable on individual basis

2.1.2. Competitive environment: new participants entering the market thus heating the competitive landscape

New payment tools such as mobile payments are increasingly becoming the reality in many markets across the globe, and these new international and local solutions are repeatedly being introduced in European markets. The fast-increasing number of new players is escalating the dynamics in the market, and in parallel new providers are disrupting the market conditions with their aggressive pricing strategies and their numerous types of flexible and modern products. A number of Fin Tech firms had succeeded to fill the market with their B2C and B2B offers. However, even the leading Fin Tech firms such as Adyen, Wirecard, TransferWise and Paypal have to conform with the big tech companies, as they have significant dominance over devices and customer data.

2.1.3. Regulatory initiatives

In recent years the legislative pressures on the payments industry have increased considerably. The regulatory policies and requirements should be forecasted promptly and initiated effectively. These initiatives are mostly aimed at increasing the consumer protection from frauds, promoting the innovative solutions, and further balancing the systems.

For instance, the new European Union Payment Services Directive (PSD II) encourages competition and enables innovation—among other opportunities by allowing to transfer the customer account information to third parties. However, at the same time, this initiative increases the security of the payments by requiring firms to execute stricter customer authentications. It is also expected in the near future, to have further customer protection oriented policies implemented, which will be mixed with PSD II.

2.1.4. Technologies

The growing pressure in the competitive landscape, caused by big tech and Fin Tech firms, among other participants, is driving the existing market actors to invest in new technologies.

These are mainly resulting of the new market actors having lower costs due to their new platforms.

These modern technologies offer the necessary resilience to respond to changing customer needs. At the same time, extant processes are optimizing, and costs are decreasing. The most prominent technological development in this sphere is the open banking and the artificial intelligence (AI).

The introduction of Open banking enabled the use of new solutions through the Application Programming Interface (API), which are tools designed to simplify cooperation's to a great extent. These new solutions are rapidly integrated into partnerships and ecosystems without any further losses.

2.1.5. Market infrastructure

Currently, numerous global initiatives are being implemented with the purpose of renewing the payments' infrastructure. The essential parts of this modernization are the renewal of settlement and clearing mechanisms, consolidation of TARGET (Trans-European Automated Real-time Gross Settlement Express Transfer System) services to a centralized platform, and the introduction of online gross settlement systems. To exemplify, this includes introduction of new communication standards (ISO20022), and new international payment standards (SWIFT gpi).

3. Literature Review

3.1. Introduction to Dunning OLI paradigm

For about three decades, the OLI (or eclectic) paradigm has been the dominant framework for analyzing a variety of economic theories of foreign direct investments and the foreign operations of cross-border multinational enterprises (MNE). The OLI paradigm is a straightforward, but at the same time profound construct. It claims that the geography, extent, and the industrial structure of foreign production of MNE is dependent and directed by the interplay of three different sets of interconnected factors which, by themselves, make-up the elements of the three sub-paradigms.

The first one is the competitive advantage of the companies that are seeking to engage in foreign direct investments, which are the ownership specifics of the investing enterprises, i.e., their O specific advantages. This ownership sub-paradigm avers that the greater is the competitive advantages of the entering firms, relative to those of other actors—in particular domestic companies in the market of interest—the more likely it is for the MNE to engage in or accelerate, their foreign market presence. Ownership advantages are primarily represented in two forms – institutional (Oi) and asset specific (Oa). The second factor are the locational attractions (L) of the host countries or regions, in order to undertake the value creating actions of MNE. This section of the paradigm claims that the more the natural, immobile or created endowments, that firms are using in connection with their own competitive advantages, favor an entrance into a host economy, rather than the home country, the more enterprises will decide to exploit or augment their ownership advantages (O) by engaging in foreign direct investments.

The last sub-paradigm of the eclectic tripod provides a framework to evaluate the alternative ways in which companies can organize the formation and exploitation of their core values, in the context of locational attractions of various markets or regions. These methods range from selling and buying services and goods in the open market environment, through the variety of inter-corporation non-equity contracts, to the consolidation of intermediate markets of product, and a direct purchase of the foreign firm. The OLI paradigm, like the near alternative, internalization theory, asserts that the bigger the net advantage of internalizing international product markets, the more likely it is that a company will prefer to engage in foreign production directly, rather than licensing the allowance to do it, for example by a franchise agreement or an outsourcing. The OLI paradigm further claims that the accurate configuration of its parameters in the face of any particular firm, in addition with the response of the company to that configuration, are explicitly contextual. Particularly, this will reflect the features of the political and economic context of the market or region from where the investing company operates, and of the market where the investment is directed to, the industry and the nature of the competitive activity in which the companies are engaged, the characteristics of individual firms which ought to invest, in addition to their long-term objectives and strategies implemented to accomplish these objectives.

3.2. Institutional theory and OLI paradigm

The determination of the scope of boundaries of the firm has been a fundamental question to organizational studies and economics since the paper by Coase (1937). Numerous attempts have been made to design a satisfying theory of the firm, and perhaps the most salient one is the resource-based view which was inspired by Penrose (1959). However, the common ground between all these approaches is based on ownership theory of the enterprise. Throughout the history, majority of economic theory of IB activity has been asset based, whether these assets should be accessible or owned by the MNEs. However, this approach started to shift, as the intangible capabilities and tangible resources accessible to firms has become more relationally based and knowledge intensive (Dunning, 2004a). In parallel, the geographic sourcing and deployment has become more widely spread among these firms. All this, has led to a more important position of MNE, making it a fashioner and organizer of economic activity, which consequently shaped the values, motives and norms that influence the decisions made by MNEs.

And indeed, nowadays, the position of the firm and its ownership specific advantages, is the main source of creation of the economic value rather than the return generated from property or capital equipment. This led to reconfiguration of assets owned by the firms, only the activities in which the firm maintains dynamic capabilities and unique skills are likely to be internalized. For the rest of activities, high specialization led to increased number of intermediaries that are capable to provide those inputs at a low cost.

The research of Edith Penrose on an endogenous growth of firms has greatly contributed to the resource-based view (Pitelis, 2002; Rugman and Verbeke, 2002; Dunning, 2003a). Extending this approach, the extension of the scope of the firm beyond the boundaries of the states, resulted in the emergence of traditional MNEs (Dunning and Lundan, 2008). The newness of the resource-based argument is based on its focus on isolating mechanisms that are helping to ensure the distinctiveness of a firm's resources, capacities, and access to markets (in short RCM) and thus the competitive position adopted facing other firms (Rugman & Verbeke, 2002). This view emphasizes the salience of both intangible and tangible assets. In particular, it considers the knowledge, to be a critical firm specific capability (Boisots, 1998) and experience and international knowledge as a unique, valuable, and complex to imitate resources that "distinguishes the winner from the loser and mere survivors in global competition" (Peng, 2001).

Other existing literatures that share common ground with this view can be found in the evolutionary economics (Nelson, 1991, 2002; Nelson and Winter, 1982) and in particular in the MNEs technology accumulation theory (Cantwell, 1989, 2001). Similar to resource-based view, those theories are focused on the dependency of current assets and the accumulation of new ones; and this is done through examination of the learning processes and dissemination of knowledge within the company. Due to differences of combinations of transactions, patterns of governance and resources, companies often organize similar transaction in different ways; and at least to this extent, costs of transacting might be varying among firms.

Since there are different possible combinations of transactions, resources and patterns of governance, firms do not always organize similar transactions in the same fashion. Taking this into account at least, transaction costs might vary firm-to-firm. Thus, the structure and the content of the Ownership-specific advantages of a firm, along with those which are market specific, may significantly influence creation, access, and deployment of specific competences and resources (Dunning and Lundan, 2008).

The institutional framework is essential in forging and executing the formal and informal rules and motives that lead the processes whereby the transfer and generation of knowledge are formed and executed. Additionally, the success of generation and transfer of knowledge is dependent on the perception and the motivation of both parties, the transferee and the transferor, both of which are most likely to be highly impacted by the motives that are part of the company's institutional matrix.

Some of the aspects of international business literature has always been institutional, which is particularly true about the research that employs the internalization theory. In other areas, scholars have also engaged in works that have been addressing institutional issues, such as government–firm relationships, or issues which are connected to extraterritoriality (Kobrin, 2001; Eden and Molot, 2002; Grosse, 2005). Institutional orientation can be found in much of business history as well (Jones, 2000, 2004; Wilkins, 2001). The reconfiguration and upgrading of institutions are a path-dependent operation, which bears considerable costs for transacting in order to change any pre-existing institutional artifacts, due to the reluctance of both organizations and individuals to embrace those changes. In addition, any combination of institutions is a set of elements that simultaneously hinder and promote the improvements of resources and capabilities.

In addition, even the countries where the efficient institutions manage to outnumber the inefficient ones, institutional change is not guaranteed to create the intended results (Eggertsson, 2005). This is partly due to the so called non-ergodic nature of modern world (North 2005), meaning that uncertainty and ambiguity is very hard to measure or deal with, let alone apprehend. These hardships pose particular obstacles for markets with principally underdeveloped institutions, as the institutional changes are even less likely to create desired outcomes.

What is then accounted for the dynamics of changes in the institutional settings? The traditional economic answer is that this is triggered by the change in relative price. The scarcity of resources leads to competition, which is the incentivizor for learning and innovation and for creation of more efficient institutional settings. However, this doesn't consider all of the institutional change, and as North claims, the fundamental stumbling blocks are lying in two directions. The first one is the opposition of dominant and vested interests to change, while the second is the resistance of the informal institutions, in particular traditions and social norms. Such theory implies that anything that influences individual decision making, for example education, belief systems, culture and social norms, is in addition likely to impact the choice of institutions and therefore the path of economic growth and development (North, 2005; Nelson, 2006).

