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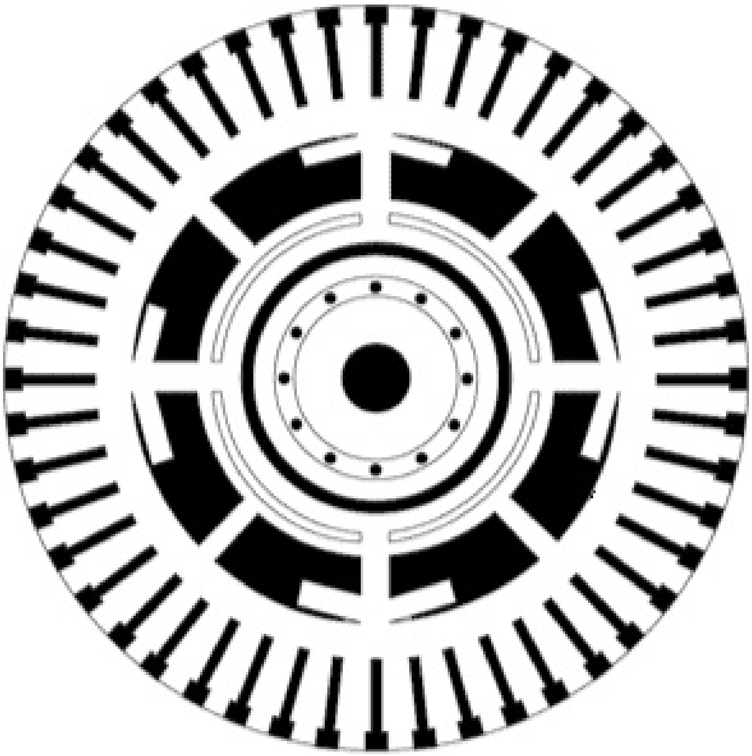

Actions to gain legitimacy in the Swedish financial sector

A study of Swedish fintech startups

Christopher Svensson
Jakob Udesen

Department of Technology Management and Economics
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Master's thesis E2018:039

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Abstract

The financial sector has been undergoing changes the past decade and one reason behind this change is the development of the fintech sector. This new sector has brought new innovations that challenges the incumbents in the financial sector. The new entrants, further referred to as fintech startups, are focusing on developing services in short iterations that reflect the end customers needs. In addition, the fintech startups have a great focus on user experience. The incumbents have dictated the terms in the financial sector for decades and have managed to build regulatory barriers that makes it difficult for new entrants. This dynamic makes it challenging for the fintech startups to navigate in the financial sector in terms of how they should establish their service on a new market. Trust and relationships has historically been building blocks in the financial sector and are aspects that new entrants often lack. In addition, there is a need for legitimacy when operating in the financial sector, some of which is possessed by the incumbents, but also the fintech startups.

This thesis aims to describe how Swedish fintech startups establish legitimacy when entering a new market to reduce the liability of newness related to their service. The establishment of legitimacy can be achieved both through internal and external actions for the fintech startups. This research presents different dimensions where actions was taken by Swedish fintech startups to gain legitimacy, these are: innovative, market, historical and compliance. Furthermore, this thesis presents how these dimensions can be gained, both internally for the fintech startup, but also externally through strategic alliances with incumbents. The relationships between the dimensions and different aspects of legitimacy is presented in a model in the end of the thesis.

Keywords: Fintech, Startup, Legitimacy, Liability of newness, Strategic alliances.

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Christopher Svensson

Jakob Udesen

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Definitions

Burnrate The rate at which a company spend their venture capital.
Compliance Obeying to an order, rule, or request.
Fintech Financial Technology.
Offering What the company are selling, can be both products and services.
Platform Online interface that allows integration of third party applications.
SaaS Software as a Service, e.g. cloud services that provides a software over the internet.
Startup A company in its early stages of operations.

1
Introduction

The following chapter presents the background, problem description, aim, delimitations and research questions of this thesis. Two main research questions are defined, which will subsequently be answered by analysing the empirical findings, followed by a discussion and a conclusion.

1.1 Background

The fintech sector in the Nordics, with Sweden as the biggest actor, has seen a rapid increase in both activity and the number of companies in the last 10 years (Jonsdottir et al., 2017). Some of these fintech startups are creating new innovative services, whilst others develop services in business areas where the incumbents are already present, e.g. loans and payment solutions (Jonsdottir et al., 2017). The Nordic fintech sector is experiencing a big growth with yearly investments of €163 million during 2016, which is twice as much as in 2014 (Jonsdottir et al., 2017). According to a report by CBInsights (2018), the growth of the fintech sector is likely to continue during 2018. Sweden is currently the second biggest fintech community in Europe with many internationally active fintech companies, as Swedish new ventures often have to plan for an internationalization at an early stage due to their small domestic market (Wesley-James et al., 2015).

The term fintech currently does not have one clear definition and is often used in various contexts (Ståhl, 2017). There is ambiguity regarding what dimensions of financial services that should be included in the definition, together with how the fintech startup is providing their services. Dorfleitner et al. (2017) describes fintech as:

> *"The term "FinTech," which is the short form of the phrase financial technology, denotes companies or representatives of companies that combine financial services with modern, innovative technologies. As a rule, new participants in the market offer Internet-based and application-oriented products."* (Dorfleitner et al., 2017, p. 5)

The finance sector consists of several different areas, and new ventures in fintech usually targets a niche within one of these areas (Lee and Shin, 2018). Lee and Shin (2018) has attempted to categorize fintech startups with regards to their business models, which are presented below:

- **Capital market** - Buying and selling of stocks and commodities.
- **Wealth management** - Automated investment advisers.
- **Lending** - P2P lending between different actors.

- **Insurance** - Customized insurances based on algorithms.
- **Payment** - Payment solutions for individuals and businesses.
- **Crowdfunding** - Large scale funding from a network of individual supporters.

The fintech ecosystem consists of several different actors and a new venture within fintech often need to take these actors into account when developing their service (Lee and Shin, 2018). The different actors in the fintech ecosystem are displayed in Figure 1.1 below.

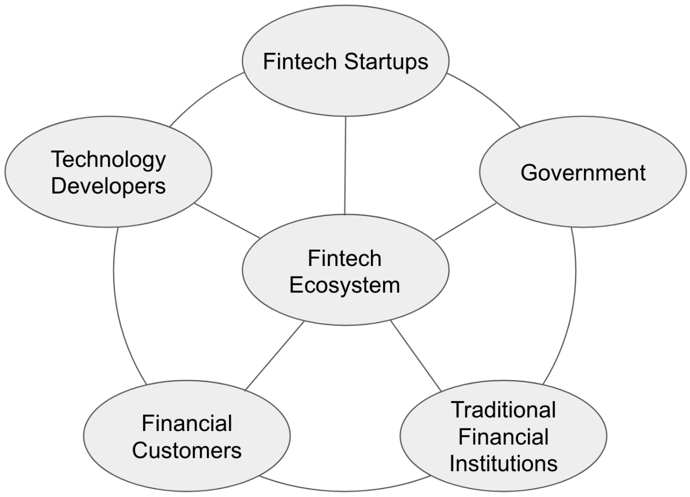

Figure 1.1: The fintech ecosystem, Lee and Shin (2018)

The different actors accounted for in Figure 1.1 are further described by Lee and Shin (2018) as:

- **Fintech startups** - Small, often disruptive, companies that are developing financial technology.
- **Technology developers** - Companies within areas such as cloud technology, artificial intelligence, contactless payments, and cryptocurrency.
- **Government** - Actors within the governmental agencies that are overseeing the financial sector, such as: regulators and policy makers.
- **Financial customers** - Individuals and organizations.
- **Traditional financial institutions (incumbents)** - Banks, Venture Capitalists (VCs) and insurance companies etc.

The report by CBInsights (2018) highlights the importance of cooperation between the different actors in the fintech ecosystem. Some fintech startups directly compete with the incumbents, as mentioned previously. Other fintech startups are dependent on alliances with the incumbents to get access to their infrastructure, e.g. payment systems and banking platforms (Vasiljeva and Lukanova, 2016). The incumbents are often reluctant towards exposing themselves towards the same degree of risk as the new ventures in the sector. Furthermore, the incumbents rely on fintech startups to provide them with innovation (Lewan, 2018). Many incumbents see the growth of fintech as a threat and fear that the fintech startups will take control over the interface towards the end customers (Jonsdottir et al., 2017). Cooperation between fintech startups and incumbents can be of mutual benefit as they can empower each other with their respective strengths. By establishing alliances with fintech companies, incumbents can acquire innovation related to both processes and services, whilst the fintech startups can get access to the incumbents resources (WEO, 2015, Dany and Baben, 2016, DB, 2016). One of the latest examples of a collaboration between an incumbent and a Swedish fintech startup is the acquisition of iZettle by Paypal. The acquisition gives Paypal access to iZettle's innovative services and enables iZettle to utilize the infrastructure and influence of Paypal. When explaining the effect of the acquisition, the CEO and co-founder of iZettle said the following:

> *"By joining the PayPal family we'll become iZettle with superpowers and jump on a fast track to realise our vision."* (de Geer, 2018)

One of the stronger forces that is driving change in the Swedish financial sector today is reduced trust towards the incumbent actors (Teigland et al., 2018). Fintech as a phenomenon has emerged due to changes in technology and customer behaviour along with a loss of legitimacy among incumbents, which started after the financial crisis in 2008. The crisis reduced the trust towards incumbents in the financial sector in the eyes of both regulators and customers, as the crisis partly occurred due to the actions of incumbents. As a consequence, customers started to look for alternative providers of financial services. The current competitive landscape and need for legitimacy leaves fintech startups and incumbents in a position where they can gain mutual benefits from cooperating with each other. Incumbents have large networks, a historical legitimacy as service providers and access to sector-specific knowledge. However, the incumbents need to be seen as stable companies which reduces their ability to move quickly and take substantial risks. The fintech startups are more able to take risk but lack legitimacy, network and capital. (Teigland et al., 2018)

Incumbents in the financial industry are often older entities, which often implies that they are constrained by their previous processes and organizational functions. These constrains sometimes limits their ability to adjust to major changes (Hensmans et al., 2001). Hensmans et al. (2001) argues that incumbents in the financial industry can be seen as entrants in the new sector that is technology based financial services. Using their old approaches to new technologies, competitors and customer needs can put incumbents in an unfavorable position where they can lose their legitimacy as providers of financial services (Hensmans et al., 2001). By cooperating, incumbents can gain innovation whilst fintech companies can gain legitimacy through association (Eggers et al., 2016, Teigland et al., 2018).

Gaining legitimacy is a frequently occurring challenge for new ventures in emerging industries, which is referred to as the *liability of newness* (Stinchcombe and March, 1965). The authors further describes *liability of newness* as:

> *"New organizations must rely heavily on social relations among strangers. This means that relations of trust are much more precarious in new than old organizations... One of the main resources of old organizations is a set of stable ties to those who use organizational services. Old customers know how to use the services of the organization, have built their own social systems to use the old products or to influence the old type of government... The stronger the ties between old organizations and the people they serve, or the larger the component of personal loyalty in the consumer-producer relation, the tougher the job of establishing a new*

organization." (Stinchcombe and March, 1965, p. 149-150)
The reduced trust towards incumbents has led to the development of the fintech sector, as mentioned previously. However, both incumbents and startups experience issues related to trust. Fintech startups does not possess it, as they are new to the market. Incumbents can enjoy trust based on the fact that they are established actors, although their trustworthiness has been reduced in the last 10 years. (Teigland et al., 2018)

A contributing factor behind the challenge of *liability of newness* is the lack of legitimacy that new ventures face as entrants in a sector (Dowling and Pfeffer, 1975, Stuart et al., 1999). A consequence of the liability of newness is that other actors in the sector, such as venture capitalists and consumers, show skepticism towards the new venture (DiMaggio, 1988). This can make it more difficult for the new venture to receive venture capital and sell their service (Stuart et al., 1999). Furthermore, Aldrich and Fiol (1994) stresses the importance of gaining legitimacy for new ventures in order to increase their chance of survival.

