

**From Failure to Success. Relevance of Corporate Governance for
International New Ventures.
Case Study: Kaspersky Laboratory**

**Horizon 2020 Twinning project 'SmartEIZ'
SmartEIZ Conference**

September 25–26, 2018

Introduction

The theory of International New Ventures (INV)

(McDougal & Oviatt 1994; Shrader et al., 2000; McDougall et al., 2003; Zahra 2005; Coviello 2006; Ojala 2009; Nummela et al., 2016; Ripollés & Blesa 2017)

McDougal & Oviatt (1994) Definition:

“a business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of output in multiple countries”

- Rapid diffusion of ICT
 - Decrease in transactions costs
 - Decrease communication costs
 - Created the possibility for small start-up companies to identify business opportunities in the foreign markets
- Rise of entrepreneurs with international experience.
 - Identify and connect resources in different markets
 - Establish competitive advantages

Introduction Cont.

Main focus of the literature on INV:

Small- and medium-sized enterprises (SMEs) particularly in IT industry (Ojala 2009)

(example: software development companies)

- **entry modes** into the foreign markets (Ripollés & Blesa 2017)
- **operational strategies** (Bell, Crick & Young 2004; Crick & Spence 2005; Martin & Javalgi 2016)
- **survival challenges** (Coeurderoy et al., 2012)
- **growth and performance** beyond the inception stage (Ghannda & Ljungquist 2005; Li et al., 2017).

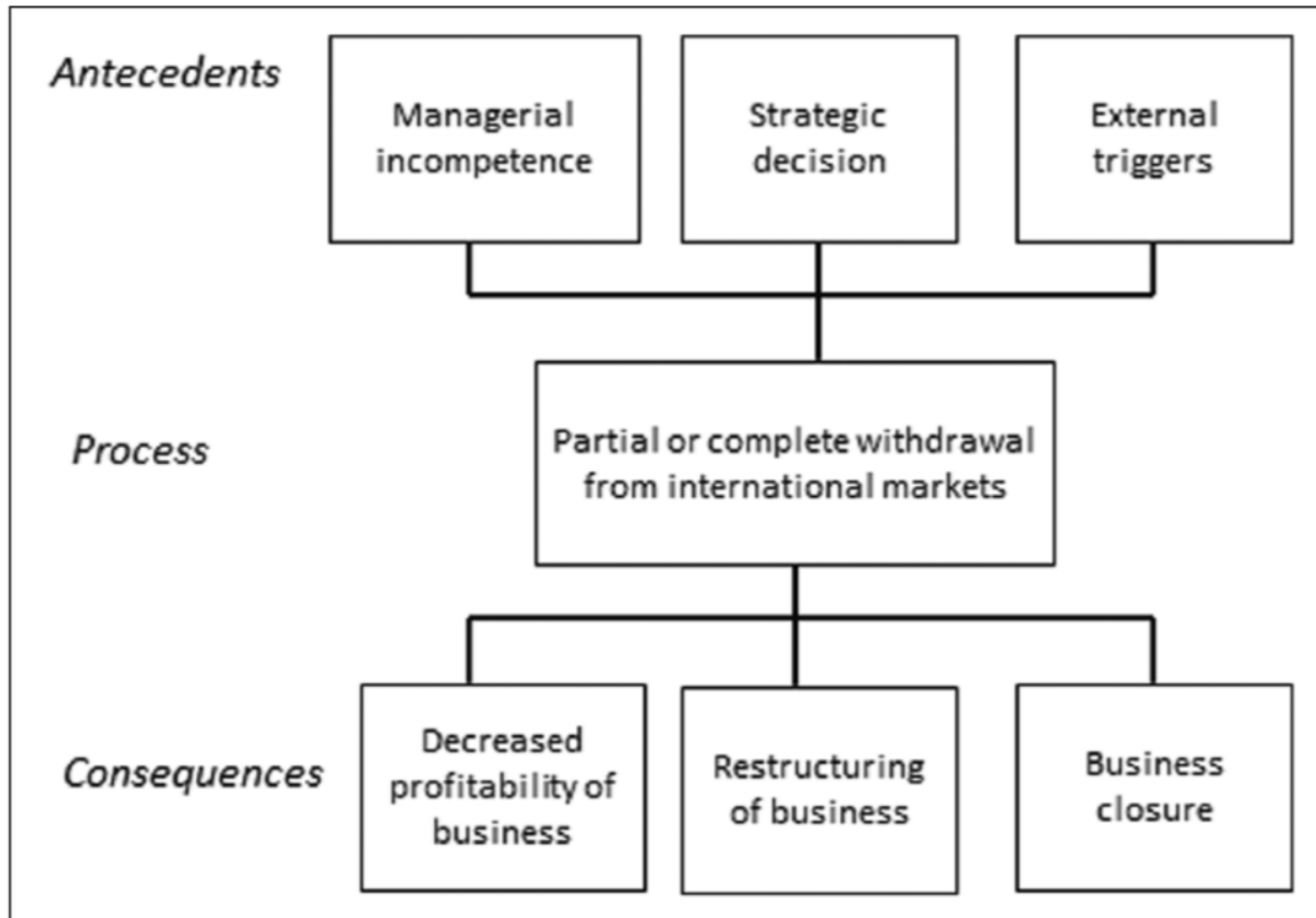
Introduction Cont.