3.2.1. Ownership-specific advantages

While those have many similarities in common, the important differentiation between the RCM accessible to and formed by firms, and the institutional advantages has to do with asset ownership advantages (Oa) and ownership of institutional advantages (Oi). While some of the Oi components are influenced by the values and norms which are external to the company, and in particular to that of the cultural environment where the company operates, others are reflected in company-specific norms and values, and enforcement mechanisms which are sometimes classified as "corporate culture". The reconfiguration or development of both Oi and Oa advantages is the result of changes in external tastes and demands. However, while the former changes are influenced by alterations in perceptions, values and behavioral mores, which might or might not directly influence to the range of goods and services offered by the company, the latter is directly impacting them. While the conventional Oa of a firm is possible to be enhanced and/or regenerated by for example R&Ds, network alliances or acquisitions, there is little research on how can firm restructure or add to its Oi advantages. Furthermore, Oi advantages are increasingly becoming more important in the process of understanding the impacts of MNE operations from a host or home market economy perspective. Similar to all forms of knowledge and resource transfer, Oi and Oa includes both transfer of institutions and practices intentionally, and "spillage" to other companies unintentionally. Albeit innovation is more difficult in social context, rather than in technological, and obviously there are some limits on the possibility of transfer of best practices from one country to another, MNEs have their unique position in such cross-state transfers in a continuous manner. If

3.2.2. Localization

Similar to the institutional ownership advantages of company, the location advantages of a country (Li) that are institutionally related, are likely to be very circumstantial and differ greatly depending both on the development level of the country, and across the developing countries. The balance among voluntary and obligatory enforcement mechanisms and that between the bottom-up and top-down approaches is also likely to be heavily impacted by the specificity of Li variable. In the literature, the concept of social capital have been used as a measure of quality of the informal institution.

Adding to the recognition that a system of law enforcement and a well-defined property rights are needed for the functioning of the economy, the North's argument is also places salience on the informal norms and values in the society, that not only impact the formulation of different institutions, but also the underlies the conditions of the institutional evolution in that society. The institutions that are on the national level impact the attractivity of any given market both as a home and host for MNE operations. The composition of informal and formal institutions impacts the kinds of Oi and Oa advantages that companies are likely to develop, while at the same time, the state level institutions are shaped by the conduct of native and foreign MNE.

3.2.3. Internalization factors

The factor of internalization (I) in the OLI paradigm is the explanation of the company's disposition to internalize cross-border endemic or structural imperfections in the mediating goods market (Dunning and Lundan, 2008). As noted previously, the approach to I factor is mainly institutional. It is because the I factors are directed at determining the benefits and costs of different modes of accessing and exploiting ownership-specific advantages.

In the International Business literature, there has been many studies confirming that content and quality of the institutions in the host country might affect the entry mode by MNE, as well as shape the type of investment ((Mathews, 2006a; Peng and Delios, 2006). For instance, a study has examined the choice of mode of entry in relation to institutional quality in Eastern and Central Europe and Vietnam (Meyer, 2001; Meyer and Nguyen, 2005), in addition in the European Union (Brouthers, 2002). The effects of organizational capacities as well as private and publice expropriation hazards on the mode of entry of MNEs originated in Japan has been studies by Delios and Henisz (2003), while Makino and You (2002) have applied the concepts institutional distance in order to explain the choices of entry modes of Japannes Multinational enterprises in a random sample of countries. Furthermore, some studies have examined how factors like the accumulated experience and imitation have impacted the choice of entry mode (Davis, Desai, & Francis, 2000; Chang & Rosenzweig, 2001; Lu, 2002; Guillén, 2003; Chan, Makino, and Isobe, 2006;).

4. Research objectives

The purpose of my research will be to understand the institutional prerequisites required from a market in order to be attractive for Fin Tech companies operating in Payment Industries. I will specifically focus on Payment Industries targeting to enter countries with transitional economies. The choice of industry is justified by the increasing growth and importance of it in current banking infrastructure, which is the result of institutional changes which enabled new players to enter the market. For one thing, these are rapidly developing parts of the financial sector that have not yet quite found their form and they interact with solutions that have been quite stable for a long time. This implies a possibility of studying the phenomenon as it is in progress, not just from hindsight. Alternatively, the firms of leading-edge markets do have an ownership advantage (Dunnings OLI paradigm, 1977) in the solutions and technologies they control and master that could be exploited in foreign markets not yet marked by such a shift. Either way, the industry has quite specific institutional demands or are at least accustomed to a particular institutional set-up that might even be part of their competitive advantage. If so, they would be keen to shape the rules of the game in a fashion they are familiar with or that would safeguard their first mover advantages.

It is also important to note the need for Fin Tech companies operating in Payment Industries to enter new markets. While it might seem that since the solutions provided by these companies are relatively young and have a great room for improvement, one might argue that these companies should firstly capitalize in their home markets and then target entering new ones. In reality, these companies are increasingly adopting aggressive expansion strategies. First and foremost, the costs for expanding into new markets is very little for these firms. The business model is enormously scalable as every operating organization needs some means for money transfers. The main fixed cost that they will bear is the development of API integrations to be able to transact in the new market. Thus, they have low cost of transacting in expansion, but will greatly benefit from the economies of scale, bigger customer base and less reliance on any particular market, which in its turn reduces the risk of default.

The study will be performed on comparison of Swedish and Armenian markets. The choice of countries was based on the accessibility of information, capability to conduct interviews, personal knowledge, and the current state of the market. Sweden is currently in a leading position in Europe in regards of Fin Tech companies. While Armenia is far from comparison with Sweden in terms of development, it is considered to have one of the most developed banking infrastructures in its region and has economic ties with both European Union and Customs Union, which can make it an excellent subject to translate European business models to post-Soviet economies. In addition, market is currently very competitive in terms of traditional banking, however the introduction of modernized approaches will revolutionize it and can create opportunities for high returns.

5. Conceptual Framework

The prior literature, although highlight the essential role and impact imposed by institutions, they mention little about how multinational enterprises should respond strategically to institutional pressure in the markets that they ought to enter (host markets). Neither they identify the driving forces that determine such response strategies. A small number of studies that addresses MNE agency related to institutions, are predominantly focused on the issue of adaptation of home market practices to host market institutional context (Gooderham, Nordhaug, and Ringdal, 1998; Kostova and Roth, 2002;). These studies lack the emphasize on advantages that MNE's can have in relation to institutions when entering the host market. Secondly, outlining on the classical principles of institutional economics (North, 1990, 2005) and neo institutionalism in organization theory (Meyer and Rowan, 1977: DiMaggio and Powell, 1983), most of these studies view institutionalism as constraints that increase transaction costs for the MNEs (Rosenzweig and Nohria, 1994; Eden and Miller, 2004;). Hence, studies have primarily focused on how organizations reduce transaction costs that are driven by institutions, through the choice of market, entry modes and ownership strategies (Brouthers and Brouthers, 2000; Shenkar and Xu, 2002; Makin and Chan, 2007; Meyer, 2009). This perspective of institutions as immobile and entrenched facets of the environment, extant studies has particularly outlined how corporations either offset or adapt to pressures to confirm with host institutions with the help of firm-specific advantages (Zaheer, 1995). The emphasis on MNEs proactive response and strategic conduct in relation to institutional environment has been largely ignored. Noting this lack of priory research, Regnér and Edman (2014) propose a new theoretical framework in the context of NIT, which addresses these issues. In particular, they focus on MNEs advantages on subunit level. The paper identifies distinct MNE strategic responses to institutions, as well as the mechanisms and enablers that underlie those strategies. It summarizes four unique strategic response types, innovation, arbitrage, circumvention, and adaptation.

Innovation responses are the ones that create or change the host market's institutions. *Arbitrage* responses sought to take advantage of the differences between the host and home markets.

Adaptation response is when the firms decide to conform to local institutional settings. And lastly, *Circumvention* response involves dodging the demands of host market's institutions.

Enabling these responses are the three unique conditions (enablers). First, *multinationality* of MNE's enabled a strategic response; through its boundary spanning social position, the MNEs are exposed to different norms, regulations, and understandings. Second enabler is the MNE's *foreignness* in the host market institutions. It amounted to outsider position in host market institutions and networks. These two enablers are unique for the MNEs and together those can be categorized as MNE's unique social position in the market. The last enabler is the *host country field conditions*, which exposes MNE's to institutional ambiguity and uncertainty. Unlike the former enablers, the latter is a matter of a degree rather than of kind, however increased exposure to institutional uncertainty, offers the MNEs greater span of opportunities to engage in strategic responses.

In addition to this, authors found three mechanisms that determined the strategic responses. These mechanisms were enhanced by multinationality, foreignness and host market institutional uncertainty. First mechanism that MNEs leveraged was *reflexivity*, which is the capability to see beyond the local regulatory conditions, norms, and cognitions of their environment in host markets. This ability enables MNEs to identify institutional contradictions and differences far better than their local competition, which in its turn created possibilities to distinguish opportunities for agency and allowed possible deviations from set practices and norms.

Second mechanism is *role expectations*, which is, the different audience assumption and belief regarding the MNE's subunit. This mechanism enables MNEs to engage differently with local institutions, as compared to local market competition. As MNEs are treated with different role expectation, they are differently affected by local norms, practices, and rules. The last mechanism is the transfer of resources, knowledge, and multinational practices to local market. In summary, MNEs built on three different mechanisms in their strategies; (1) *increased reflexivity* (capacity to see beyond local practices and norms), (2) *differentiated role expectations* (concrete assumptions about what the firms are legitimately capable to do) ; (3) transfer of resources (i.e., assets, practices from foreign institutional environments).