Previous research has studied the ways in which new ventures can reduce liability of newness (Rao et al., 2008), different liabilities for new ventures (Guercini and Milanesi, 2016), legitimacy challenges for new ventures (Di Paola et al., 2018), entrepreneurial branding (Eggers et al., 2016) and strategies for establishing legitimacy (Suchman, 1995). Research on how high technology startups gain legitimacy in the eyes of stakeholders is scarce (Di Paola et al., 2018). Lee and Shin (2018) states that the previous research on fintech companies is limited and the lack of research leads to difficulties for involved parties to properly assess where the sector is today. The present research is focused on specific types of fintech services and areas related to the information technology perspective of fintech. Further research is needed on the overall development of fintech and the sector as a whole (Hornuf et al., 2016, Leong et al., 2017, Lee and Shin, 2018).

In a book regarding the Swedish fintech sector, published by Teigland et al. (2018) in February of 2018, legitimacy was brought up as one of the key factors behind the current and future change of the financial sector. The book has been a useful resource in the data analysis and choice of topic for the thesis.

This thesis can be seen as an answer to the call for research by Rao et al. (2008) regarding how new ventures address the liability of newness related to their offering. Furthermore, this thesis has investigated how Swedish fintech are establishing legitimacy towards both incumbent actors and end users. In order to illustrate how Swedish fintech startups gain legitimacy, a model has been developed. Furthermore, the study aims to illustrate how cooperation between incumbents and fintech startups helps both parties to gain legitimacy in the eyes of their respective stakeholders. Lastly, managerial and theoretical implications along with areas for further research will be presented.

1.2 Problem description

The Swedish financial sector was an early adopter of online banking and financial technology. However, the current trend of new ventures creating financial technology instead of incumbents has not been seen previously (Teigland et al., 2018). Online banking has been present for a couple of decades but the trend towards big data analysis, fast and agile development, together with application-based services has introduced new ventures in the financial markets. The changes in regulations since 2008 has made it easier to establish a company as a financial service provider. More than 80 new regulations was introduced by the European Commission since 2008. A consequence of this was that the incumbents, which often provide a multitude of different services, had to focus their resources on compliance, which had a negative affect on their innovativeness and market focus. This paved the way for new entrants and made it easier for smaller companies to compete with the incumbents, as they only required compliance in a niche (Teigland et al., 2018). However, fintech companies experience a certain liability of newness due to the fact that they are new entrants in the sector and have a different approach towards financial services. Their approach involves faster development cycles than incumbents together with a bigger focus on translating customer input to new functionality. This liability of newness increases the skepticism of external stakeholders, e.g. customers and partners. The liability of newness is a factor that becomes important for fintech companies to address in order to grow in the financial sector. By focusing on gaining legitimacy, new ventures can reduce this liability and increase the possibility of sustaining growth and success (Rao et al., 2008).

However, at the same time as there is some skepticism towards fintechs startups, there is also an interest in what they might have to offer. Fintech startups' ability to quickly translate user data into new functionality is a characteristic that is present in most technology startups today. However, these aspects can be disadvantageous for financial services, as it relies on certain elements of trust in the companies and their services. Allowing users to test functionality that is not fully developed could reduce the trust among users, if they perceive the functionality to be subpar or not safe enough. Incumbents seek to partner with fintech startups in order to gain innovation related to processes, services and customer interface. The incumbents have previously controlled the financial sector (Highsmith and Cockburn, 2001), but are now forced to compete with fintech startups. A challenge for the incumbents is that they need to convince their existing customer base that they are capable of delivering the same cutting edge user experience as the fintech startups (Teigland et al., 2018).

1.3 Aim and research questions

The research aims to describe how Swedish fintech startups establishes legitimacy to reduce the liability of newness related to their service. To do this, we draw on examples from both how Swedish fintech startups establish themselves in Sweden and in other markets. Furthermore, a discussion will take place regarding how Swedish fintech startups and incumbents can use alliances to gain legitimacy.

Based on the aim and background, two main research questions (RQs) were derived. These are:

- How do Swedish fintech startups gain legitimacy when introducing their service on a new market?

- How does the need for legitimacy affect the cooperation between Swedish fintech startups and incumbents in the financial sector?

1.4 Delimitations

This study will be limited to include Swedish fintech startups and investors. Fintech startups will be defined as "new ventures developing software based financial services", based on the description by Dorfleitner et al. (2017). Investors will be defined as "organizations that invest in Swedish fintech startups on a regular basis with the ambition to gain a return on their investment".

The study will only investigate fintech startups and traditional financial institutions, as fintech startups do not seek alliances with other actors to the same extent as with the traditional financial institutions. An alliance will be defined as "cooperation or collaboration between a fintech startup and an incumbent where both parties commit resources to work towards a common goal that results in mutual gains". Since the focus of this thesis is the establishment of a service and the importance of alliances in that process, no end-users of financial services has been interviewed. As a consequence, their perspectives will not be addressed in this thesis.

2

Theory

This chapter presents the theoretical framework that was used as a basis when analyzing and discussing the findings. Initially, a problematization on the definition of legitimacy is presented. This is followed by a review of two different views of legitimacy by Suchman (1995) and Rao et al. (2008). The two views of legitimacy will be used to answer the RQs:

- *RQ1: How do Swedish fintech startups gain legitimacy when introducing their service on a new market?*
- *RQ2: How does the need for legitimacy affect the cooperation between Swedish fintech companies and incumbents in the financial sector?*

Lastly, theory related to strategic alliances and resourcing will be presented, which will also be drawn upon in the discussion.

2.1 What is legitimacy?

When an organization pursues a new activity in a field with established actors they have to gain their acceptance (Suchman, 1995). This is previously referred to, by Stinchcombe and March (1965), as the 'liability of newness'. Suchman (1995) presents two challenges for new entrants on a market: convincing established actors of their adequacy and finding support from other new entrants. Ashforth and Gibbs (1990) further emphasize this challenge and state that new entrants face more resistance if they have uncertain or risky organizational technologies.

The research area of legitimacy has increased in popularity since the 1960s when it was acknowledged as an important external force for an organization (Suchman, 1995). The author further refer to this research area as organizational legitimacy and states that legitimacy acts as a constraining, empowering, and constructing force towards organizational actors. For example, a lack of legitimacy can constrain an organization, whilst an established legitimacy can have both empowering and constructing implications for the organization.

The term legitimacy has not been clearly defined and is used in various contexts (Suchman, 1995). In his article, Suchman (1995) presents a definition:

> *"Legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions."* (Suchman, 1995, p. 574)

Rao et al. (2008) argue that legitimacy resides with the stakeholders and whether an entity's actions are desirable:

> *"Legitimacy is a generalized perception or assumption that the actions of an entity are desirable."* (Rao et al., 2008, p. 59)

Furthermore, Teigland et al. (2018) approaches legitimacy as a multi-leveled phenomena, where actors can have different degrees of legitimacy at different times:

> *"Legitimacy is the degree to which an actor has the right to perform a certain activity, and the legitimacy of institutionalized activities is known to sometimes wax and wane over time."* (Teigland et al., 2018, p. 7)

In line with the argument by Suchman (1995), there is not a consistent definition of legitimacy. Legitimacy stems from the perspective of stakeholders and whether the actions of the actor are coherent with existing norms. Furthermore, gaining legitimacy can arguably be seen as an ongoing process that organizations must work with continuously.

2.2 Two views on legitimacy and how to gain it

This section presents two different perspectives on legitimacy. The first view is by Suchman (1995) who defines three different kinds of legitimacy, as well as strategies regarding how to gain legitimacy. The second perspective is by Rao et al. (2008) who divides legitimacy into two broad means and relates them to a number of dimensions where actions can be taken to gain legitimacy. Two different views was selected for this study since they arguably complement each other. The view by Suchman (1995) is comprehensive and presents legitimacy from an organizational point of view, while the view by Rao et al. (2008) is more practical as it previously has been applied to new ventures.

The view of Suchman

Suchman (1995) presents three forms of legitimacy and refers to new entrants in traditional sectors, as well as the liability of newness in his article. Furthermore, the author mention banks and technology based organizations as two interesting cases as they are actors in two separate environments with regards to his segmentation of legitimacy. As the article by Suchman (1995) relates to multiple topics that are problematized in this research it is deemed as an applicable theoretical framework for the analysis of the findings.

As previously stated, legitimacy research is scattered and the term is used in various contexts. Mark C. Suchman is a sociologist and is known for his work on managing legitimacy, and institutional theory. In his article, Suchman (1995) synthesize the literature on legitimacy research and identifies three forms of legitimacy: pragmatic, moral and cognitive. These are presented in the Table 2.1 below.

Pragmatic	Moral	Cognitive
Influence	Consequential	Comprehensibility
Dispositional	Procedural	Taken-for-granted
Exchange	Structural	
	Personal	

Table 2.1: Forms of legitimacy

Pragmatic legitimacy is based on the self-interest of the organizations' audience, e.g potential partners. This often involves that the gained legitimacy is based on the practical implications a certain activity have for the audience (Wood, 1991). For a fintech startup or incumbent in the financial sector, this relates to their ability to take actions that creates value for the customer, e.g. using customer feedback to develop products. Suchman (1995) further divide pragmatic legitimacy into three different types:

- *Influence legitimacy* is gained if the audience believe that they have influence over the organization.
- *Dispositional legitimacy* is gained from the audiences belief in certain attributes that the organization is associated with, such as being trustworthy or innovative.
- *Exchange legitimacy* is gained by the support for certain policies that the audience can benefit from.

Moral legitimacy involves the audiences view on the morality of an organization's actions. In contrast to pragmatic legitimacy, which has to benefit the audience, moral legitimacy is more focused towards 'doing what is right' (Suchman, 1995). Related to actors in the financial sector, this implies that they have to follow socially accepted rules and norms, such as those set by their customers and regulatory entities in their sector. The author further explains moral legitimacy by dividing it four types:

- *Consequential legitimacy* is based on the generated output, or accomplishments by the organization.
- *Procedural legitimacy* is gained by complying to socially formed and accepted procedures. An example is that an organization complies to rules and regulations.
- *Structural legitimacy* is gained if an organization has structures in place that are socially accepted. An example is if a company has a legal department in place.
- *Personal legitimacy* is gained if the organization has a charismatic leader.

Cognitive legitimacy is gained if the society accepts the organization as necessary or taken for granted. This is the highest level of legitimacy according to Suchman (1995) as such organizations are difficult to replace. Examples of organizations that possess such legitimacy are the police and fire department. Suchman (1995) divides cognitive legitimacy into two types:

- *Comprehensibility legitimacy* is gained if the audience consider the organization as predictable, meaningful, and inviting, i.e. they understand and acknowledge the organizations existence.

- *Taken-for-granted legitimacy* is gained if an organization is considered as non-replaceable. It is considered a rarity that the technologies and policies of an organization attains such a status due to competition. In addition to this, technologies and policies are likely to change over time which, reduces the possibility of achieving taken-for-granted legitimacy.

If an organization operates in a strong institutional environment they need to pursue both cognitive legitimacy and moral legitimacy (Suchman, 1995). The reason behind this is due to their need of being socially accepted with regards to their overall purpose, as well as their internal structures and procedures (Suchman, 1995). An organization that operates in a strong technological environment is required to primarily pursue pragmatic legitimacy. The emphasis on technology implies that companies within such an environment needs to ensure that their offering caters to their customers needs. The author further state that some sectors are operating within both technical and institutional boundaries:

> *"In some sectors (such as banking and health care), both technical and institutional constraints operate simultaneously, requiring organizations to emphasize their public-spirited dispositions and their relative permanence, in order to lubricate the inevitable friction between achieving specific objectives and following general rules. Such sectors often develop relatively high levels of macrostructure, as member organizations collaborate to channel competition and to protect the legitimacy of the sector as a whole."* (Suchman, 1995, p. 603-604)

Furthermore, Suchman (1995) presents three strategies a new entrant can use to gain legitimacy when entering a new sector.