Failures of INVs

- Failure is often identified as de-internationalisation:
“voluntary or forced actions that reduce a company’s engagement in or exposure to current cross-border activities”
(Benito and Welch, 1997: 9)
- **Managerial incompetence** (Hayward et al., 2006; Ooghe & De Prijcke (2008).
- **Entrepreneurial strategic failures** (Van Gelder et al 2007)
- **External factors** (Carter & Wilton 2006).

Introduction Cont.

Theoretical framework by Nummela, Saarenketo & Loane (2016)



Relevance of the research question

Missing Link in the framework.

- SMEs are usually owner-managed enterprise.
 - In such owner-managed enterprise the decision maker underestimate the significances of firm's growth through the process of internationalisation.
- Internationalisation
 - ➔ higher complexity and information asymmetry
(Sanders G., and Carpenter M.,A., 1998)
 - ➔ increase monitoring costs (Zajac and Westphal, 1994)
 - ➔ agency problem (Berle & Means 1932)
- Unchanged corporate governance structure
 - ➔ quick overconfident decisions leading to a strategic failure
(Nummela et al.,2016).

Relevance of the research question Cont.

Missing Link in the framework.

This shows the importance of the balanced corporate governance structure for INVs, which should not be costly for the owner, but at the same time would provide some critical analysis of his strategic decisions and managerial practices.

Case Study



- The IT-security firm that was established in **1997**
- **4 colleagues:** Eugene Kaspersky, Natalia Kaspersky, Aleksey De-Monderik and Vadim Bogdanov.

Vision from inception:

- International presence
- Innovation

“If you just stay in the home market, eventually you will be swallowed by large multinationals”. Eugene Kaspersky

“Aim – to build the best antivirus software in the world”.
Eugene Kaspersky

Now:

- In **2017** almost 3000 employees & 30 offices around the globe
- **The main products:** Kaspersky Antivirus system, Kaspersky Security Network, Kaspersky CRYSTAL , Kaspersky Mobile Security, Kaspersky Anti-Spam

Case Study Cont.

Background

Eugene Kaspersky

- Graduated from Moscow's institute of Cryptography, Telecommunications and Computer Science
- Worked at Military Scientific Research Institute
- **(1991) KAMI** Information Technology Centre (Russian family owned IT firm specialising in IT security)
 - Developed **“AntiViral Toolkit Pro” (AVP)**
 - Number 1 in testing laboratory in Hamburg University (1994)
 - Contract with F-Secure (Finland) and Sophos (UK)
- **1994 Natalia Kaspersky** joined KAMI as sales representative
- **1995-1996** Aleksey De-Monderik and Vadim Bogdanov joined Kaspersky's division in KAMI (Kaspersky Department)
- **1997 Kaspersky Laboratory** was established in Russia

Case Study Cont.