Based on these findings' authors propose different strategic responses by MNEs for each institutional setting. Figure 2 summarizes these strategic responses.

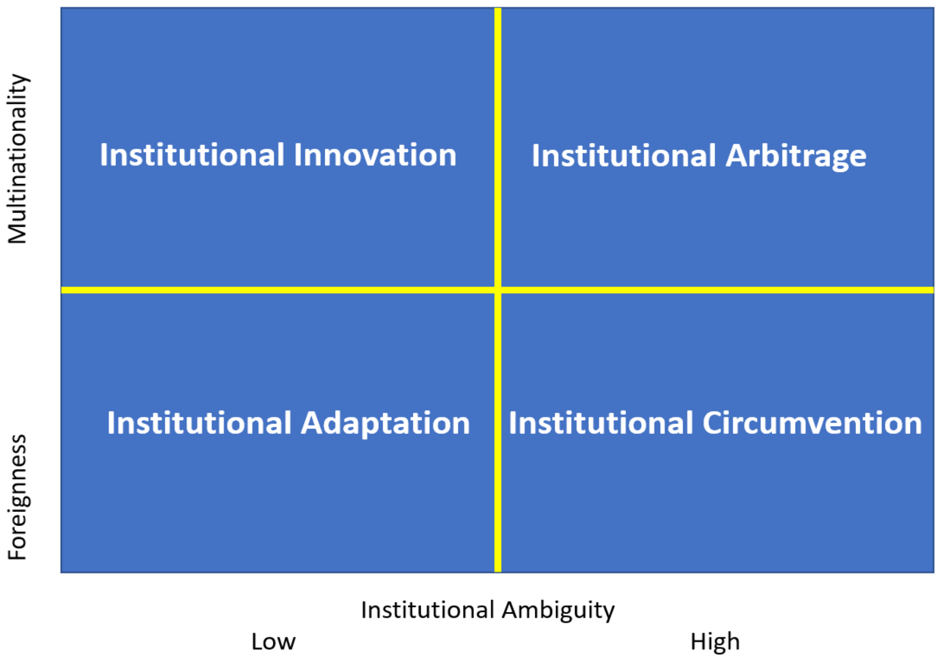

Figure 2: MNE-specific enablers of strategic responsiveness:

Similar to Regnér and Edman, Tan and Wang (2010) provide a theoretical framework on MNEs conduct when entering new markets. The main focus of their study is the Ethical Pressure in the host market and how MNEs should respond to them in the context of institutional logic. The research claims that in order for the activity to be considered ethical, the institutional logic dominating in the market should allow it. In the article, authors treat values as the private individual's beliefs which are ought to serve as her/his "latent guides for evaluations of the social world" (Hitlin and Piliavin, 2004: 365). When value is on a group level phenomenon, these values are referred as core, as they are in the aggregate value structure. Most native individuals share core values which are embedded within their cultural value systems. For instance, three core values of Americans were identified by Stanley Feldman (1988). Those are economic individualism, strive for equality of opportunities, and the free enterprise system. These core values are embedded in the center of the institutional logic. Complementary to them, are the peripheral values which are prescribed by core values. They consummate the institutional logic. For example, Feldman identifies the peripheral value of public advocacy for international free trade as a derivative of the core value for the advocacy of free enterprise system.

The second dimension to assess the corporate strategic response for MNEs is the level of CSR ingrainedness (Tan and Wang, 2010). It is important to view the CSR from an institutional perspective and definition of it, as a firm's pursuit of legitimacy by external stakeholders. This should be achieved by satisfying institutional, social, and ethical expectations, and these are often beyond the legal and purely economic responsibilities of for-profit corporations (Boatright, 2007). The meaning of CSR ingrainedness is the degree to which a firm prioritizes its Corporate Social Responsibility when formulating the strategy and periodically and routinely includes CSR into its day-to-day operations. The MNE's with high

Corporate Social Responsibility generally will practice CSR principles as repetitive social behaviors and thus these principles ought to be self-reproducing.

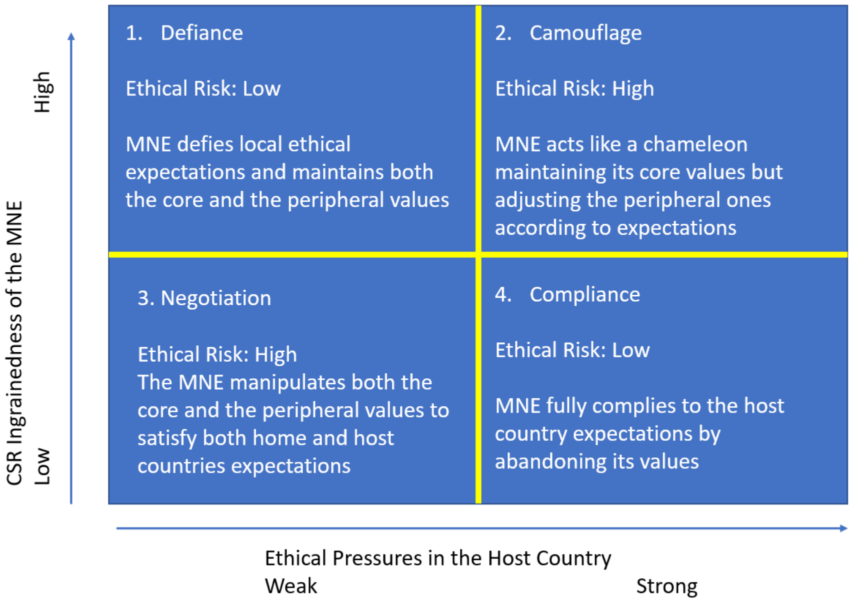

Figure 3. A twoby-two matrix of the local ethical pressures and CSR ingrainedness

Figure 3 shows the theoretical framework of the study. The horizontal axis shows the level of local ethical pressure, running from weak to strong from left to right. The vertical axis represents the second dimension of CSR ingrainedness, from low to high from bottom to top.

Thus, the first cell (top left) represents a company with high CSR ingrainedness entering a market with low local ethical pressures. The strategy proposed in this case is *defiance*, that is the MNE maintains its both core and peripheral values of the institutional logic. The defiance strategy ignores local practices and norms and resists the institutional logic of the host market. For example, from my personal experience working in HSBC bank of Armenia, I can state that the standards for the bank where much higher from its headquarters in London, rather than Armenian Central bank demands. Thus, the bank maintained its core and peripheral parts of the institutional logic and did not deviate from the demands from HSBC group. This is advantageous for the bank, as the subunit and the group maintain same culture and are driven by same values, which makes governing the firm simpler, however due to these high standards from the group, the branch in Armenia was losing a lot of local customers, with whom it could conduct business if it operated with the norms proposed in the local market.

Second cell (top right) identifies a MNE entering country with a high degree of local ethical pressures in the market, as well as strong CSR ingrainedness. The proposed strategic response in this setting is *camouflage*. It is when the company acts like chameleon, keeping the core of its institutional logic, while entirely adjusting the peripheral parts to conform with local institutional logic. Google when entering Chinese market. As the China is currently second largest economy in the world, it is a very important market for such giants as Google to consolidate it. However, the centralized government in China is ruling iron-handedly and companies must comply with them. Government required Google to self-censor whatever it deemed as inappropriate content. Eventually, Google received a lot of international critique and was forced to pull out from Chinese market. If the Google were to adopt a camouflage strategy, it might have succeeded in the market.

Third cell (bottom left) identifies a MNE entering country with low degree of local ethical pressures in the market, as well as weak CSR ingrainedness. The proposed strategic response in this case is *Negotiation.* It is the act, whereas company adjusts both peripheral and core values of institutional logic, in order to satisfy both home and host markets. This strategy has a high risk of ethical pressure, as if the company fails to find the perfect balance to meet the expectations from both markets, it risks damaging its own reputation in both markets. It is important to note, that Negotiation strategy does not imply that the company simply adopts or rejects beliefs and values, but rather an indigenous process whereby specific logic components are interpreted and translated and are becoming an integral part of the new hybrid institutional logics.

Fourth cell (bottom right) identifies a MNE entering country with low degree of local ethical pressures in the market, however with weak CSR ingrainedness. The proposed strategic response in this case is *Compliance.* This strategy involves ultimate compliance with the indigenous ethical expectations, imitation of local institutional modules, obeying local rules and following local norms (Oliver, 1991). The subunit imitates the host markets player's institutional models and become an integral part of the host market society. One of the obvious advantages of a compliance strategy is that this assimilation enables to maintain competitiveness in the host market. Both local organizations and customers regards the invaders activities, products, and services as legitimate.

The two theoretical frameworks discussed above are complementing each other and providing a complete conceptual framework on how MNE's should choose their strategies when entering new markets. The horizontal dimensions in both frameworks are similar. The institutional ambiguity and ethical pressure can be considered to have same effect. If the ambiguity level is high, then the ethical pressure in the institutional context cannot be high, as the same norms and practices can be interpreted differently by different players. Consequently, market will be dominated with several institutional logics and a pressure from one of them will not be significant. Thus, we can treat the horizontal axis in both paradigms as opposite to each other. One can also notice that the strategies proposed in both frameworks are similar, however applicability's are different in various conditions. When assessing the market entry potentials for MNE's these frameworks should be used complementary to provide a holistic view on the available options for the choice of strategy. I intend to use this conceptual framework to reveal best possible responses to local institutions and entry modes for Fin Techs, when entering markets in transitions. The framework is helpful to asses the Oi advantages of foreign MNEs and take into consideration Li factors at the same time.