The first option is to **conform** to the new environment. For an organization, this involves changing their internal structures and/or focusing on their appearance to better match the expectations of a potential partner. An example on how to achieve pragmatic legitimacy by conforming to the new environment is to give decision making access to the potential partner.

The second option is to **manipulate** the new field. For an organization, this involves changing the view of the established actors in the new field. An example of how this can be achieved is through advertising or strategic communication by the new entrant.

The third option is to **select another field**. For an organization, this involves selecting a field where the established actors share similar values as the new entrant. A new entrant can conduct market research in order to find the most suitable field to enter.

The view of Rao et al.

Rao et al. (2008) introduces a framework that describes different actions that new ventures can take in order to gain legitimacy in the eyes of their stakeholders. Their study was focused towards identifying and confirming dimensions in which said actions can be taken to gain legitimacy. In addition, it also highlights differences with regards to the importance of the each dimension. Furthermore, the authors use the definition by Suchman (1995) as a basis for their research.

Rao et al. (2008) use the framework that is presented as Figure 2.1 to analyze biotechnology firms. The method used was a quantitative stock market-based event study to estimate gains in legitimacy from new product launches. However, the authors describe the biotechnology firms as being new ventures in a highly fragmented sector with a few dominant players, which is similar to the environment that fintech startups face. Furthermore, the authors focus on companies that need legitimacy from stakeholders in order to have a successful product launch. The research conducted by Rao et al. (2008) was focused on new ventures within the biotechnology sector, which arguably share similar traits to the financial sector. Both industries are regulated, dominated by a few players, and the entrant firms offer products or services that are novel to the market.

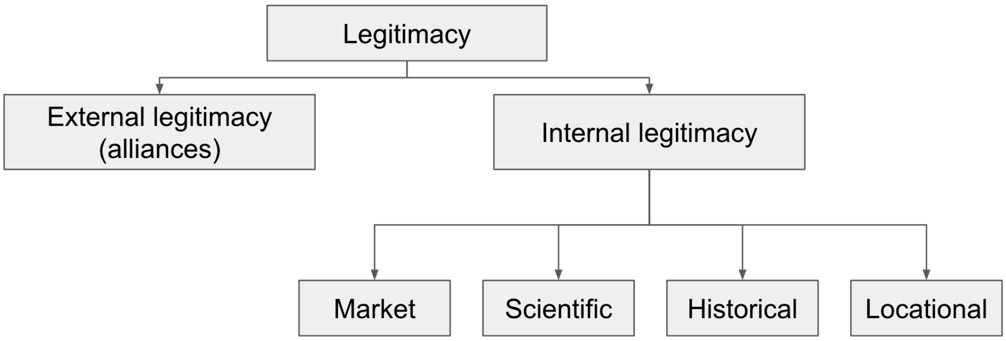

Figure 2.1: Dimensions of Legitimacy, Rao et al. (2008)

Rao et al. (2008) divide legitimacy into two parts: Internal and External. Furthermore, the authors divide internal legitimacy into four dimensions: Market, Scientific, Historical, and Locational (Rao et al., 2008). The different aspects of legitimacy and the four dimensions are further described below.

External legitimacy

External legitimacy is gained through association with prominent firms, such as through an established alliance (Higgins and Gulati, 2003). By establishing a strategic alliance the new venture gain access to the dimensions of internal legitimacy of the larger firm and gain legitimacy from their partners' stakeholders (Stuart et al., 1999, Rao et al., 2008).

Internal legitimacy

There are four ways of gaining internal legitimacy according to Rao et al. (2008).
Market legitimacy is gained by having experienced leaders and managers with previous knowledge from related fields. Having this internal experience brings three benefits. Firstly, stakeholders get a signal that the new venture understand their customers and the market. Secondly, the experienced management have previous knowledge of commercializing products which increases the odds for the new venture to have a successful product launch. Lastly, their experience will increase the likelihood of selecting the right market for the new ventures future growth.

Scientific legitimacy is gained by having researchers at leadership positions within the company. As the framework was developed for new ventures within biotechnology, the scientists had to be related to that field of study, according to the authors. This has three major benefits. Firstly, it sends a signal that the new venture is capable of developing new innovative products. Secondly, to gain access to knowledge that the firm can not develop on their own. Lastly, to assure that knowledge can be absorbed in the new venture.
Historical legitimacy is gained through the history of the new venture. It has two major benefits. Firstly, that former success regarding actions or product launches increases the odds of succeeding again. Secondly, if the new venture do not have former success, they have presumably learned from their mistakes.
Locational legitimacy addresses where the venture is located geographically. The authors states that legitimacy can be gained by being located near companies that are related to the new venture. Locational legitimacy has three benefits. Firstly, by being close to similar companies they indicate to stakeholders that they have access to a local talent pool. Secondly, the new venture has access to the knowledge that is developed in the cluster, from sources such as universities. Lastly, there is an opportunity for the new venture to work with other firms in their surroundings.

The authors state that internal legitimacy is often more powerful than external legitimacy. If a new venture already possess internal legitimacy, it becomes less important to gain external legitimacy and they can often establish their service on the new market by themselves. However, if the new venture does not have internal legitimacy, they should try to establish an alliance with an incumbent to gain access to their internal legitimacy. The authors argue that gaining external legitimacy demands less resources in comparison to gaining internal legitimacy. Furthermore, the authors acknowledge that there is a difference between the different dimensions of internal legitimacy in terms of their importance. Historical legitimacy is the most powerful, followed by market and scientific legitimacy.

2.3 Strategic alliances and resourcing

Swedish fintech startups and incumbents in the financial sector often seek to collaborate with each other, as mentioned in Section 1.1. The following section explains what a strategic alliance is, and the benefits of establishing an alliance. Furthermore, two relationship-control views, that explain the power dynamics between the parties within a strategic alliance, will be presented.

A strategic alliance is an interorganizational cooperation between two entities that enables resource sharing in order to build competitive advantages (Eisenhardt and Schoonhoven, 1996, Dyer and Singh, 1998), and is defined as:

> *"Strategic alliances enable buying and supplying firms to combine their individual strengths and work together to reduce non-value-adding activities and facilitate improved performance. In order for both parties to remain committed to this form of relationship, mutual benefit must exist. This is often termed in industry and academic publications as developing a "win-win" relationship."* (Whipple and Frankel, 2000, p. 21)

Establishing an alliance comes with pros and cons for a new venture. Pérez and Fierro (2007) states that alliances between firms of different sizes often have an asymmetric distribution of power. The authors further states that such asymmetry occurs when the exchange between the two parties are not equally important for both parties. Being the smaller actor in an alliance can lead to a loss of control and large companies are often less flexible and have longer chains of command (Das and Teng, 2000). Lerner and Merges (1998) further emphasize the risk of losing bargaining power towards the bigger actor which consequently might lead to a disadvantageous contract for the new venture. Alliances can result in the new venture having to give up profit to their counterpart, which can reduce their relative reward from an alliance (Gulati, 1998).

Some benefits of establishing an alliance for new ventures is the access to the larger parties resources, e.g. distribution networks and resources related to marketing and financing (Swaminathan and Moorman, 2002). A cooperation between a smaller and a larger firm often facilitate knowledge transfer as well as new knowledge creation (Pérez and Fierro, 2007, Kogut, 1988).

Street and Cameron (2007) presents two different views on relationship-control that explains the risks for small businesses that are involved in external cooperations, these are Resource Based View and Resource Dependency. The resource based view describes the relationship between competitive advantage and resource ownership in relation to business performance (Barney, 1991). From the perspective of a small firm this implies that the partnering organization has resources (tangible or intangible) that could be of use for the smaller firm. The power distribution between the two parts is described as a function of the resources that the small business do not have and what resources their partner can offer (Street and Cameron, 2007). As a consequence, the larger organization has power over the smaller firm, since the smaller firm often is in more need of the larger firms resources than vice versa (Street and Cameron, 2007). Resource dependency theory involves the smaller firms reliance upon a larger firms resources, and to what degree the larger firm control these resources. The partnering decision is motivated by the smaller firms need to gain access to their partner's resources. A greater dependency increases the likelihood of the smaller firm having to adapt to the behaviour of the larger firm (Street and Cameron, 2007).

3
Methods

This chapter describes the research strategy along with the methods used to satisfy the purpose and research questions stated in the introduction. Following that, the procedure for data gathering and subsequent analysis is presented. The methods chapter ends with a discussion regarding the reliability and validity, followed by a reflection from the researchers regarding the research process and ethics.

3.1 Research strategy and design

As the purpose of this research was to investigate the fintech startups in Sweden, an argument is made that both the research and subsequent research questions should be of exploratory nature. Edmondson and McManus (2007) argue that exploratory research questions are suitable in nascent areas with limited previous research. Having an inductive approach is applicable in nascent areas of research (Edmondson and McManus, 2007). Little empirical research has been conducted on legitimacy (Rao et al., 2008) and how high-tech startup establish legitimacy (Di Paola et al., 2018). Fintech is a new sector where limited research has been conducted up to date (Hornuf et al., 2016, Leong et al., 2017) which arguably makes it suitable for exploratory research questions and an inductive approach.

The research design used in this thesis is a cross-sectional design which is a study that is used to produce general findings from multiple cases (Bryman and Bell, 2015). A case in this study refers to an interviewed company, either a startup or an investor. In addition to the interviews, a literature review has been conducted with the purpose of creating a theoretical foundation and analyze the findings.

Research process

The research process is described in Figure 3.1, where the initial part consist of a literature review. Before the literature review, a discussion with a Swedish fintech startup acted as an indicator that the process of internationalization was of interest for the sector. Based on this discussion, the researchers chose to investigate internationalization among Swedish fintech startups with a focus on partnerships. The initial focus guided the first literature study and the development of the interview guide.

The RQs pivoted two times during the research process and was formed in conjunction with the data collection and data analysis. The researchers framed RQs that allowed exploration of the acquired data. Many interviewees stressed factors related to developing a fintech startup, such as understanding and complying to regulations, assessing a country and the need to work through incumbents in a market, which led the researchers to focus on legitimacy and its implications on small ventures when establishing their service on a market. The literature review in combination with an interview study was utilized to answer the RQs. The data analysis resulted in a number of common themes which are presented in the findings in Section 4.

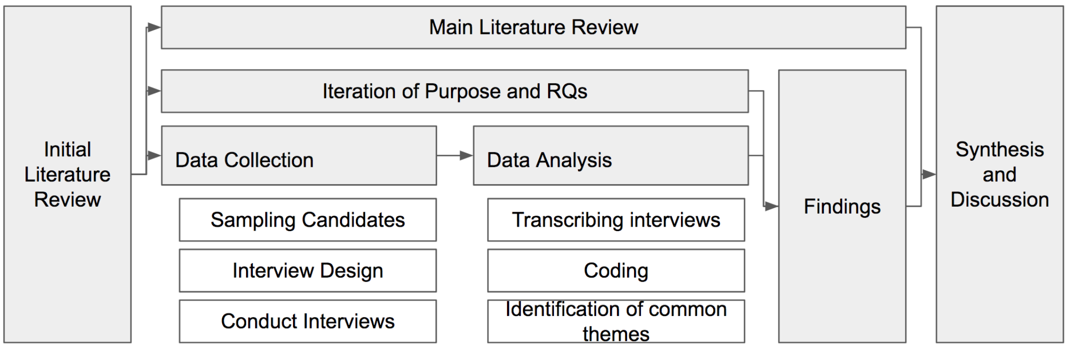

Figure 3.1: Illustration of the research flow followed by the study

3.2 Literature review

The literature review prior to data collection was focused on the internationalization of small firms, partnerships as a means of expansion into new markets, and internationalization strategy. After data collection, the literature study was focused towards legitimacy, liability of newness, strategic alliances and how to manage legitimacy. The literature review was divided into two parts. The first literature review enabled a general understanding of the areas related to the initial purpose, i.e. internationalization of fintech and the challenges that occur. After revising the purpose, an additional literature review was undertaken. The second literature review helped the researchers to provide a context for their RQs and the acquired data.