1st stage of Internationalisation. (1997 -2000)

- Opening the branch in the UK in (Cambridge)
 - Russian Manager -Vladimir Freidin
 - Attempt to sell the product through Large UK retailer (Dixons)
 - Direct Sales helped to keep the office in a survival mode.
- Licensing technology to Europe
 - Germany (G-data)
 - Finland (F-Secure)

“The contract with F-secure was the technology slavery. The contract stated that we were not allowed to licence our core of the antivirus software to anybody else apart from the previously signed contracts, to develop antivirus internet solutions and the Finish firm was granted all the rights to our technologies and their source codes”

Eugene Kaspersky

From (Dorofeev & Kostilova, 2010)

Case Study Cont.

1st stage of Internationalisation. (1997 -2000) Cont.

- From inception of the firm 70% of the profit was coming from Technology licencing to European partners.

“In a market with large established firms like McAfee and Symantec the only solution was to offer innovation. New ways to detect and fight viruses”

Eugene Kaspersky

From (Dorofeev & Kostilova, 2010)

- In 1998, That was the period of the financial crisis in Russia, and by been an export oriented firm and receiving its profit in US dollars put Kaspersky Lab into better position in relation to its Russian competitors.

➔ Increase in Fixed Assets

➔ Skilled labour

Case Study Cont.

1st Corporate Crisis

- After the first internationalisation stage, that created opportunities for growth, Kaspersky Laboratory encountered with their first corporate crisis.
- Accelerated growth in terms of number of employees had no effect on the profitability of the company, even though the company started to build their organisational structure to improve their performance.
 - ➔ technical director
 - ➔ marketing director
- Poor communication between new TMT and IT Engineers led bad version of antivirus software in 2000.

Case Study Cont.

1st Corporate Crisis

- The conclusion from that experience that Kaspersky made at that time was to start training top management team personnel from firm's employees
- Result of corporate restructuring (in 2001 – 2002)
 1. Created a product that was easy to use for general PC users and had more advance settings for the experts.
 2. Development of new products, separating corporate and household users
 3. Round the clock support line and the daily update of antivirus database

Case Study Cont.

2nd Stage of internationalisation (2000-2006).

- **2002 France** (“Sophia-Antipolis” – technology park on the south of France) – manager Marc Blanchard
- **2003 Germany** (Ingolstadt) – manager **Andreas Lamm**
- **2003 Japan** (Tokyo) - Joint Venture with Japanese firm iMEX.co Ltd, Manager Daizo Yamaoko
- **2003 Poland (JV)**
- **2004 Ukraine**
- **2004 China** - Manager **Harry Cheung**
- **2004 /2005 USA** – (Miami ; Boston) Managers: **Peter Laakkonen & Steve Orenberg**
- **2005 South Korea (Franchise)**
- **2005 France (EU Lab)**
- **2005 Kazakhstan**
- **2005 Austria**

Case Study Cont.

Entering USA

- The first attempt to start selling the product (at that time it was AVP antivirus) was as early as 1998-1999
- The second attempt was to enter the market not through direct sales of the final product but through the licensing of the technology (2001-2002)
- Third attempt to enter the American market was taking place after the completion of first corporate restructuring, which helped Kaspersky Lab to form their objectives and marketing targets. Result: 2 successful offices.

Case Study Cont.