6. Assessment of Differences in Economies

In order to understand potential challenges connected to the entrance to transitional economies for payment companies, it is useful to define what economies are considered transitional and which are their specific characteristics that might affect the entry mode of those companies.

This section will firstly provide definitions for transitional economies and their specifics. Sub-section 6.2 will focus on actual comparison of transitional and developed economies in the areas which are most relevant to the purpose of this research.

6.1. Characteristics of Transitional Economies

Countries which are experiencing macroeconomic reformations in the pursuit to change the practices in which their economies are being managed are called transitional economies. This implies that structural adjustment is made in the country in order to change the governance of the economy from the state-dominated toward a free enterprise system. The term transition itself suggest that it is a process with a start and end points. There are concrete set of policies that should be followed in order to achieve this transition. The countries where governments were dominated by socialist ideology tend to have a large sector of their economies state controlled. These sectors operate alongside the modern firm type sectors and historical bazaars. It is important therefore to make a distinction among these unique sectors of economic conduct, which exist side by side in transitional economies (Smallbone and Welter, 2001; Dana, 2002).

The bazaars are cultural and social systems, a general mode of merchant activity and a way of life. It is characterized by the prevailing logic, whereby interpersonal relations are the central cornerstone to purchasing decision, retention, recruitment, and promotion. Nepotism is very common in these sectors, and it is often prioritized over merit. The level of service and the price are often reflecting the relationship between the seller and the consumer. In these cases, buyers are not prioritizing on search of the good with lowest price and the best quality (Dana, 2010). The individual would prefer to give the business to the person with whom he has established relationships, in the pursuit of the reciprocation of the transaction. This type of reciprocal preferential treatment results in the reduction of transaction costs. The abundance of such small-scale transactions, results in the fractioning of risks and consequently of profit margins. Another important characteristic is that prices are negotiable in the bazaar sector, as opposed to being prespecified by the supplier. Contrary to free enterprise system, where the primary competition is between the sellers to win the consumer, the pricing system in bazaar like sectors makes the competition to be primarily between the seller and the buyer (Parsons and Smelzer, 1956). The lack and the imperfect distribution of information culminate in market imperfection, and with the exception in few cases, prices are not displayed when purchasing a good, rather, it is determined by the ability to negotiate.

The price levels are tested by the customer with some inform methods and based on his/her knowledge before the bargaining will begin. It is also the case whereas the buyer offers the price, which the seller starts to increase with the help of negotiations.

Sellers in these sectors are not perceiving each other as rivals. There is next to no branding or differentiation among them. Vendors mostly do not seek to optimize their profits, but the problem is not the economic rationality. In these economies, firms are successors of the communist ideological models. The central principle of the model is that the state is able to determine the best supply and demand, thus bringing market to equilibrium. The target of the state-controlled sector was neither relationships nor transactions, but rather state level bureaucracy. In the case of state producing everything in the economy, there is no competition in the market. However, this inevitably results in the demand exceeding supply (since the incentives are low to produce more than can be sold) (János Kornai's economics of shortage model)(Kornai, János 1992):. These shortages resulted in appearance of parallel economies, where due to inefficient regulatory presence entrepreneurs could supply goods.

The transition of these economies was characterized by regulatory and economic reforms, some laws required immediate implementation and were done so. However, the human mind-set and their perception of new opportunities required time to adopt to new situations. This resulted in the mind-set of people being slower than the changes in regulatory frameworks in transition economies (North, 1990). The consequence was that new problems arose to be associated with the transition. Many people started to equate entrepreneurship to the evasion of communist law.

6.2. Comparison of Developed and Transitional Economies

Since the transitional economies are less developed than their western counterparts, the cash usage is usually much higher in these countries. Cash has been the dominant method of payment for people for a long time and most of the time it is embedded in customer's mind that he or she is ought to pay with cash. Figure 4 shows the comparison between cash usage in emerging and developed economies in 2010 and 2020. It is obvious that developed economies experienced much drastic changes in cash usage and transitioned into cashless payment methods. At the same time, emerging markets also experienced slight changes (with the exception of China which nearly halved the cash usage) and showed positive trends in cashless method adoptions. Seeing these trends, one might argue that developed countries are much bigger markets and the customers there are already used to cashless payments, so the market is easier to consolidate, however, since the payment firms, Fin Tech's and banks in developed economies are already competing for the control of the market, the competitive landscape is very intense and harsh, leaving little space for high profits. In addition, companies are forced to innovate at a much higher pace. Thus, gaining such huge advantages in innovative and advanced cashless payment methods compared to emerging economies, firms operating in western world can face little or next to no competition when entering those markets. This huge first mover advantage can be a solid ground to capitalize on and gain the control of the market in the new landscape.

Another important difference is the composition of banks and banking infrastructure. First of all, the number of commercial banks operating in these types of markets is significantly different. The developed markets on average have much more commercial banks than in the transitional economies, however in terms of the structure of the market, most of the time both these markets have several big players (usually 3–4) which are in the control of the major share of the market. This is actually where transitional economies have advantages over developed once, as smaller the number of banks the easier it is for the Fin Tech company to create its network and cover most of the market with instant payments.

On the other hand, in terms of the banking infrastructure, developed economies have much bigger advantages. For example, in Europe, Single Euro Payments Area (SEPA) allows the transfers of money in Euro to be instant across EU member states, European Free Trade

Associations and United Kingdom. This, obviously creates a lot of opportunities in European payments ecosystem, even allowing firms to serve customers in another countries, while having no direct presence there

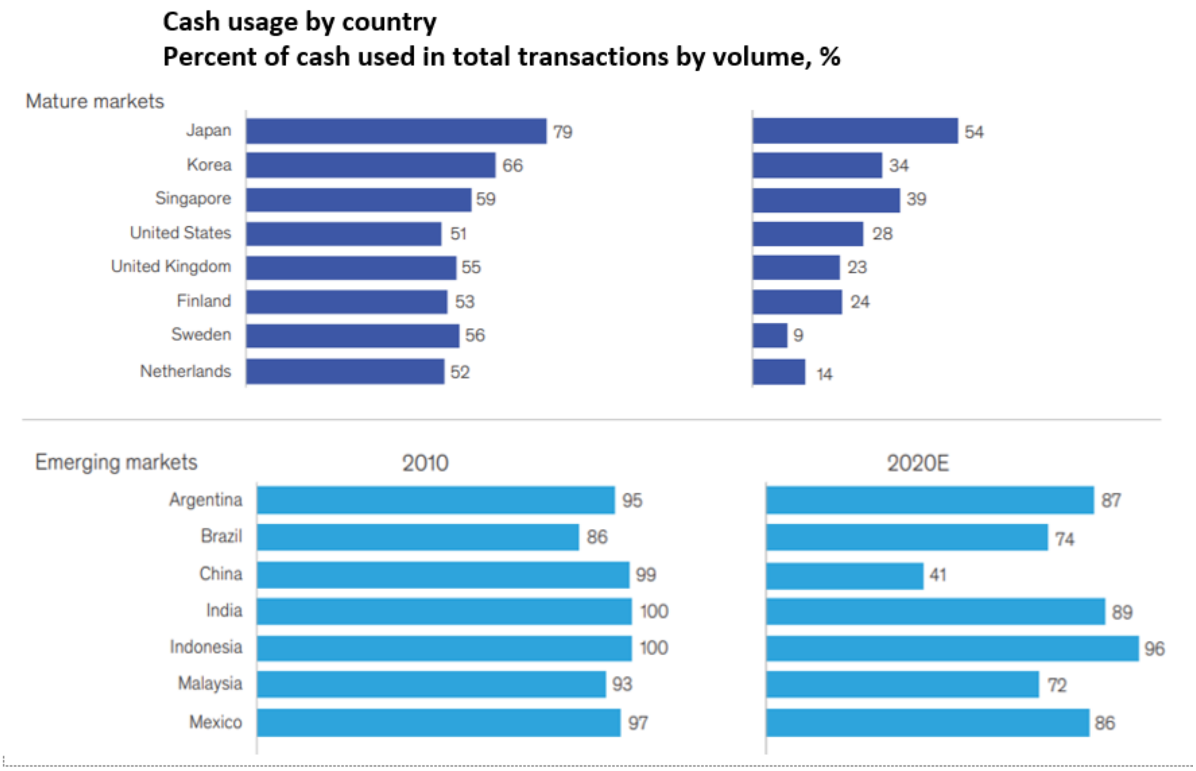

Figure 4. Retrieved from McKinsey & Co report

7. Research Question

Summarizing all the characteristics of transitional economies and strategies for market entry I expect to find several things.

Taking into consideration the institutional, ethical, and societal differences between the transitional and developed economies it is believed that Fin Techs in payment industries will experience heavy challenges when entering transitional economies and so the gains will not outweigh the losses.

Proposition 1: Fin Techs operating in payment industries are expected to encounter more challenges when entering transitional economies compared to developed ones, to the extent that it is unprofitable for them to focus on these markets.

P1 is obviously very general and broad, so I will break it down to smaller propositions to address them separately throughout findings.

Since the countries in developed economies and transitional economies have essentially different regulative norms and laws, Fin Techs targeting to enter transitional economies are expected to experience challenges in regulatory environment.

Proposition 1a: Fin Techs in payment industries will experience more regulatory pressure when entering transitional economies compared to developed markets due to differences in regulatory norms.