The literature review has been conducted by searching for articles in the Google Scholar and Chalmers library databases. Keywords that were used in the initial review were: *"Fintech, Internationalization process, Internationalization model, New market entry, Trade-offs in new ventures, Born Globals,* and *International entrepreneurship"*. Keywords that were used in the second round of the literature review were *"Fintech, Legitimacy, Liability of newness, Strategic alliances, Managing legitimacy* and *New ventures"* After finding relevant literature, the researchers followed citations from the articles in order to find other established researchers in the field. This method of systematic literature review is considered as snowball sampling, where the reference list of a scientific papers is used to identify additional papers that can be of interest to the researchers (Easterby-Smith et al., 2015).

3.3 Data collection

The following section presents the interview study that was used for gathering data. The process comprised 19 interviews over the span of 4 weeks. This section is divided into three parts: sampling candidates, interview design and conducting interviews.

Sampling candidates

The interviews were carried out with fintech companies and VCs who met the criteria presented in Table 3.1. The startup companies were found through Nordic Tech List (*Nordic Tech List*, 2018), and contact information for individuals within the companies were found either through the company's website or LinkedIn. The researchers generated a list through Nordic Tech list and filtered for fintech startups. Lastly, the definition stated in Section 1.4, was used to further assess whether a company in the list should be regarded as fintech.

Main criteria: Fintech Startups	
Criteria 1:	At least €1M in funding
Criteria 2:	Website that is at least two languages
Criteria 3:	Founded in Sweden
Main criteria: VC companies	
Criteria 1:	Based in Sweden
Criteria 2:	Investing in fintech
Criteria 3:	Portfolio companies that has expanded outside Sweden

Table 3.1: Set of criterion used for sampling

Each identified candidate was invited by email to either a Skype- or a face-to-face-interview, depending on their location. In the email the researchers presented themselves, the project and the purpose of the research. The email is presented in Appendix B. There were instances where the researchers had made an incorrect assessment regarding a company's internationalization process. In these instances, the companies themselves stated that they had not yet entered a new market in their reply to the initial invitation. A total of 40 emails was sent which resulted in 19 interviews, presented in Table 3.2.

Interview design

The interviews were conducted with startup company representatives and investors. Investors were deemed to be of interest for the study as the fintech sector is a capital-intensive branch of startups where venture capitalists are often involved at an early stage (Jonsdottir et al., 2017). The investors were found through contacting banks and receiving contacts from interviewed startups. Of the nineteen interviews, fifteen was conducted with fintech startups and four with investors. Company representatives of interest were positions such as business developers, founders and CEOs. A requirement was that the interviewee had strategic responsibility in their respective companies. More specifically the interviewees should be involved in decisions

Table 3.2: Interviewed companies

Startup	Business Model	Role	Date	Interview mode	Number of employees	Time of interview (min)
A	Crowd funding	CEO	20 Feb -18	Phone call	12	50
B	Payments	CEO	21 Feb -18	Phone call	30	45
C	Payments	CEO	22 Feb -18	Phone call	10	50
D	Capital markets	COO & Founder	23 Feb -18	Phone call	5	50
E	Software platform	COO	26 Feb -18	Video link	35	60
F	Software platform	CEO & Founder	27 Feb -18	Phone call	9	40
G	Payment	co-founder	27 Feb -18	Physical meeting	200	50
H	Insurance	Founder	28 Feb -18	Phone call	20	45
I	Payment	CEO & co-founder	28 Feb -18	Phone call	10	60
J	Payment	CEO & co-founder	12 Mars -18	Phone call	30	45
K	Payment	CEO & co-founder	13 Mars -18	Video link	35	50

Startup	**Business Model**	**Role**	**Date**	**Interview mode**	**Number of employees**	**Time of interview (min)**
K	Payment	CEO & co-founder	13 Mars -18	Video link	35	50
L	Payment	CEO & co-founder	2 Mars -18	Physical meeting	10	60
M	Payment	COO & co-founder	13 Mars -18	Video link	5	55
N	Wealth Management	CMO & co-founder	13 Mars -18	Video link	20	40
O	Wealth Management	CEO & co-founder	6 Apr -18	Physical meeting	20	50
Investor	**Type**					
P	Bank owned VC	Senior Advisor	6 Mars -18	Physical meeting	N/A	60
Q	Bank owned VC	Advisor	21 Mars -18	Phone call	N/A	50
R	Bank owned VC	Investment manager	22 Mars -18	Phone call	N/A	45
S	VC	Investment manager	14 Mars -18	Phone call	N/A	60

regarding the company's long term vision. Interviewees in focus within the banks were the head of their VC firms, as they should have insight into their cooperation with startup companies. A compilation of the interviewed companies is presented in Appendix C. 19 interviews was deemed sufficient as the researchers saw similar responses after 10 interviews. Guest et al. (2006) argue that 10 interviews is the lower limit before data saturation in a qualitative study.

After setting up the interviews, the researchers followed the recommendation and prepared an interview guide (Bryman and Bell, 2015, Easterby-Smith et al., 2015). Since parties with different perspectives on the discussed topic were interviewed, three different interview guides were prepared: one for the startups, one for the VC's and one for the bank owned VC's, see Appendix D. When designing the interview questions the initial RQs, as described in Section 3.1, were used as a guideline which is a recommended procedure by Bryman and Bell (2015). One additional question regarding the allocation of resources was added during the interview process. In addition to this, the researchers amended two questions after the second interview in order to clarify them.

Easterby-Smith et al. (2015) emphasize that the researchers should formulate the questions without technical terms to keep the interviewee more relaxed, which ultimately should result in more exhaustive answers. Each interview was initiated with a preamble including an expression of gratitude, an introduction of the researchers and the project. Furthermore, the interviewee was asked for permission to record the interview and the researchers stated that everything that was discussed in the interview would be held confidential. Lastly, the interviewee was informed that they can withdraw from the research at any time. Having a preamble including the information mentioned above is important since it will give the interviewee an idea of what the researchers hope to get out of the interview, and make the interviewee more comfortable with giving detailed answers (Bryman and Bell, 2015, Easterby-Smith et al., 2015). The interview started with simpler 'icebreaker' questions, as recommended by Easterby-Smith et al. (2015). After the opening questions, the interviewers proceeded to the topic questions, followed by closing questions which is recommended by Easterby-Smith et al. (2015). In line with the inductive approach, the interviews were semi-structured, so that the interviewees could elaborate on the different questions.

Conducting interviews

Each interview lasted between 40 and 60 minutes, was recorded and transcribed in order to enable analysis and the possibility for the researchers to reassess the interview. The questions asked during the interviews followed the interview guide in order to enable easier analysis. Out of the nineteen interviews, two of them were conducted in English and the rest was conducted in Swedish. During the interviews, one of the researchers focused on asking questions, while the other researcher focused on listening and ensuring that each question was thoroughly answered. After each interview, the researchers recorded their initial assessment.

3.4 Data analysis

The selected approach for analyzing the qualitative data gathered from the interviews was content analysis. This approach is suitable for this research as it enables finding themes, patterns and relationships in textual data, such as transcripts (Miles and Huberman, 1984, Easterby-Smith et al., 2015). Edmondson and McManus (2007) states that this approach is suitable for research in nascent fields, which further strengthens the choice of analysis.

The first step of the analysis was to determine a criteria for selecting data from the transcripts. The researchers chose to look for data related to challenges experienced by the fintech startups and investors. The choice to focus on the experienced challenges was related to the initial purpose of the research. The data from the transcripts was compiled in a matrix where each piece of data was given a code. A total of 132 codes was generated from 19 transcripts. A code is a short sentence that describes the meaning of a piece of text according to Easterby-Smith et al. (2015). When all pieces of data was coded, the researchers wrote the codes on separate post-it-notes. The post-it-notes was put on a wall to enable an overview of all codes. The next step was to rearrange the post-it-notes so the codes that was considered similar was grouped together. Each group of codes was given a theme that described the content of all codes in the group. After this, each theme was rearranged and grouped with similar themes to find overarching themes. The coding process was iterated until all codes was gathered under three main themes. A selection of the quotes, codes and themes are presented in Appendix A. (Easterby-Smith et al., 2015)

The researchers conducted the analysis three times before considering the findings as satisfactory. For the first analysis, the researchers coded interview summaries, which led to an unsatisfactory amount of themes. The second time the researchers were biased towards each quote before coding. The third time the quotes were assigned to themes with the ambition to provide a more holistic view, which arguably resulted in findings with more depth and nuance.

3.5 Quality of the study

Easterby-Smith et al. (2015) argue that in order for research to be relevant, quality and validity of said research needs to be taken into account. Bryman and Bell (2015) propose a set of criteria for assessing the quality of qualitative research, which is centered around the *trustworthiness* of said research: *credibility, transferability, dependability* and *confirmability.* Each dimension will be addressed individually.

Credibility

Credibility is the qualitative equivalent to internal validity in quantitative research and addresses whether the researchers has made a correct understanding of their observations. It is of great importance that the theories that are generated as an outcome of research actually mirror the researchers observations. (Bryman and Bell, 2015)

Glaser and Strauss (1967) highlights a challenge with ensuring the credibility of qualitative research. It involves making sure that the results are thoroughly described and should be addressed by describing the data in a nuanced way, so that the reader feel like they are present during the interviews. Glaser and Strauss (1967) further suggests that an effective way of making the reader feel included is to use quotes and describe the context of the interview. Another aspect that strengthen the credibility of the research is to codify the interview data (Glaser and Strauss, 1967). By explaining this procedure to the reader they can follow how the results were derived from the interviews, hence making the research more credible. A suggested way of making the codification process understandable for the reader is to present it in a table, according to Glaser and Strauss (1967).

Transferability

Qualitative studies typically focuses on one specific group or individuals sharing certain characteristics, i.e. having a greater focus on depth rather than the breadth that is predominant in quantitative research (Bryman and Bell, 2015). This study has been focused towards companies in the financial technology sector in Sweden that all share the characteristic that they are currently expanding into a new market or has undertaken such a process. By providing a rich context, clear descriptions of the research, methodology and interpretation of results, the researchers can ensure that judgments can be made regarding the transferability of the research into other arenas (Sikolia et al., 2013). Easterby-Smith et al. (2015) agrees and states that there are often uncertainties among qualitative researchers whether their findings can be applicable or transferred to other settings than the ones studied. This holds true for this research, as the process of establishing and maintaining legitimacy is studied in a specific industry context. However, in order to assess the transferability of the research, further studies should be made that expand on the specified setting and choice of companies. For instance, by focusing on companies that were founded in other geographical markets and comparing the conclusions of such a study with this research transferability can be determined.

Dependability

Dependability is a concept in trustworthiness that closely resembles reliability (Bryman and Bell, 2015, Morrow, 2005). Bryman and Bell (2015) states that in terms of the collected data, the researchers should try to keep record of all phases of the research process in an accessible manner. Sikolia et al. (2013) state that dependability is to ensure that the collected data represents the phenomenon under study correctly. This representation should be consistent across time, researchers, and different kinds of analysis techniques (Sikolia et al., 2013). Auditing is the correct way of ensuring the dependability of a qualitative research, and can be done either by peers, student advisers or colleagues to the researchers (Morrow, 2005). The researchers has been supervised by a faculty member, assigned by the university, during the whole research process. This has enabled a third party to continuously review and give feedback on the research, which arguably strengthens the dependability of the research. In addition to this, the researchers was reviewed by another thesis group, which further strengthens the dependability.

Confirmability

This dimension of trustworthiness is related to that the research has been done objectively and in good faith by the researchers (Bryman and Bell, 2015). The researchers should not allow personal values or theoretical inclinations sway or affect the research nor the outcome of it (Bryman and Bell, 2015). Morrow (2005) state that confirmability is achieved if another researcher can confirm the study if presented with the same data. The research has been conducted solely with academic purposes with no third party interests in either the research process nor service of said research. The procedure of auditing has been in form of both a student advisor and a peer review, it is argued that actions has been undertaken to ensure the research's confirmability.