2rd corporate crisis

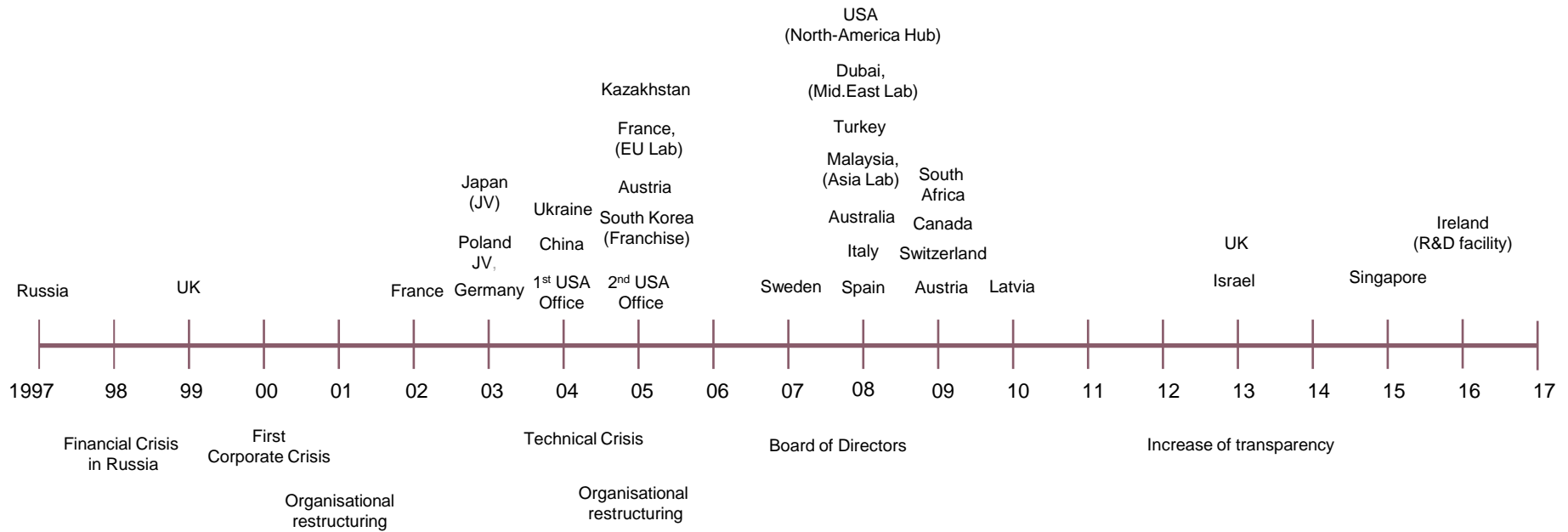
- Speedy internationalisation on several continents led to technical crisis.
 - Commercial interests of rapid expansion put aside innovation
 - Kaspersky antivirus ver.4.0 & 5.0
 - Both versions were repeating the story of the anti-virus software of 2000
- Founders concluded that the technical crisis was coming from corporate crisis as the strategic decision making was locked on the Managing Director (Natalia Kaspersky)
- Solution: Creation of Board of the Directors

Case Study Cont.

3rd internationalisation stage (2007- 2017)

- Creation of 5 regional division
 - West Europe (Austria, Benelux, France, Germany, Italy, Poland, Portugal, Spain, Sweden, Switzerland, United Kingdom)
 - Eastern Europe, Middle East and Africa (Kazakhstan, Romania, Russia, South Africa, Turkey, Ukraine, United Arab Emirates, Latvia)
 - North and South America. (USA, Canada, Latin America Countries)
 - Asia-Pacific Region (Australia, China, India, South Korea,
 - Japan

Kaspersky Lab: Internationalization Path



Conclusion

- Rapid internationalisation into the first international market should be accompanied by the change in the corporate governance structure if the level of corporate governance in the domestic market is lower in comparison to the foreign market
- the extent to which the corporate governance should be modified will vary based on the number of international markets in which INV operates and the concentration of the market.
- the change in corporate governance is a dynamic process, which is linked to internationalisation of the firm

Thank You!