Since the ethical and societal differences in developed economies and transitional economies are different, Fin Techs targeting to enter transitional economies are expected to experience challenges in these areas when operating in the new environment.

Proposition 1b: Fin Techs in payment industries will experience more challenges due to societal and ethical norms when entering transitional economies compared to developed markets.

Since the banking infrastructure is underdeveloped/competitive in transitional economies Fin Techs are expected to encounter more pressures when entering these new markets compared to developed economies.

Proposition 1c: Fin Techs in payment industries will experience more challenges in transitional economies compared to developed economies due to underdevelopment of the market infrastructure but will benefit in terms of their high-quality offerings in the host transitional economies.

It is also important to understand the best modes of entry for these firms. Whether its direct entrance or through subsidiaries/acquisitions.

Proposition 2a: Fin Techs in payment industries are more likely to succeed by acquiring an existing payment solution provider in the host transitional economies, than by direct entry.

Since the ethical pressures in the home market are expected to be heavier than in the host market Fin Techs are more likely to succeed by adopting defiance and innovation responses to market institutions.

Proposition 2b: Fin Techs in payment industries are more likely to succeed if they adopt innovation and defiance strategies, compared to ones that do not, when entering transitional economies.

8. Research Design and Method

8.1. Choice of Method

The purpose of this study is to assess the presence of institutional prerequisites required for Fin Tech companies when entering transitional economies. This study takes an interpretivist epistemological stance with the purpose to understand and highlight the subjective meaning assigned by individuals and take the differences between individuals into account (Bryman and Bell, 2017). Thereby, this thesis originates from the interview's actions, interpretations and experiences to conclude the subjectiveness which the empirics constitutes. An interpretivist approach is suitable for the aim of this paper. Taking into consideration the explorative nature of the study, and the intention to use the existing theory and extend it, I follow the path for qualitative methods in international business research by implementing a comparative study design. This approach is suitable as it allows me to explore site-specific contexts as well as mechanisms as they are crucial when taking into account the focus on institutional, cultural and ethical effects which are varying across different countries.

8.2. Selection of Cases and Interviewees

The choice of transitional economies in particular is based on the believe that these markets will be more challenging to enter and might negatively affect the overall performance of other markets as well. Despite these beliefs, I am interested to find out if there are actual advantages for Fin Techs operating in payment industries to enter transitional economies. Since the western economies are the first movers in these industries, it is interesting to see if their first mover advantages can be capitalized on in such an influential fashion and to the extent that the drawbacks and challenges to enter these markets will be outweighed by the gains of entry. The secondary aim of the research is to assess those entry modes and provide the most advantage to these firms.

The choice of Sweden is obvious for several reasons. Firstly, the country is notable to being the origin of payments giants like Klarna, Trustly, Brite, etc, which are the major players in the European payments' markets. Secondly, the country has all the related institutions on the highest possible development stage, and the policies adopted by the regulatory bodies are aimed to further accelerate the development of such enterprises. On the other hand, the choice of Armenia as a transitional economy is justified on the personal knowledge of market state, trend in the development of payment actors and the simplicity of the case. Since the country is a relatively small and simple one, it is much easier to provide a good summary on the market state, major actors and trends, while at the same time making conclusions that can be generalized to a much bigger economies which are in transition. Also, Armenia has the cultural and institutional elements of both western and eastern civilizations, making it a great case for assessing the transferability of business models between those two. In addition, the accessibility of resources and possibility to conduct interviews in the markets were taken into account during the choice of countries.

As the case companies, I selected multinational Fin Techs that are best suited to illustrate the need of these companies when entering new markets. One of the companies is a small start-up which operates in the industry for two years but has already adopted aggressive expansion strategy and established its presence in 6 European markets and one non-European market. The company is solely focused on B2B services, with the majority of clients consisting of enterprises operating in gambling industry. The second Fin Tech company has more diverse offerings of services and operates in a much larger spectrum, while still maintains the highly aggressive expansion strategy.

As regards to the selection of case companies in Armenia, those are the major players in the banking industry. One of the companies is arguably the most successful bank in the country, with the most advanced technological offerings and the biggest customer base. The second bank is currently in a massive transformation phase, however most notably it acquired the only prominent Fin Tech company in Armenia and incorporated the latter's offerings in its services, which gave a huge competitive advantage to the firm. And lastly, a Central Bank of Armenia was picked in order to incorporate the regulative environment and future developments of the banking industry.

The research is primarily based on qualitative in dept firsthand interviews, accompanied by secondary sources which include company documents, statistics, annual reports, etc. I conducted background interviews to identify and contact key informants (head of marketing department, head of international product units, Head of digital banking, etc.), who consequently led me to the interview subjects. I interviewed a total of five informants and the interviews lasted on average 1–2,5 hours. To ensure the objectiveness, diversity of views and reduce potential bias one of the interviews was conducted with external expert. The interviewees in Armenian market prefer to be named in this paper, while the ones from Sweden shall remain anonymous.

To ensure correct assessment of entry modes two separate sets of interviews were conducted, one with Fin Tech companies and the other set with representatives in Armenia. On the one side the interviewees are professionals working in Fin Tech industries and on the other they are experienced professionals in banking and payment industries with knowledge of the market, who are working in Armenia.

The first set of interviews were conducted in Sweden, with the aim to understanding the needs of the Fin Tech companies when targeting to enter new markets. The interviewees have about 10 years of experience working in various Fin Tech companies in Payment industries which operate in number of markets across Europe and United States. Having been working in several successful startups with the extensive knowledge on the market entry modes and desired conditions in the target market they provided a comprehensive list of factors (established institutions, level of development of infrastructure, level of competition, etc.). The findings of these interviews were useful to collect the essential data about market conditions, asses additional challenges posed by the specifics of transitional economies and to build the questionary for interviews with the specialists in Armenia.

The second set of interviews which were conducted in Armenia, were aimed to understand current market condition, assess the possibility of international entrants, compare institutional specifics with the other developed European markets. All the information gathered was double checked with secondary data and backed by documentation where applicable.

8.3. Data analysis

Throughout the process of data collection, I have followed a grounded theory approach for my qualitative data analysis. The key process in the grounded theory is the coding process where the authors interpretations as researcher helped to develop an understanding of patterns in the empirics (Bryman and Bell, 2011). Using the grounded theory analysis allowed my ideas to emerge from the data and with a process of iteration throughout my data collection, the codes developed and were changed over time.

All interviews were recorded and transcribed, except in one instance when this was not possible as interviewee was against. The transcripts were then read and coded preliminary. The more specific first level codes were then analyzed and were categorized accordingly into broader second level codes. Categorizing the data helped to analyze the relevant statements from interviews and to build towards an understanding of the situations.

9. Results

This section will be divided into two parts to separately illustrate the findings throughout interviews. First, I will discuss the strategies and considerations made by Fin Tech companies when targeting to enter new markets. In the second part I will illustrate findings and conditions in Armenian / related transitional markets which enable or constraint payment companies' operations in those markets. The conclusion and further discussions about findings can be found in section **10. Discussions**.

9.1. Major Factors Taken into Considerations by Fin Tech's.

In the first set of interviews with Fin Tech company representative, the major factors that are taken into consideration before entering to a market have been identified. Among them most important to the purpose of this paper are ***the bank infrastructure / structure of the bank systems, regulatory environment, competitive landscape, and the consumer perception in the market of interest.***

9.1.1. Bank Infrastructure / Structure of the Bank Systems

The composition of banks is of utmost importance when considering the entrance to the new market. Firstly, the country's clearing systems should provide options for instant payments between different banks, and if there is a delay in the transfers it should be taken into account. One of the main factors is the instant domestic scheme or the bank's participation in SEPA instant, which makes product more attractive and makes it better to use but also make it safer for the payments firm and for the end user and also the merchants since there is no delay for funds to settle. Secondly, the very maturity of banks in terms of technical features (possibility to create API's, corporate integrations, fallback solutions, etc.) is taken into consideration in order to be able to cooperate with them. The number of banks and how much of the total share is controlled by major banks, is also vital, as it will be more costly to cooperate with more banks for bigger market coverage. As one of the interviewees noted,

> [t]hey have different between markets, installed application methods and that is the key to our type of payment product. So, if you take Sweden for instance, it is, I mean bank ID, is the best. Thinking that we could ever dream of for a foreign account to account payment problem. So, if you look at the Netherlands for instance, which are still at all token devices, that product is much more cloud given and harder to use. I would not say it is something that we look so much at when expanding to markets, but it is something that is one of the features affecting product a lot.

As regards to what is in their opinion the most challenging part when entering a new market interviewee 2 answered:

> " To look at markets which is not in euro, so let's take Denmark or I mean here [Sweden] for that instance, then we would have to have local clearing, which means that we would need to have a local corporate account. And that, that is sometimes very challenging for a company like us. Yeah, generally banks as in some cases I would say perhaps Sweden. Some banks like what we do, but generally banks are sceptic to our business and what we do. Some see us as a threat and some just simply do not understand what we do when things are. It is a bit scary for that reason So if we look at markets where we would need to settle locally that is I would say the biggest challenge to get the account. It is a long process involves a lot of KYC and then due diligence and a lot of paperwork. So, that is, I would say the biggest hurdle for us. Everything else we can solve by ourselves. You know we can build all API's; we can integrate all banks. It's just a matter of time and resources, perhaps sometimes it's more complex than others but opening, getting accounts is the most challenging part".