3.6 Reflections

This master thesis has been a learning process for both researchers. The researchers come from two different academic backgrounds. One researcher have a bachelor in Mechanical Engineering and is a master student in Quality and Operations Management whilst the other has a bachelor in Industrial Engineering and Management and is a master student in Management and Economics of Innovation. The different backgrounds has enabled the researchers to approach the topic from different angles, which arguably has improved the quality of the research.

Conducting the interview study was challenging for the researchers. There were less companies than initially expected that actually had expanded outside of Sweden. Trying to find the right individuals and getting in contact with them was a time consuming process. The resulting group of interviewed companies are a form of convenience sampling, as described by Bryman and Bell (2015), as the researchers ultimately interviewed all the companies that wanted to be interviewed. The researchers had limited personal connections related to fintech, which made it harder to get in contact with candidates for interviews. Several potential interview candidates were slow to answer emails and many interviews required several reminding emails in order to agree on a date. However, many interviewees were interested in the subject and all the interviewed companies asked for a copy of the final thesis.

The interviews was conducted either by phone, video link or face to face meeting. The researchers believe that interviewing face to face affects both how comfortable the interviewees were in sharing information and how the interviewers assessed the information in real time and asked follow-up questions. However, the researchers do not believe it has affected the results.

Some of the interview responses might have been affected by the respondent's memory bias. As the interviewees were asked questions regarding their past experiences, the quality of the answers will depend on their ability to recollect said experiences. Due to the nature of the open-ended questions and the researchers aspiration to avoid asking leading questions, certain aspect of the startups challenges might have been missed, which can affect the results. In addition to this, the interview guide, which addressed challenges related to internationalization, might result in the exclusion of some experiences that would have been of interest for the study.

The researchers have chosen to identify patterns across the interview data. This can imply that the researches might have seen connections or patterns between things that objectively are unrelated. As the main part of the analysis was content analysis and pattern identification, it might be especially applicable for this study. The researchers acknowledge this risk, and attempts have been made to make the identified patterns transparent. In addition to this, the researchers committed to several rounds of content analysis to increase the nuance of the findings.

3.7 Considerations regarding ethics

An overarching aspect that should be considered before conducting research is the one of ethics (Creswell, 2014). Loue (2004) ask the question of what the price of access is and if the research itself can have a negative impact, as a study that becomes recognized can have implications for the people involved. This is further supported by Bryman and Bell (2015) who presents a number of ethical principles that needs to be taken into account when conducting research, namely: harm to participants, lack of informed consent, invasion of privacy and deception. Many interviewees asked questions related to why the study was done and how their contribution would to be presented in the study. The researchers have taken the principles of Bryman and Bell (2015) into account during the duration of the research. First and foremost, all interviewees participated voluntarily with a desire to share knowledge and information. Secondly, each interview was initiated with a description of the purpose of interview, and why they were selected as interview subject. This was made as an attempt to reduce uncertainty and enable trust between the researchers and the interviewee. Thirdly, all interviewees participated anonymously and was ensured that no information was disclosed that could expose the interviewee or the company in focus, in order to provide a setting where the interviewees could express themselves freely.

4
Findings

This chapter presents the empirical findings from the interviews. First, a description of the interviewed companies perspective on ensuring compliance is presented. This is followed by an account for the interaction between fintech startups and incumbent actors in the financial industry, and how fintech establish their offering. Lastly, the investors perspective on fintech as a sector and a synthesis of the findings will be presented.

4.1 Summary from the interviews

Table 4.1 summarize some of the main data from the interviews. The table presents each case in terms of the following areas:

- **Primary customer** refers to which actor in the ecosystem the startup sell their service.
- **Selling through incumbents** refers to the startups who chose to utilize an alliance when selling their service.
- **Subject to local regulations** involves if the startup has to adapt their company or service to regulations.
- **Previous managerial experience** relates to if the startup has recruited board members and/or managers with previous experience from the financial sector.
- **Dependent on incumbents** refers to if an incumbent is a part of the startups business model, i.e. they are crucial for the startups offering.
- **Dependent on financial infrastructure** involves if the startup has to access third party systems, such as payments system or authentication systems.

4.2 Ensuring compliance

The startups stated that their biggest benefits towards the incumbents is the speed in which they operate, both with regards to market decisions and in generating and testing new ideas. The startups express that they have expectations to perform and act in a specific way when it comes to how they should develop their company. Making sure that both the company and the service complies to regulatory demands is a process that is described as difficult and resource demanding, according to both startups and investors. Compliance, i.e. following regulations in a market, requires regulatory knowledge, a dedicated function and additional capital which makes it

Table 4.1: Data from interviews

Fintech startup	Primary customer	Selling through incumbents	Subject to local regulations	Previous managerial experience	Dependent on incumbents	Dependent on financial infrastructure
A	Businesses &Individuals		X			
B	Individuals		X	X		
C	incumbents	X		X	X	X
D	Businesses			X		X
E	Businesses			X		
F	incumbents	X	X		X	X
G	Businesses		X	X		X
H	Businesses			X		
I	incumbents	X				X
J	Individuals		X			
K	incumbents & Individuals	X	X	X	X	X
L	Businesses		X	X		
M	Businesses	X	X	X		X
N	Individuals					
O	incumbents & Individuals	X			X	X

difficult to start a company, according to one startup founder. One startup experienced big challenges in developing their company since they needed a license as a payment institute. The compliance related to this license was too complicated and costly in order for them to start developing their service. However, regulations changed and a new license for payment service providers was introduced. This permit required less compliance and the company could start developing their service. Interviewed investors and startups said that they feel that the financial sector is undergoing a big regulatory change.

The investors express that the regulatory demands on fintech startups, such as security requirements from the Swedish Financial Inspection, lengthens their overall development cycles. Fintech startups that have developed their company for a longer time usually lowers their growth plans due to the respect towards the risk of insufficient compliance, according to one investor.

One investor stated that they often question a startup's desire to expand into new markets. Another investor stated that it becomes too much of a challenge trying to establish a service in a new market whilst attaining the right degree of compliance in both the new and domestic market. Having a focused development process is something that is stressed by all startups. One startup expanded into Norway and Denmark whilst developing their company. Balancing IT development, sales, and complying to regulations in three countries was too much to handle for the companies' employees. This resulted in a revised strategy where the startup have no further plans of expansion into new markets. Another startup founder stated that once they started expanding, they needed to reduce innovation and focus those resources on adapting their service to the demands and regulations of the new market.

4.3 Establishing a fintech service

This section presents different aspects related to establishing a fintech service. These aspects involves how fintech startups sell their service, establish trust with other actors, and how fintech startups interact and establish alliances with incumbents.

The investors emphasize that startups in the fintech sector are often reliant on the financial ecosystem and the incumbents in the sector. Building a standalone service is seldom an option, as the startups and their services are dependant on the incumbents that have created the financial system. Some startups are dependant on incumbents to provide them with services such as payments. Fintech startups often need to make use of incumbents distribution channels to reach their end customers, according to an investor.

One interviewed startup stated that the incumbents have difficulties adjusting to the transition from closed to open banking, which is a consequence of PSD2. The new PSD2 regulations forces actors in the financial sector to share customer data with other actors if the customer allows it. The incumbents built the financial system with the purpose of being secure and protect data, but due to these new regulations they are forced to rebuild and open these systems, according to the interviewee. Another interviewee highlights the upcoming challenges for the incumbents and emphasize that it will take a long time for such large organizations to transition from closed to open banking.

A benefit of the PSD2 regulations is that incumbents' need for innovation increases, according to an interviewed startup. This is a consequence of the increased competition that will affect the incumbents when they have to share their data. Another interviewed startup stated that the incumbents are interested in buying innovation from the fintech startups, but they are often not interested in being the first incumbent to try new services. The incumbents are looking for new innovations to create new revenue streams, as technological progress has reduced the margins on some of their services, e.g. transactions, according to an interviewed startup.

Selling financial technology

Sales in the financial sector often depend on relationships between startups and incumbents. Many startups state that they need to be the party who keeps up the intensity of the relationship, and this task requires dedicated resources.

Many startups talk about the need of having a network with a lot of contacts in the financial sector. The startups want members of the board who have experience and contacts from working in the financial sector. Startups that do not have access to such a network often has to recruit individuals to access their network. One startup said that they need to buy a network when expanding into a new market and they do that by recruiting sales personnel from their biggest competitor. When trying to sell their service in a new market, many startups must resort to physical meetings when negotiating with incumbents. The purpose of the negotiations is to either sell directly to the incumbents, or use their distribution channels.

Some startups choose to set up a local organization with local sales personnel. The reason for this is to get contacts in the local market as well as to gain market knowledge related to financial services. Startups that choose to sell from Sweden say that they must travel a lot in order to maintain relations in the new market. One company could not set up a local sales office due to their financial license, as they would need to apply for a new permit in the UK if they wanted a local subsidiary. Instead, they relocated an employee to London for 9 months in order to meet incumbents on a daily basis and to understand the market.

The decision making process among the incumbents is slow in comparison to the startups. One startup expressed frustration in the difference regarding what the incumbents saw as fast in comparison to the startups own perspective. The sales cycle were often between 12 to 18 months, which forced the startup to have several parallel sales processes at once. The interviewee stressed that such a long negotiation process could put the startup in financial risk due to lack of financing. Another interviewed startup stated that the incumbents are unpredictable with regards to how long their sales process is. Interviewees that sell towards incumbents stated that they often have little insight in how the incumbent will act, and often have to pursue multiple sales in parallel.

Establishing trust

Many startups stated that being a trustworthy party is important in the financial sector. Being a small, recently founded company makes it difficult to approach incumbents, according to an interviewee. Furthermore, the interviewee stated that the company chose to partner with consultants that implement financial services. This was a consequence of them not having any success in approaching the incumbents on their own. A startup must be seen as a respectable party and that trust takes time to establish. An interviewee at a startup said that they need to understand the local business culture in order to establish trust. As a startup, it is difficult to convince incumbents that they are a respectable party and you need to know how to approach them, according to the interviewee.

One startup stated that they had signed a contract with an incumbent in the German market, but they could not get to the incumbent to start distributing their service. They realized that it would be difficult to persuade the incumbent to start distributing their service without a local resource. The startup recruited a sales representative with experience of the financial sector and a good reputation. The incumbent saw this as a sign of determination in the startup's ambition to establish themselves on the German market, according to the interviewee.

Incumbents look at what their competitors are doing and who they are doing business with, according to the startups. One startup said that it was easier to establish a second alliance in comparison to their first one. The interviewee stated that the incumbent did not do the same due diligence process, as the startup had already established an alliance with one of the largest incumbents in Sweden. An interviewed startup stated that establishing a second alliance gives an exponential effect as that often sends a signal of their trustworthiness to other potential partners. Incumbents are looking at each other which reduces the margin of error for startups approaching a market, according to an interviewee. The interviewee said that they have the US market in their long term plans, but that market is more difficult to approach. Failing with their first partner in the US would impair their chances of continued success, as other incumbents would lose their trust in the startup.

Interacting with incumbents

According to many interviewees, there is a mutual desire to collaborate between fintech startups and incumbents. An interviewed startup stated that incumbents are mainly looking for innovative solutions, but also the possibility to share revenue and invest in the fintech startup.

The incumbents dictate the way of doing business and the startups state that they have no choice than to meet the incumbents on their terms. Many startups say that they have little control in the negotiations with an incumbent. The demands of compliance are high, and a few startups who sell services directly to incumbents have stated that they are often forced to burden a larger part of responsibilities towards the bank's end customers. One startup said that they had to accept legal responsibility regarding data security and customer privacy. One startup, whose service is integrated in the incumbents platform, say that incumbents do not tolerate mistakes as the startup is using the bank's brand. Another startup stated that it is rather easy to get a bank interested in your service and even invest in your company. But the most difficult part is to get to the point where you can start the technical implementation in their platform and comply to their policies. Working with incumbents has a number of benefits according to an interviewee. An example is that the incumbents have various functions that a startup can utilize, such as a legal department.