9.1.2. Regulatory Environment

Regulations are obviously constraints for any firms' operations. It is essential to take into consideration the regulatory landscape of the target market, to see whether all the services of the firm can be provided with no legal repercussions. Interviewee 1, which works at a payment startup with the main focus on online gaming, responded on the question of their legal requirements :

> "It would be simple, so the way it works is now that in in all European markets we can passport or if we want to do business in Germany, we can passport or license to Germany, and they were fine. But if we were to say I do not know some non-European market. It would be, we would need to have a dialogue with the FSA around it to how to handle would also do that. I mean, we generally we do not do it ourselves, we listen to the authorities more so than make authorities or our legal advisers more so than make sort of judgments ourselves on the regulatory environment in certain markets. Gambling companies were I gaming companies always want to not have a local license if if there is a local license. So, in Sweden we only work with and are getting companies that operate here in Swedish gaming license. On the other hand, for Finland there are not any local license, so we accept a Malta gaming license work but then we have Caruso licenses. Which, we do not accept, but it is not so that we as a company have a viewpoint on like why Caruso licenses is worse than Malta licenses. It is rather important how the authorities and banks view the Caruso license, so we do not have an opinion on it. " .

We can see from the response of the interviewee that in the regulatory environment per se, the companies are more interested in the perspectives of responsible bodies, rather than having personal viewpoint or interest in making differentiations. This potentially means that the company has potentially low corporate social responsibility and is interested in keeping the bare minimum to satisfy the regulatory bodies.

9.1.3. Institutional Differences

In terms of impact of social norms that are varying across countries Interviewee 1 identified the following two ones.

> "The first thing that comes to mind is Spain, which have a very, very forgiving sort of lending legislation for so. For consumers, they can revert payments by contacting the bank. So not only can the payment be cancelled, but they can also make a payment and then three or four or I do not know a week later. They can call the bank and say OK, this payment I did 5 days ago that I want to revert it, or it was not mine and then the bank will just revert it and this makes it very, very difficult from a risk perspective because it opens us up for a lot of fraudulent behavior. and then the bank will revert it without even notifying the account owner so that makes spend a very challenging market for businesses like us like doing bank payments and that fortunately is the only market in Europe which has that kind of regulation."

This type of institutional difference heavily affects the way payment companies are meant to operate in the market. Firstly, firms are exposed to a much higher degree of risks and need to have more exhaustive safety measures and monitoring systems that will prevent any potential fraudulent behavior, because in the payments industry safety is one of the most important components. This inquires extra resources on KYC, close track of funds and transfers, even days or weeks after they have settled to see if something happens.

Second type of response to the differences in institutional societal norms that was identified is the defiance. The firm refused to adapt to the governing institutional logic and rather tried to push their way of doing things. As per interviewee this type of response is dependent on the size of the market. The interviewee answered the following:

> “So, if we take Finland as a mix actually example where we have local payment methods that I mean they have the exact same or very similar technology as we have, but they use a redirect flow for the customer instead of us using as a client and then that could be a situation where you know this is what customers are used to let us. You know, let us just do it like adapt it to the local market. But there we have taken the stance that we should try to push our product and it has worked well. But let us consider the size, I mean Finland is only 5 to 6 million users. If it was, the UK which has the similar situation, then we would probably adapt to what the end users are used to. So, I would say it is a bit market specific how we would approach. “

9.1.4. Competitive landscape

Another important factor that should be taken into account is the competitive landscape of the market. Most of the times, products offered by the payment companies can be complementary with other products, but there is still an intense competition. The interviewee 1 responded:

> “Yeah, so I mean we of course that goes in to the when we explore new markets. We of course also look from commercial side or the competitive landscape. Looks like in some cases we feel that we have a very strong product and for in others it is more challenging so. We of course, always try to make our product as good as it possibly can be regardless of confusion. But for you also take another concrete example in Netherlands where we have iDeal which is a type of bank payment product which is very, it is the most popular payment method in all of the Netherlands so. Well then you could say OK, why would you do melons? But the thing with iDeal is that they only do pay Ins. They do not do pay outs, so our product could, in that case we would use as a compliment to existing methods. Also iDeal does not do gaming. So, I would say in the cases where there is very strong local competition both with, I think for most the payoff skills. But also, I could say that except the gaming industry there are still verticals. The enemy that are interesting for us to penetrate and then we do not focus as much on them. Let us say e-commerce portal Atlas will be very hard for us to compete to it. I did, but then we do not focus on any commercial levels. We look at other verticals. “

So, the intense competition is obviously a constraint, but since different companies tend to specialize on different verticals it still creates a lot of opportunities to enter the market with a particular vertical that is not dominated by other firm and then try to penetrate other more profitable verticals, by already having a stable presence in the market.

9.2. Market conditions in Armenia and in related transitional economies

This section will illustrate findings in the interviews with Armenian market specialists. Interviews were conducted with Mr. David Brutyan, who is the Head of Digital Banking at ACBA Credit Agricole Bank, an international bank in Armenia; Ms. Tatevik Hovhannisyan, Head of Marketing at ID Bank, which acquired IDram instant payments Fin Tech in Armenia and Mr. Johnny Brjony, external expert and leading specialist at payments market in Armenia.

9.2.1. Market Assessment

Firstly, I discussed with them the need for cashless payments and general trends in the market of cash. There is currently a positive trend towards cashless transactions, however Ms. Hovhannisyan claimed that Armenia is lagging five years from the majority of the other post-soviet economies in terms of proportions of cashless transactions performed. Around 70% of all transactions are processed in cash in 2019. Throughout 2020, cashless transactions surged, increasing up to 15 – 20% and becoming nearly the half of the total transactions. However, this was mainly due to covid – 19 restrictions and lockdowns which made transacting in cash rare. In the first quarter of 2021 cashless transactions were back to 2019 figures, with slight increase at a yearly rate. There are several reasons for this slow increase. As Ms. Hovhannisyan explained

> “The country has no regulations in place for the limits of cash usage. A customer can enter to a car seller store and buy a car with cash. Of course, purchase of a car with cash is a suspicious activity and will trigger investigations by responsible law representatives, however the customer himself does not have any legal restrictions to do so. In addition, many companies pay their employees in cash which added to the shadow economy, which is very big in Armenia, which also facilitates usage of cash, since workers in shadow economy receive their salaries in cash and are not able to deposit big amounts to their accounts, since it will create questions in bank, thus they can use only cash.”

However, nowadays we are noticing increasing government involvement and correct regulations in order to prevent such behaviors. From January 2020 all employers are required to pay salaries cashless, this will bring the market to a new level of cashless transactions. In addition to this, in mid-2021 a new regulation will require all transactions with the amount greater than 1 million Armenian Drams (AMD; ~ 2000 USD) to be processed cashless. The plan is to lower the limit to AMD 100,000 which will cover a very big portion of all payments in the country. This is another huge step towards facilitating payments market growth and since the government shows the interest to develop the market and helps with regulations, it has the potential to become a very lucrative market.

The reason for such big percentage of cash usage was explained by Ms. Hovhannisyan:

> “We have 70% of the country’s transactions being performed by cash. This is a lot despite all the efforts banks are committing to convert to cashless payments. We did a lot of surveys, and the results always show that end customers are willing to pay cashless, but the problem are the merchants, who are “convinced” that cashless payments are more costly for them.”

The majority of these merchants are small and medium enterprises (SME), which think that having pos-terminals, accepting credit card payment and etc. are diminishing their profits, thus they are unwilling to accept those types of payments. On the other hand, larger companies are welcoming online payments, and they are happy to pay the fees to intermediaries as long as the end customer is satisfied. However, SME’s stance of not accepting cashless payments is forcing customers to constantly keep cash with them, which in its turn makes customers to pay by cash even when purchasing from larger merchants.

9.2.2. The Banking Infrastructure / Technical Maturity of Banks

The banking infrastructure is obviously not as developed as in western countries, however compared to other, regional systems and structures it is very advanced. There are currently 17 banks that are operating in Armenia, out of which only 3 are international banks with strong networks. Majority of the market share is divided among 4 major players which together cover approximately 60 - 70 % of the total market. The centralized clearing system is not instant in the country, which makes the settlement of transactions delayed. The main reason for this is the Armenian Card (ARCA) system. The company has a monopoly in the country and is the processor for every credit card transaction in the country. They use their dominant position to pursue coercive isomorphism and influence the players in their value chain. There are several banks that are not using the services of ARCA systems; however, they are small banks with a niche market cover. This monopolistic behavior is the main reason for the overall banking infrastructure to be lagging from other developed countries. Individual banks are very developed, innovative, and competitive with their offerings and terms, because the intense competition forces them to do so. However, the failures of ARCA system are damaging the overall structure. As explained by Mr. Brutyan :

> “ARCA system has monopoly in the country and has become very irresponsible towards its operations in recent years. The comfort zone that they were in blinded them, they are now already obsolete with their technologies and are providing unreasonable terms. They use various levels of API integrations in the process which delays actual transactions. In addition to that, they are failing us a lot. We had numerous problems with customers because of outages in ARCA system, where customers could not pay by pos-terminals neither make encashments. So literally, they could not access their personal funds and it is very bad. I myself, despite being Head of Digital Banking and encouraging others for cashless transactions, always keep cash at home or with me, because you never know when ARCA will have another outage”.

This type of irresponsible monopolistic behavior of course causes a lot of issues, given the central position which ARCA is located in. It is known issue for every bank in Armenia, even the end customers of banks are also aware that ARCA system is the reason of problem for almost always. However, the interviewee also mentioned that some of the major banks are now planning to change the rules of the game and bypass ARCA when processing transactions. Some of them are already taking actions in this direction for creating a direct network that will process transfers instantly and increase the quality of payments in the overall market.