The incumbents demand compliance to their internal policies and they have legal functions that needs to review every aspect in a negotiation, according to one interviewee. Startups have stated that the process of ensuring legal compliance increases the time of each stage in the sales process towards incumbents. One interviewed startup who came with their own security report was told that it was not sufficient, the bank needed to do their own assessment. Another interviewed startup had a cloud service that handles transactions but the incumbents were not familiar with that technology, which resulted in a long due diligence process. The interviewee was surprised that the incumbents were not familiar with cloud technology and that the legal process was so extensive. An interviewed startup stated that incumbents are in a situation where they are depicted almost as governmental entities. This results in the incumbents being afraid of making decisions that affects their customers negatively, according to the interviewee.

Establishment through alliances

Some of the startups rely on alliances with incumbents when establishing their service. Those startups can use their partners' knowledge when assessing a new market and information of interest is market data, regulations and customer behaviour according to the interviewees. An interviewed startup stated that by having an alliance with a global payment provider, they were introduced to a number of incumbents that could sell the fintechs' service. The interviewee stated that revenue sharing with incumbents was a part of the startups business model. The mutual gain resulted in that the incumbents marketed the startup's services to their customers.

The choice of market can be influenced by an established alliance, according to an investor. That makes it difficult for partner-dependent startups to set an expansion strategy early. After entry on a new market, some startups use alliances to ease the distribution of their service. One startup try to target the biggest incumbent in a market in order to get access to a big potential customer base. Another startup who can acquire customers on their own and through partners say that going through incumbents is easier. The interviewee said that going through incumbents is a slow process, but it is more effective since the incumbent does the marketing on the startup's behalf.

4.4 Investors Perspective on Fintech

The fintech startups has changed the financial industry and how financial services are developed. The startups in the sector have a high degree of scalability due to their IT based services and this leads to a different cost structure compared to incumbents. Fintech startups have enjoyed a big increase in both attention and funding, but the pressure to show both investors and stakeholders that their business models generate revenue is increasing, according to one investor. Up to this date, they have gained success through being faster than incumbents together with a much better user experience, according to one investor. Fintech startups requires more capital and they start to seek funding at earlier stages compared to other tech startups, primarily due the fact that they need to be compliant before they can start testing their product.

The investors express that incumbents are looking for fintech startups that have a strategic connection to the incumbent, either as auxiliary services to their service or as business partners. One bank-owned VCs said that their bank see the benefit of a better customer experience and new innovation. One interviewee said that their investment in fintech have different potentials such as a possible source of revenue, an enhanced customer experience, a potential integration in the bank or as a strategic partner. The emergence of fintech has shifted the focus for many incumbents. Some fintech startups are not primarily focusing on earning money but rather focus on satisfying their customers, according to one investor.

One investor stated that their bank is currently trying to instigate a change of culture towards more innovation and a faster pace of change in the organization. By acquiring new ventures, the bank signals to its employees that there are new changes ahead. Furthermore, the interviewee stated that some of their portfolio companies are direct competitors. However, they can help the investor to see how startups think differently regarding delivering value and generating revenue. Another bank-owned investor stressed that the best investments are those who solely add value towards the end users and does not compete with the bank. The investor stated that focus on profitability can sometimes be secondary, as long as the startup's service can generate additional value towards the bank's end customers. The investors wants to see some results from the startups before considering a potential investment. One bank-owned investor stated that there are times when a potential investment already collaborates with their bank, which is a validator in their eyes.

The role of the investors are as members of the board. As a member of the board, the investor can help the startup to access internal resources in the investors organization or external contacts from other incumbent actors, e.g. senior managers or market experts. One investor stressed that the startup needs to focus on their niche. By being involved and assessing the sector, the investors can help to scan the external environment so the startup does not need to divert resources themselves. Understanding how to apply regulations is a big factor within the fintech sector, and the investors often help their portfolio companies in that process. One interviewee mentioned that the regulatory framework is the same for all actors, but it needs to be applied accordingly. Big incumbents and new startups are subject to the same laws and it can be difficult to understand how to apply them correctly.

4.5 Synthesis

The findings describes the challenges related to developing and expanding a fintech startup in Sweden. The interviewees express challenges related to different areas, not only internationalization, which gave the authors an indication that there might be an underlying theme related to most of the challenges. After investigating a number of research areas related to the challenges, the authors found legitimacy to be a relevant approach for analysis. In the following chapter, the findings will be analyzed and discussed from the perspective of how organizations gain legitimacy.

5
Discussion

This chapter answers the research questions in the first two sections. Followed, there is a discussion of the fintech startups perspective on strategic alliances between fintech startups and incumbents. After that, there is a discussion about the future of the financial sector. Lastly, a proposed framework that illustrates how fintech startups gain legitimacy is presented.

5.1 Establishing legitimacy

RQ 1: How do Swedish fintech startups gain legitimacy when introducing their service on a new market?

When considering the framework by Rao et al. (2008), an argument is made that fintech startups are taking measures to gain both external and internal legitimacy. Legitimacy is important for a new venture in order to build trust, as stated by an interviewee:

> *"When we launched our service, many potential customers asked us why they should not use our competitors instead. No one knew who we were. We had to establish trust for the service and the company. Now we're over 200 employees so potential customers see that there is some power behind the company. That signals trustworthiness to a certain degree. If our customers are going to use our service, they need to trust us. It is vital for us and trust takes time to establish."* - **Interviewee at startup G**

This section will further discuss how Swedish fintech startups gain legitimacy as new entrants in the financial sector. First, the view of Rao et al. (2008) regarding internal and external legitimacy will be considered. This will be followed by the view of Suchman (1995).

External legitimacy

8 out of the 15 interviewed startups were using an alliance when establishing their service on a market, as seen in Table 4.1. The findings indicate that using an external party helps a fintech startup gain legitimacy for their company and service, which is in line with the arguments by Rao et al. (2008). One company that could expand digitally and through an alliance chose the latter, as stated below:

> *"Through that, we managed to secure a much cheaper customer acquisition cost, as we didn't need to market ourselves to the same degree or do*

it ourselves. We could rely a lot on the alliances with banks who already has a customer base. They only needed to go out to their customers and tell them that we exist." - **Interviewee at startup I**

The findings indicate that having an established alliance with an incumbent makes it easier for the fintech startup to get access to resources. This is arguably due to the increased legitimacy from the alliance. Furthermore, the findings indicate that incumbents become more interested in cooperating if the startups has already established a strategic alliance with another actor in the financial sector. External legitimacy is arguably an important factor when establishing a service towards both incumbents and end customers, as stated by an interviewed startup:

"This actor has been faster in their decisions, compared to our first partner and we were surprised that they were so much faster. The methodology and approach has been similar but their decisions have been faster. We have our first alliance to thank for that, we had a reference case which was considered a security by the new partner." - **Interviewee at startup O**

Internal legitimacy

The remainder of the startups chose to establish their service on a new market without assistance from other partner organizations. These startups arguably experienced a lower liability of newness or had already established a certain degree of internal legitimacy that enabled them to launch their service without assistance. The findings indicate that fintech startups primarily establish internal legitimacy in the market and historical dimension, as described by Rao et al. (2008). By having individuals with previous experience from the financial sector on their board, they gain legitimacy in the market dimension, as described by Rao et al. (2008). Furthermore, the board members can help the startup by introducing them to executives in other incumbent firms. 9 out of the 15 interviewed fintech startups had board members with previous experience from the financial sector. One of the interviewees stated:

"I would recommend other startups to find experienced board members. This is not the first company I have built and everyone does not have access to the kind of network that we have. What you have to do as a startup is to recruit a board that is involved and put in a lot of effort." - **Interviewee at startup E**

Some interviewed startups chose to recruit experienced managers. One interviewed startup managed to successfully establish their service after hiring a local expert with a good reputation in the sector, as stated below:

"I believe that if you are a bank, you ask yourself why you should work with our company, we don't even have a local sales representative. But if they say, shit, they have hired [Name]. They're going for it, this is serious. That's some of the questions that we need to ask ourselves. It sends a signal." - **Interviewee at startup C**

All the interviewed startups arguably have some degree of historical success, as they have an established product on their domestic market. This can help them to establish legitimacy in the historical dimension, as described by Rao et al. (2008). As seen in the findings, historical legitimacy also plays a part when approaching incumbents for a possible alliance. Arguably, incumbents look at previous history when considering alliances with fintech startups. However, the findings indicate that the historical performance must be successful in order for the startup to gain legitimacy. The findings indicate that the incumbents communicate with each other and a previous failure for the fintech startup can result in a loss of legitimacy in the entire financial sector, as stated below:

> *"If we were to target a bigger market, then our brand would be a determining factor. Let's say the US, England or Germany, those markets can be a one trick pony. If you burn your brand with a big player in one of those markets, you will never get the chance to cooperate with the other big banks on that market."* - **Interviewee at startup O**

The view of Suchman

Suchman (1995) presents a number of different strategies for gaining legitimacy which are similar to the approach by Swedish fintech startups. The strategies involves conforming, manipulating or selecting another field. The fintech startups conform partly as a consequence of the need for complying to the incumbents rules, but also by giving the incumbents decision making power in the startup. Furthermore, the fintech startups has arguably manipulated how the financial sector operates. This is a consequence of their ability to develop better experiences for the user with regards to both functionality and user experience. Lastly, selecting another field involves choosing a field where the established actors share similar values as the new entrant. For fintech startups this can be related to the selection of a market to enter. There is arguably no possibility for fintech startups to choose other business areas than financial services. However, fintech startups can select a market where the established actors and end customers are open towards new innovation, which can facilitate the establishment of their product.

5.2 Gaining legitimacy through strategic alliances

RQ 2: How does the need for legitimacy affect the cooperation between Swedish fintech startups and incumbents in the financial sector?

An alliance is established between parties that have different perspectives and possible gains from the alliance. Alliances can also imply certain compromises between the parties, which will be discussed in Section 5.3. This section will analyze the alliance between fintech startups and incumbents from the perspective of each party.

The fintech startup perspective

As seen in Table 4.1, many of the interviewed fintech startups establish alliances with incumbent firms. The findings indicate that there is a desire among fintech startups to access the internal resources of an incumbent. Incumbents can often help the fintech startups to understand the relevant regulations and how to apply them correctly, as shown in the quote by an interviewed investor:

> *"As we have navigated the regulatory frameworks for a while, we have learned how to apply them correctly to new products. If I can use our lawyers that have a thorough understanding of the frameworks, then I can supply this knowledge to our portfolio companies."* - **Interviewee at investor P**

The findings indicate that the fintech startups lack trust among incumbents, and it takes time to establish the venture as a trustworthy party. Furthermore, the fintech startups behave differently than incumbents with regards to decision-making and technology development. As a consequence, it takes time for the startups to understand how to act towards incumbents. Learning how to act among incumbents in the financial sector is arguably a dimension of *procedural legitimacy*, according to the description by Suchman (1995). Furthermore, compliance to regulations is frequently brought up as a challenge in the findings and the interviewed startups often need to focus their resources to ensure compliance. The startups often need to apply for licenses regarding both the company and their service and in addition to this, they sometimes require specific resources, such as a legal department, in the organization that solely ensures that the startup follow regulations. These measures can be seen as a form of *structural legitimacy*, according to the description by Suchman (1995). *Procedural* and *structural legitimacy* is a form of *moral legitimacy*, according to the descriptions by Suchman (1995) and is something fintech startups arguably lack. The startups currently rely on the incumbents to provide them with certain elements related to compliance, according to one interviewee:

> *"So fintech need the banks, they still need the banks because the banks have a banking license. When you're a bank you're subject to a lot of scrutiny, a lot of compliance and legal and regulatory requirements and all that."* - **Interviewee at investor Q**

The incumbents have historically enjoyed a strong position in the financial sector. Furthermore, the financial sector as a whole is arguably an integral part of society, and taken for granted to a certain degree. Therefore, an argument is made that the sector as a whole possess *cognitive legitimacy* in the form of *taken-for-granted legitimacy*, as described by Suchman (1995). Established actors in the financial sector could arguably gain *cognitive legitimacy* due to the fact that their sector possess this legitimacy. One interviewee stated that many incumbents are almost seen as governmental functions, which increases their risk awareness, as seen in the quote below.

> *"Banks are in a situation where they are almost considered as governmental entities. They simply can not make decisions that affects the customer negatively."* - **Interviewee at startup O**

Furthermore, the findings indicate that the incumbents are careful when adopting new technology that they are not familiar with. The bank owned VCs stress that it is important that the fintech startups can prove that their business model and service is profitable which arguably implies that the startups need to gain *consequential legitimacy* in the eyes of the bank owned VCs, according to the description by Suchman (1995). The findings indicate that the incumbents prefer that the fintech startups have a compliant and functional service before establishing an alliance, which further strengthens the startup's need for *moral legitimacy*. Association with incumbents enables the startups to leverage their partner's legitimacy and display signals of *moral legitimacy* towards other stakeholders. The findings indicate that alliances between fintech startups and incumbents often requires a mutual benefit, which is in line with the definition by Whipple and Frankel (2000). By using the brand of their partner, fintech startups can gain trust from other incumbent actors. An alliance with an incumbent can help the fintech startup to get in contact with other incumbents, as seen in the quote below:

> *"The thing that gave us something there with our partner was that they introduced us to all their customers. We got to meet basically every big bank in the UK through our partner."* - **Interviewee at startup I**

Rao et al. (2008) argues that new ventures seek external cooperation in order to gain access to a partner's internal legitimacy. The incumbent actors in the financial sector arguably possesses certain aspects of legitimacy that can be of interest for the fintech startups. Incumbents legitimacy related to the historical dimension, as described by Rao et al. (2008), is primarily of interest for a fintech startup. The incumbents history as financial service providers has arguably provided them with historical legitimacy.

Incumbent perspective

The findings indicate that the incumbents are trying to adapt to the new financial landscape that has emerged along with the development of fintech startups. As a consequence of this, along with new regulations such as PSD2, the incumbents are looking for investments and opportunities to establish alliances with fintech startups. The incumbents have previously been focused on developing closed systems and are now forced by policy makers to open up these systems:

> *"I think that an IT-executive at [Swedish Bank] expressed himself wonderfully a couple of years ago. He said that up to this date, they have tried to make their systems as closed and secure as possible. Now they are getting pressured to open up these systems and share them with everyone else. Those are two completely different perspectives and that is showing the banks difficulties in transitioning from a closed community to an environment where everything is meant to be shared."* - **Interviewee at startup K**

The findings indicate that the bank owned VCs are investing in fintech startups for various reasons. Firstly, the fintech startups comes with different perspectives on how to create value for customers and new revenue streams. Secondly, as a means to change the incumbents' internal culture, promoting a more agile and innovative mindset throughout the organization. Incumbents are looking for fintech startups that can provide new innovation and as a possible investment, as seen in the quote below:

> *"The banks are satisfied if they get new innovation, but also revenue share and ownership in the fintech startup."* - **Interviewee at startup K**

Based on the research presented by Suchman (1995), this indicates that the incumbents are trying to gain *dispositional legitimacy*. Arguably, the incumbents wants to be seen by other stakeholders as more innovative than before. The findings indicate that many incumbents are acknowledging the change that is happening in the financial industry. Customer focus and user experience are two of the main strengths of fintech startups, according to the findings. The development of the fintech sector has arguably resulted in a loss of power among incumbents. Customers expects more influence over the incumbents and their service, as fintech startups are successful in translating customer feedback as a basis for new innovation. This implies that the incumbents needs to gain *influence legitimacy* as defined by Suchman (1995). The findings indicate that the incumbents have to gain *pragmatic legitimacy*, since they are forced to become more customer focused in order to stay competitive. The incumbents are acknowledging that their platforms need new functionality, as seen in the quote below:

> *"The banks care about their customers long term perspective of the bank. They want their customers to still look at them as legitimate service providers five years from now. They understand that they need to add new functionality. There is a big transformation happening in the sector. Banking is changing."* - **Interviewee at startup O**

An argument can be made that incumbents can be seen as entrants into the new sector that is technology-based financial services. Using the descriptions by Rao et al. (2008), incumbents arguably need to access the fintech startups internal legitimacy. The fintech startups are good at delivering application based services that has a high focus on user experience. Furthermore, the startups approach technology development differently than incumbents, with a bigger focus on testing and translating customer input towards new functionality. These characteristics can be attributed towards a market as well as a scientific dimension, using the descriptions by Rao et al. (2008).

The startups are arguably better than the incumbents at developing and selling application-based products, which can be seen as market legitimacy, as described by Rao et al. (2008). Furthermore, the startups approach towards technology development could arguably be seen as a dimension of scientific legitimacy. Although startups are not scientists in the ways described by Rao et al. (2008), they are capable of developing innovative products using new technology, which is one of the factors related to scientific legitimacy according to the authors.

5.3 The fintech startups perspective on strategic alliances

The cooperation between fintech startups and incumbents can arguably be seen as a strategic alliance according to the description by Eisenhardt and Schoonhoven (1996) and Dyer and Singh (1998). The establishment of strategic alliances between fintech startups and incumbents is often based on the need for resources from the other party, which is in line with the arguments by (Street and Cameron, 2007). The fintech startups want access to the incumbents *moral legitimacy* and the financial sector's *cognitive legitimacy* while the incumbents are interested in gaining *pragmatic legitimacy* from the fintech startups. 4 out of the 15 interviewed fintech startups have a business model that requires an alliance with an incumbent, as can be seen in Table 4.1. This arguably means that the fintech startups are dependent on the resources of the incumbent, using the descriptions regarding *resource dependency theory* presented by Street and Cameron (2007). Fintech is a part of an ecosystem (Lee and Shin, 2018) which arguably makes it difficult for them to build a service that is not dependent on a third party. One interviewed startup that is dependent on alliances with incumbents stated that their dependency puts in them in a disadvantageous negotiating position:

> *"When it comes to data management and privacy, we have accepted an agreement where we take a larger share of the responsibility than the banks."* - **Interviewee at startup O**

Furthermore, the findings indicate that 2 out of the 15 interviewed fintech startups established and alliance with an incumbent even though their business model does not require an alliance, see Table 4.1. This behaviour can be explained using the arguments related to a *resource based view* as presented by Barney (1991). As discussed in Section 5.2, fintech startups and incumbents can establish an alliance to gain legitimacy in different areas. The fintech startups are arguably in a greater need for gaining *moral* and *cognitive legitimacy*, in order to establish their service, than the incumbents are for *pragmatic legitimacy*. As a consequence, the incumbents have power over the fintech startups even though both parties gain from the alliance, due to the fintech startups resource dependency as described by Street and Cameron (2007). However, once an alliance is established, fintech startups can receive support from the incumbents, according to one interviewee:

> *"That is a great advantage of collaborating with a bank, they posses a lot of knowledge. An army of lawyers if it where to be legal complications. Since we have implemented our service in their platform it is in their interest, so they help us a lot."* - **Interviewee at startup O**

The interviewed fintech startups that have established an alliance with incumbents have highlighted challenges. The incumbents are bureaucratic and slow when it comes to decision making, according to the findings. This forces the fintech startups to pursue multiple parallel sales processes and they need to maintain the intensity between them and the incumbents. The incumbents often expect physical meetings at their offices, which forces the fintech startups to travel and meet the incumbents. These factors in combination with the fact that a fintech startup needs to negotiate with several incumbents in parallel makes the sales process resource demanding. One interviewed startup expressed frustration regarding the slow decision making process of their counterparts:

> *"They have incredibly long decision processes which are very bureaucratic. There is a lot of inertia, they have a different perspective on what a fast process is. For the incumbents one year is fast, without exaggerating. If we have the first meeting in January, we can not expect to get something out of it until December or January 12 months later. That is a pretty fast process for the incumbent. But in our case one year is a whole capital cycle, it is a question of survival. We are used to working a lot faster. That is also an important aspect to why we need to travel a lot. We*

> *have to maintain the intensity in the relationship and be persistent."* - **Interviewee at startup I**

The findings indicate that the incumbents have a high degree of control over the negotiating process with the fintech startups. The incumbents are sometimes unpredictable regarding when they are ready to proceed to the next step of negotiations and they control the speed of the overall process. Even if the startup has secured an investment from the incumbent, it is not certain that the incumbent will buy services from the fintech startup. This increases the overall uncertainty of developing fintech services. One interviewee stated that they need to follow their partner's demands when it comes to expansion and further establishment of their service:

> *"We are dependent on the banks when it comes to how we should act. Our ambition is to launch our service in the Nordics this year and we expand through the large banks we have an alliance with."* - **Interviewee at startup K**

As Pérez and Fierro (2007) and Kogut (1988) also found, benefits of alliances are primarily related to knowledge transfer between the parties. The knowledge primarily revolve around customer behaviour, how to apply regulations and how to ensure compliance. The incumbents have knowledge about their customer's behaviour and can help the startup to brand their service accordingly. Furthermore, the incumbents know how to apply the regulations to the startup's service. They also know which regulations are more important to focus on, and where the startups can put less focus. Accessing the incumbents internal resources can be helpful for a fintech startup, according to one interviewee:

> *"It is a big advantage when you are working with such a big company. They have resources to thoroughly verify the demand on the market. They would not have accepted us as a partner if they had not verified the need with their customers first. We presume that the incumbents have a good idea of what their customers wants."* - **Interviewee at startup O**

5.4 Legitimacy and the future of the financial sector

The findings indicate that the incumbents often acquire fintech startups in order to provide their service with new innovative solutions. This is in line with the previous research on the fintech sector by Vasiljeva and Lukanova (2016) and Lewan (2018). The findings by Teigland et al. (2018), i.e. that the incumbents have difficulties developing new technology, are also indicated in the findings. However, incumbents seems to still possess control over their systems and customers even though they arguably lack *pragmatic legitimacy* in comparison to the fintech startups.

There are mutual benefits from alliances between fintech startups and incumbents and the parties can leverage the alliance for different reasons, as seen in Section 5.2. The incumbents can gain legitimacy as a financial service provider in the 21st century. Furthermore, fintech startups are enabled access to the incumbents systems and customers whilst gaining legitimacy in the eyes of other stakeholders in the financial sector. The findings indicate that the startups need the incumbents to a higher degree than vice versa, as discussed in Section 5.3. This is arguably due to the fintech startups need for access to the closed systems of the incumbents, along with the legitimizing power of an alliance. With regulatory changes such as PSD2, there could arguably be a shift in the power dynamic between the incumbents and fintech startups.