9.2.3. Payments Market in Armenia

The payments industry is actually dominated by banks in the country. There is little Fin Tech activity. According to Mr. Brutyan

> "This can be explained by the interest of banks to keep the business. While in developed western economies, banks are not interested in activities like these and are eager to let Fin Tech companies take these positions, in Armenia banks are fighting to keep their positions."

Take the example of IDram in the Armenian market which was acquired by ID bank. The company is very similar to Swedish Swish with its products, in that it is also offering card to card instant payments with mobile number and payments with QR codes. In addition, after the acquisition, ID bank and IDram became a combo platform which enabled open banking for the firms. IDram is now providing lending products and buy now pay later opportunities for their customers, which is much alike the products that Klarna offers.

Ms. Hovhannisyan explained that IDram is able to make instant payments in contrast to other local bank, because the local legislation has very strict regulations in terms of actual traditional banking, however the Fin Tech companies and alike have regulative advantages in numerous cases, where the legal constraints are not applicable to them.

> "There are number of loopholes in the current legislation that allows Fin Techs to do things that traditional banks are not allowed. The acquisition of IDram allows us to use them indirectly to increase the quality of our products. I believe that regulations will be changed and become much stricter when the country will have more firms alike, but not in the sense that it will hinder Fin Tech activity, on the contrary it will be beneficial for Fin Techs, but their activity will be defined in more precise ways".

9.2.4. Other Transitional Economies

Ms. Hovhannisyan also stressed the current trend of QR payments in Armenia, which were pioneered in the country by another bank, but currently the leader in the market is IDram. She brough examples of Russia and China, where markets did not accept NFC payments and are leaning towards QR solutions which are cheaper and easy to implement. Russia introduces national QR since the threat of losing MasterCard and Visa is very big due to international sanctions. Russia is currently going by the steps of China which implemented those QR systems years ago and which is currently dominating the market. To the degree that even Apple Pay and others alike has failed in the entrance of Chinese market. Russia is aiming to introduce unified QR system which they call “Ediniy QR” in order to cover the whole payments market by it. It is a cheaper alternative to other payment methods, and even has a possibility of extending it and make international payments by this system.

Another important factor to note, is the possibility of making international payments from Armenia to Russia and reverse instantly. This is similar to SEPA instant transfers, however with narrower coverage. The network includes several banks in Armenia and Russia, but this system is of course enabling a lot of opportunities for further developments.

9.2.5. Market Risks

In general, transitional economies are considered high risk from the perspectives of financial regulatory bodies. Main reasons are the high corruption rates with the increased risk of money laundering and fraudulent behaviors. In addition to this, Armenia has close proximity to Iran and Syria which are sanctioned countries, thus increasing the financial risk of Armenia. However, according to interviewees Armenian banking system is considered very safe and western counterparts are in general eager to cooperate with these banks. This lack of skepticism is the result of very strict banking regulations in Armenia, which are complying with all international standards. Armenian major banks perform CDD, KYC, FATCA investigations and etc. all according to the highest international standards and this resulted in that despite the country itself has a very low rating in terms of financial risks, the banking system itself is rated 3 + , which is considered good for a transitional economy.

10. Discussions

This section will sum up my findings throughout the interviews and previous literature for institutional impact on entry modes for international business, while also answering to my proposition based on those findings.

The first and foremost for the success of payments company, the regulatory environment, should be taken into consideration. Western economies, as they are developed, in order to control the market, have a number of legal constraints alongside the opportunities that they provide for payment companies. Since the industry is heavily regulated, companies operating in it are required to keep a lot of high standards which are most of time very costly for the company to maintain. On the other hand, in transitional economies, regulations are tending to be more enabling, because the primary objective should be the boost of the industry and appearance of these companies. From the interviews, it can clearly be observed that the government and Central Bank are eager to promote cashless payments in the country and focus a lot of their attention to stimulate the growth of the industry.

In addition, as Ms. Hovhannisyan mentioned, regulations are designed so that Fin Techs have actual advantages over traditional banks in the legal environment. These regulations will enable them to provide a better-quality product at a same cost to the customers, thus giving comparative advantages to Fin Tech companies over other players. While it is true that these Li advantages will be available to other local Fin Techs also, but as of now there is only one major player in the industry and the coverage of the market is mainly in the control of banks.

And lastly, all interviewees agreed that Central Bank and the current government are nowadays very flexible in their regulations of the industry. They are planning huge transformation to implement westernized approaches to market regulation, and they seem to be approachable and ready for negotiations if a reasonable offer for changes is made.

While Regulations are something that vary across countries and state and it is not objectively correct to state that regulations in Armenia can be generalized to other transitional economies, it is important to note that almost every transitional economy striving to develop will implement some enabling changes to create opportunities for such development in their countries. Especially in payments industry, which is connected to every type of economic activity and is directly tied to countries' monetary policies and safety in transacting.

Taking all this into consideration, international Fin Techs entering Armenian market will not only not be in disadvantageous position, but quite on the contrary will have advantages in terms of regulatory environment. Thus, Proposition 1a is likely to be rejected that:

Proposition 1a: Fin Techs in payment industries will experience more regulatory pressure when entering transitional economies compared to developed markets due to differences in regulatory norms.

In terms of societal and ethical norms, market seems to be ready for such innovations. As revealed throughout interviews end users are ready and eager to see transformations, as the convenience of usage and safety are paramount for them. In addition, large businesses also want cashless payments and are ready for these transformations. On the other hand, small and medium sized enterprises seem to be the only force that hinders this transformation. And since they constitute the large share of the market, their stance has a huge impact on the overall market readiness. The problem for these SME's is that they see the cashless payments costly as compared to cash which is costless in their view. In addition, the payments are not instant and most of SME's want to have high liquidity to pay off their suppliers, which also stimulates their desire for cash payments.

To address these issues banks on their behalf are launching large campaigns in order to educate customers and merchants to use cashless methods. A lot of initiatives are launched to reduce the cost for SME's and motivate them to migrate to cashless solutions. Currently, one of the solutions that IDram presented to the market is the QR payments, which are instant and have no costs for the merchants. This turns to be appealing to SME's and the transition to this new method of processing transactions is already taking place.

In case of international Fin Tech company entering Armenian market, the only remaining issue in terms of market penetration will be the transition of these SME's, which given the high-quality competitive products that these companies are offering in Western markets, will be easy to implement. However, the issue with shadow economy will still be persistent despite the fact that it is decreasing enormously after the 2018 Velvet revolution in Armenia.

Another important aspect mentioned by the interviewees is the trust. Although local population is very patriotic in general and people almost always prefer domestic products over imported ones, when it comes to banking system and financial operations, people are more trusting towards international firms. This is mainly due to lack of trust towards lending products of banks from the past. Some local banks used to show low interest rates to make the loan offers appealing for the customer, but they included "hidden" fees and extra payments in the contracts, which made the loan very expensive in fact. While currently banks are generally trustworthy, this past behavior of some local banks created a mentality that domestic banks are always lying, and the trust is not in place. People most of the time prefer to borrow from international banks like HSBC, ACBA bank or others. This is also applicable to preference of payment methods; thus, an international well-known Fin Tech can greatly capitalize on this Oi advantage by penetrating the market in a very short run. At least until this mentality is perished and even then, since people will get used to the foreign service provider, they will most probably remain loyal to them.

Taking all this factors into consideration Proposition 1b is likely to be rejected.

Proposition 1b: Fin Techs in payment industries will experience more challenges due to societal and ethical norms when entering transitional economies compared to developed markets. Likely to be rejected.

Now moving to our next proposition, we examined the banking infrastructure in Armenia as well as the competitive landscape. Firstly, there are few banks in Armenia and the majority of the market share is concentrated in the large players, which is as we identified advantageous for Fin Tech companies, as they will be able to cover greater share of the market through partnering with few banks. However, on the downside, the clearing system is not instant currently. This significantly reduces the attractiveness of Fin Tech offerings. Although Fin Techs, due to loopholes in legislation, are able to make instant payments like IDram currently does, the overall infrastructure is not developed to the degree that will enable these companies to introduce their best offerings. In addition, the errors and failures of ARCA system which has the central position in the current payments infrastructure, makes it very hard to operate smoothly. As mentioned before, banks are currently planning to create another system that will not depend on ARCA and will make the quality of the payment ecosystem to improve drastically, however there is not much progress on these initiatives yet and in addition it will be comprised of several banks, which does not cover the whole Armenian market.

Another important factor to consider is the possibility of instant payments from Armenia to the several biggest Russian banks. This can allow the Fin Tech company operating in Armenia to cover instant pay outs to Russian market, thus partially covering Russian market as well as significantly improving the quality of the product in Armenia. This could be a good steppingstone for a company that wants to enter Russian market, however if the company is not interested in it or is not able to make those payments due to compliance / sanctions issues, this opportunity becomes meaningless for them. Taking into account that Russia is currently considered a very high-risk market from financial perspective, I would claim that majority of Fin Tech will not be interested in that market for the near future.

Turning to the competitive landscape for Fin Tech companies, it was identified that the payments market is absolutely dominated by traditional banks. The only viable Fin Tech company that had significant market share was acquired by another bank, thus giving the full control of the ecosystem to banks. As Mr. Brutyan mentioned in his answer, in Armenia banks are still interested in these products. While western economies are increasingly giving the opportunities to Fin Techs to become intermediaries in transaction processing, here they want to maintain the control and keep the direct connection with the merchants. They see this as an opportunity for big profits and might not be willing to pass the market to new entrants without fighting back.

This implies that Fin Techs will need to reconsider their services and might even consider outsourcing some of their services to traditional banks in order to create opportunities to enter the market. Thus the internalization factors must be thoroughly assessed to remain viable in the market.

Proposition 1c: Fin Techs in payment industries will experience more challenges in transitional economies compared to developed economies due to underdevelopment of the market infrastructure but will benefit in terms of their high-quality offerings in the host transitional economies. Partially not likely to be rejected.

Now that we have assessed all three parts of the Proposition 1, its time to draw some conclusions for it. It was discussed that the Fin Techs will enjoy Oi and Li advantages when entering the Armenian market, however the I factors should be considered, which might create constraints for the MNE, in a sense that the product offerings will be limited . The regulatory environment alongside with societal and ethical norms are welcoming for such companies, and given the right positioning in the entry mode, these firms can penetrate large shares of market in short terms. However, the main concern is connected to the banking infrastructure and the competitive landscape that is dominated by banks. I do not imply that this is something that would be impossible for the Fin Techs to handle, however they should focus a lot of their attention to get the best out of the existing schemes in the market in order to be attractive to the end user. Overall, I am likely to reject the Proposition 1 that:

Proposition 1: Fin Techs operating in payment industries are expected to encounter enormous challenges when entering transitional economies compared to developed ones, to the extent that it is unprofitable for them to focus on these markets.

Since its now concluded that entering transitional economies is not as challenging as it seemed, it is also important to understand the best entry modes for payment companies.

Dunning Oli paradigm claims that firms entering proximate markets are better off to do it directly, while if the market is not proximate, an acquisition of existing business is the best steppingstone to penetrate the market and increase the chances of success. The same logic is applicable in this case. If we take into consideration the fact that most of the developed Fin Tech companies are from Western economies, and Armenia could hardly be considered a proximate market for these countries, the best entry mode would be through an acquisition of an existing business. In addition to this, Ms. Hovhannisyan mentioned that establishing an international Fin Tech company through direct entrance will be very difficult with the current market situation. Firstly, the company might not enjoy all the regulative encouragements that are currently given to domestic Fin Techs. Secondly, it might be challenging to create quality relationships with local banks, while the locally operating firms already have those. As the current transformational period implies a lot of regulatory changes in the near future this might not be the case, but currently its better to enter the market through an acquisition. Adding to this the perspective of the interviewee from Swedish Fin Tech, that it is most of the time quicker to enter new market through an acquisition, if the market is outside of European Union, I am deriving that Fin Techs are more likely to succeed in the entry stage, through an acquisition. Thus, I do not likely reject Proposition 2a:

Proposition 2a: Fin Techs in payment industries are more likely to succeed by acquiring an existing payment solution provider in the host transitional economies, than by direct entry.

And lastly, it is paramount to consider the compliance risks connected with entering transitional economies. These economies are generally considered high risk because of increased levels of corruptions, money laundering, fraudulent transactions and also in case of Armenia close proximity to sanctioned countries like Iran, Russia, and Syria. Thus, the entrance to this type of markets can potentially backfire on the operations in the domestic market of the Fin Tech firm. Operating in risky environments will caught the attention of respective regulatory bodies, which will result in increased focus, monitoring and perhaps even some investigations. In case of Armenia, as stated before, market itself is low risk, as banks and all other financial institutions are complying to internationally set standards, but there are still risks due to close proximity, that some illegal operations can be conducted through Armenian market. This has a risk for the Fin Tech company to potentially create bad image of unhealthy supply chain, which might affect relationships with banks in other markets as well. The only viable solution for the Fin Tech to maintain its image is the defiance strategy, whereas the company will keep its core and peripheral values. As from the interviews, it was also clear that customers in Armenia prefer to transact with international firms in the financial industry. Thus, the local idiosyncratic ethical pressures will be minimal, at the same time the companies operating in payments industries are heavily regulated and are required to maintain high standards, which automatically results in them having high CSR ingrainedness. Thus, also according to Tan and Wang (2010), the firms should adopt defiance strategy and defy local ethical expectations.

In addition to the adoption of the defiance strategy, the international Fin Techs will have the ability to impact the local institutions. As we identified throughout interviews, the regulatory bodies are currently open to discussions for changes in the legal environment of these business, thus Fin Techs can leverage their Oa advantages, and cooperate with the regulatory bodies, transferring their experience and knowledge in operations in various markets to the host market and creating even more Li advantages for themselves. Surely, the degree to which the government is ready to cooperate with international companies is limited to the point of not letting domestic companies in disadvantageous positions, however by affecting these regulatory bodies Fin Techs can create their desired legal environment. In addition, market for cashless payments is not formulated properly, which creates a big opportunity vacuum for these firms to push their vision on market processes. Taking the example of China, which already had the option of QR payments, Armenia’s market is moving towards that path, however a right influence with correct timing can change the market to the desired state. Thus, innovation response would be the best option for the entrant to influence the market and create opportunities for growth. Summing these all up I do not reject Proposition 2: b

Proposition 2b: Fin Techs in payment industries are more likely to succeed if they adopt innovation and defiance strategies, compared to ones that do not, when entering transitional economies.

11. Managerial Implications

In the literature of organizations, it is widely accepted that companies should respond, and act based on their surrounding environmental conditions and managers are ought to constantly reconsider the settings in which they are acting during the decision-making process. This is something that is certainly applicable to MNE manager who are frequently constrained by the inconsistency of expectations from the host and home economies. My findings suggest that Fin Techs operating in payment industries should enter transitional economies in the pursuit of profits. Currently, the big players in the industry are more focused on developed economies and their interest lies on the exploration of those markets, however payment methods that they provide are much more scalable and since the business model itself is focused on the plurality of markets, the need for entrance into transitional economies can be foreseen in near future. For this purpose, I suggest that these companies adopt defiance and innovation responses to the established market institutions. This will not only keep out the pressures from their home country but will also facilitate institutional development in the host country. Furthermore, this transfer of knowledge and experience will be the steppingstone in creation of a homogeneous environments in both home and host countries, which is surely desired by these companies since it will ease the burden of differences.

It was also identified that the companies that aim to enter Armenian market, will be in more advantageous positions if they do so by acquisition of an existing market player, rather than entering directly. Since the regulations and the partnerships in the market are paramount and by acquisition of an existing company, the MNE will probably bypass these burdens. Direct entry is also possible, but it will require a lot of resources and focus on creating a stable connection with local banks and convince them to accept the intermediary position of the firm.

In terms of markets readiness, the transitional economies are currently experiencing tremendous transformations in this sphere. The timing is of utmost importance, since entering the market prematurely will affect the profitability and will incur a lot of extra costs to educate market participants, while if the entry is postponed too much, local participants will enter the market and MNE will have to compete with them for market dominance. However, as stated before, end customers in Armenia, and probably in most of transitional economies, have greater trust towards international companies rather than local ones in the financial industries. If the MNE will manage to capitalize on this advantage, the conquest of the market may take place in a short period of time. Furthermore, the transforming regulatory environments should also be takin into account. As these new types of intermediaries are not common in transitional economies, the legal environment does not imply any specifics on them, thus increasing their opportunity spans compared to traditional banks. However, with the increase in the number of such participants, the regulatory bodies will start to constraint their activities. If the MNE is already in the market at that point, and has a dominant position, the regulatory bodies will consider their say in the creation of the new regulatory environment for these firms. By this actions MNE's will have the opportunity to shape the new market institutions and create suitable conditions for their existence in the market.

The only identified constraint compared to developed economies was the underdevelopment of the banking infrastructure. In the case of Armenia, not having an instant clearing system and obsolete ARCA system which enjoys monopolistic privileges hinders the development of the market. There are however other methods to overcomes these issues and have the same quality product as in the home country, however it will incur more costs on the firm. If we also take into consideration the possibility to have instant payments to Russian market, then the quality of the product will be increased significantly and the market will become more attractive. On the other hand, with the current risks associated with the sanctions in the Russian market makes this feature meaningless. In addition, it might even create more compliance issues in the home country since the riskiness of the Armenian market might increase.

12. Research Limitations

This study has some potential limitations. Firstly, the study was conducted on the comparison of Swedish and Armenian markets. Although, I consider these two countries to be a very good examples in terms of their maturity and current state of the market, however, as regards to the institutional settings, not all transitional economies will share the same ones with the Armenian market. The regulations and informal rules dominating in the country are obviously varying from country to country, however I consider that Armenia partially shares the same, at least the most relevant ones, institutional characteristics, and specifics with other transitional economies. The study is also based on a limited number of interviews with a limited resources to conduct it. Although I tried to consult various opinions from people with different backgrounds, in total five interviews were conducted, which puts a question on the objectiveness of the findings. In addition, the external expert was consulted in order to verify the previous findings and increase the objectiveness of the results. Lastly, the fast-shifting environment that transitional economies are in creates a lot of uncertainties. The Armenian recently experienced a velvet revolution, which brought legitim representatives of the people to power. This created a tremendous number of changes both in regulatory environment and in the market activity and increased the pace by which the market is streamlining towards having elements of western economies. While other transitional economies might not experience the same degree of freedom and governmental decisiveness for changes and developments.

13. Future Research Recommendations

Since the payments industry is experiencing tremendous transformations, mainly because of the introduction of Fin Tech companies, it is paramount to fully understand the environments in which these companies are operating and further focus on the strategies that are most viable for their implementation. The industry is very young and nearly untapped by academics for some reasons. However, it has an enormous impact on the overall economic activity in the world, since every transaction includes in itself a transfer of resources, these companies are involved in every part of the economy. Thus, improving their efficiency also boost the economic activity in the country.

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