With regulatory requirements to open up their systems, incumbents might lose some of the bargaining power they have today. When fintech startups can access the data without establishing an alliance, they primarily need the incumbents in order to gain *moral legitimacy*, as seen in Section 5.2. However, new ventures does not necessarily need to establish legitimacy through alliances (Rao et al., 2008) and the fintech startups arguably possess some elements of pragmatic legitimacy through their way of developing services. The changes in regulations has increased the incumbents will to invest, according to one interviewee, as incumbents are in need of new functionality in order to stay competitive:

> *"Our sales process is becoming easier now as the banks are realizing that the regulations are changing. The banks have a big spending budget and their demand for innovation increases when they see that there will be new competitors as a consequence of PSD2... If you are a bank and I am PSD2-certified, then I can force you to give me your data."* - **Interviewee at startup O**

Hensmans et al. (2001) argue that incumbents themselves can also be seen as new entrants in the financial sector. Incumbents arguably have a strong internal legitimacy, as described by Rao et al. (2008). However, they are losing *pragmatic legitimacy* due to the trend of fintech services that better address the end-users needs, and have a better user experience. The incumbents arguably have a limited ability to adapt to the new technological trend. They have a lower tendency of taking risks and they do not have a culture of neither a software nor hardware developing company. Changing the internal culture of incumbents from a risk-adverse financial actor to a technology developing company, in order to gain *pragmatic legitimacy*, can prove to be a challenge. One interviewed investor stated that incumbents will encounter difficulties related to their traditional way of approaching financial services:

> *"I believe that the traditional banks will encounter more and more challenges related to their way of doing business. They will be attacked from many different angles."* - **Interviewee at investor S**

Arguably, the fintech startups will build *moral legitimacy* over time, which will make them less dependent on the incumbents. Fintech startups are still new to the financial sector (Jonsdottir et al., 2017) but if the fintech startups experience continued success, they might be able to gain legitimacy as an established actor in the financial sector. In that case, they could leverage the sector's *cognitive legitimacy*, i.e. as an actor that is taken for granted by society. If that would happen, they would be less dependant on incumbents as a means to gain legitimacy. When asking the investors about their outlook on the future, and how the incumbents are going to stay relevant with the trend of fintech startups and changes in regulations, one of them said the following:

> *"I think it's a combination, if we look at some of our services right now, they are all built inhouse. I think primarily that banks are trying to build*

an open system on their own and I believe there's a strength in that, and it's even more of a strength in partnering and collaborating with others. That is what my department is trying to do as much as possible. We need to understand that the wave of innovation that is coming implies that banks are not only going to compete with each other and fintech startups. We are probably also gonna have to compete with Amazon, Google, Apple, etc. ... That's what I mean with collaboration and cooperation, maybe its gonna come a time and a place where all the former rivals will come together and say "oh my god we have to do this or we're going to die"."
- **Interviewee at investor Q**

By cooperating, incumbents can create open systems themselves, where fintech startups can be integrated. The interviewee states that it will probably become necessary that the incumbents come together to create an open banking platform. Otherwise, they might be outmaneuvered by bigger tech companies. In order to ensure sustainable economic growth, incumbents need to be proactive by creating open platforms and cooperate with new entrants. Both as an attempt to gain *pragmatic legitimacy*, but also to enable knowledge transfer into the incumbents organizations. As previously stated, the financial sector arguably possess *cognitive legitimacy* which its established actors can enjoy. But as the actors do not possess *cognitive legitimacy* themselves, they can be replaced by other actors in the future. This further strengthens the importance for the incumbents to focus on innovation and collaborate with fintech startups. Otherwise, they might see themselves replaced by new actors in the future.

5.5 How fintech gain legitimacy - a proposed model

The dimensions proposed by Rao et al. (2008) does not properly describe the ways in which fintech startups in Sweden seek to establish legitimacy. The findings indicate that complying to local regulations is an important factor in the establishment of a new service. Without ensuring compliance, fintech startups have a reduced possibility to establish alliances with incumbents and accessing other resources that are important to their growth. The compliance is both towards regulations that are present in the specific market and towards the internal security policies of the incumbents. An interviewee describes compliance as a lengthy process:

"Even if we installed this here, the bank had never heard of an integration that was so fast. A proof of concept was installed and done in seven weeks, that was a record... Our installation has been completed for a long time and has just been sitting there for seven months. We are still working with the legal papers and we think that process will be done in around three months. If we're looking at the technical parts, those can be handled extremely fast. The legal is a different story. We've learned that it is a lengthy process." - **Interviewee at startup F**

As previously mentioned in Section 5.2, fintech startups can gain *moral* and *cognitive legitimacy* from a strategic alliance. Using the arguments by Suchman (1995), new ventures need to convince established actors of their adequacy. Arguably, fintech startups does so by showing incumbents that they are compliant both to the market's regulations and the incumbent's policies, as stated by an investor in the quote below:

> *"I believe that fintech startups have more difficulties in their service development compared to other tech startups. They must ensure that their service is legitimate from a data security standpoint and comply to the instructions of the financial inspection."* - **Interviewee at investor R**

Having structures in place that ensures compliance can be seen as a form of *structural legitimacy* as described by Suchman (1995). An interviewee stressed the importance of working with compliance in the financial sector, as seen in the quote below:

> *"Everything that has to do with banks involves a lot of compliance. It is hard to fathom how much compliance there is for someone who does not work in the sector. Hundreds, thousands of lawyers are involved in every little thing. It makes everything tricky."* - **Interviewee at startup K**

Although Sweden, and in particular the City of Stockholm, can be seen as a European hub for fintech, this did not appear to have had any particular benefits for the interviewed startups when liaising with actors outside Sweden. No interviewee stressed the fact that they were better received due to the location of their home office. The locational legitimacy, as described by Rao et al. (2008), is arguably not relevant for fintech startups at this point in time. However, one interviewed startup stated that they felt that being from Sweden acted in their favor due to the country's reputation for safety. Even though this example was present in the interviews, it is not seen as a legitimizing factor. This is because it was not considered to be something that helped them establish their service in the new market.

A proposed model

The two views presented by Suchman (1995) and Rao et al. (2008) arguably does not independently explain how fintech startups gain legitimacy. Both views contribute towards a more holistic perspective regarding how fintech startups can gain legitimacy independently, and through strategic alliances. A model has been synthesized where both views has been taken into account, as seen in Figure 5.1.

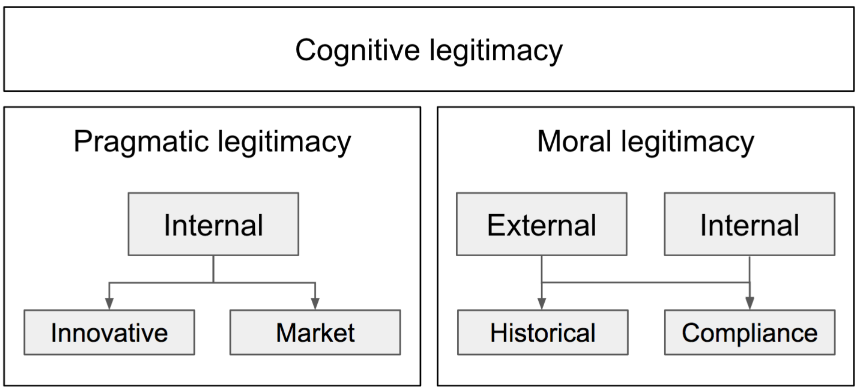

Figure 5.1: Proposed model for how Swedish fintech startups gain legitimacy

The model describes different approaches that fintech startups can adopt when establishing their service on a new market. The authors propose four dimensions in which fintech startups can take action to gain legitimacy. The framework encompasses three dimensions of legitimacy from Suchman (1995), namely pragmatic, moral and cognitive legitimacy; plus a conceptualization of the potential for new ventures of gaining legitimacy through external and internal actions by Rao et al. (2008). In addition, a dimension of compliance has been added that comes directly from the research findings. The relationship between the proposed dimensions and the views on legitimacy by Rao et al. (2008) and Suchman (1995) is described in Table 5.1 below.

Proposed dimensions	**Rao et al. (2008)**	**Suchman (1995)**
Market	Market	Pragmatic - Exchange
Innovative	Scientific	Pragmatic - Dispositional
Historical	Historical	Moral - Consequential
Compliance	N/A	Moral - Structural & Procedural

Table 5.1: Relation between proposed dimensions and the two views of legitimacy

Proposed dimensions

The proposed dimensions are areas where actions can be taken to increase legitimacy, these are further explained below.

Market legitimacy relates to a fintech startup being able to create services that their customers desire. In addition, market legitimacy involves having mangers or board members with previous experience from the financial sector. This dimension relates to the description by Rao et al. (2008), with regards to having managers or board members with previous experience from the sector. Furthermore, this dimension address *exchange legitimacy* as described by Suchman (1995), i.e. that the startup listens creates services that their customers can benefit from.

Innovative legitimacy relates to the ability of the startup to use new methods and ideas. Furthermore, the innovative dimension relates to the startup being able to transfer new knowledge into functionality on their service. This dimension relates to the description by Rao et al. (2008) in the regard that the startup can innovate, as well as the startups ability to internalize new knowledge. Furthermore, this dimension addresses *dispositional legitimacy* as described by Suchman (1995), i.e. that the startup signals to their audience and stakeholders that they are innovative.

Historical legitimacy relates to the startups previous historical success. This dimension relates to the descriptions by Rao et al. (2008) with regards to the historical dimension. Furthermore, this dimension address *consequential legitimacy* as described by Suchman (1995), i.e. that the startup can gain legitimacy through their previous accomplishments.

Compliance legitimacy relates to whether the fintech startup is following the regulations and policies set out by governmental agencies and incumbents in the financial sector. This dimension is not found in the view on legitimacy by Rao et al. (2008). However, compliance can be attributed to *procedural* and *structural legitimacy* as described by Suchman (1995), i.e. that the startup is complying to socially formed and accepted procedures, and have structures in place that are socially accepted and warranted.

Explaining the model

The model was developed in order to describe how Swedish fintech startups gain pragmatic and moral legitimacy. The model consists of three main building blocks where pragmatic and moral legitimacy acts as a foundation. A fintech startups has to establish the foundation before they can gain cognitive legitimacy.

Pragmatic legitimacy is gained through internal actions among fintech startups. They excel at creating user friendly products and focus on customer experience, which can be attributed to the market dimension, as described by Rao et al. (2008). Furthermore, fintech startups are capable of quickly translating new knowledge from user input into new functionality. In addition to this, many fintech startups transforms existing processes by applying advanced technology, which can be attributed to the scientific dimension, as described by Rao et al. (2008).

Moral legitimacy can be gained both through external and internal actions. Gaining *moral legitimacy* externally, i.e. through a strategic alliance, can be achieved by being associated with an incumbent. This will give the fintech startup access to the incumbents historical legitimacy. Historical legitimacy can also be gained internally by the startup, but it requires a history of successful services which most fintech startups lack due to the fact that they are new ventures. Ensuring compliance is something that the fintech startup need to do themselves, which primarily makes it an internal action. However, incumbents can assist the fintech startup when complying to regulations, as incumbents already have the legal knowledge. As a consequence, compliance can be addressed through both internal and external actions.

Cognitive legitimacy is, as previously discussed, more applicable for the financial sector as a whole rather than for one actor. If the fintech startup manages to establish themselves as an actor in the financial sector, by gaining *pragmatic* and *moral legitimacy*, they could gain *cognitive legitimacy* as an established actor in the financial sector. However, achieving *cognitive legitimacy* for the fintech startup as a single entity, regardless if they are established or not, can prove to be difficult. In order to achieve this status, a fintech startup and their services need to become an integral part of society. This is a difficult task since a fintech startup presumably have competitors in the financial sector, in conjunction with that technological shifts can render the fintech startup obsolete.

Using the model

The model describes the relationship between different aspects of legitimacy and it can provide an insight for fintech startups in how their peers have managed to gain legitimacy in a new market. Below, a few actions that was taken by the interviewed startups to gain legitimacy are presented.

An example of internal actions taken in order to gain pragmatic legitimacy was to recruit experienced board members and sales experts, which address the market dimension in the model. In addition, the fintech startups also highlighted the importance of being innovative, focusing on the customers, and putting effort into user experience, which address the innovative dimension in the model.

Moral legitimacy was gained both through external and internal actions by the interviewed fintech startups. The startups gained moral legitimacy externally by establishing alliances with incumbents and this enabled the startups to access the incumbents internal legitimacy in the historical and compliance dimensions. Access to the compliance dimension enabled the startups to get assistance with complying to rules and regulations. As the incumbents are already ensuring compliance for themselves, the startups could leverage this aspect by being associated with the incumbents, in order to gain legitimacy in the compliance dimension.

In the quote by Company O in Section 5.1, the interviewee stated that their existing alliance helped them in their establishment of a second alliance. This can be seen as historical legitimacy, both through external and internal actions. The startup gained internal legitimacy in the aspect that they had previous success in establishing alliances, whilst the fact that their first partner was one of the biggest incumbents in Sweden can be attributed to the external dimension. The partner had previous historical success, which could be leveraged by the startup.

Cognitive legitimacy is difficult to establish as previously stated, and the researchers did not interview any fintech startups that had established this type of legitimacy.

6
Conclusion

The financial sector is currently undergoing changes and these changes affect the majority of the actors in the financial ecosystem. This is a consequence of the reduced trust towards the incumbents after the financial crisis in 2008, together with technological progress in information technology. This has enabled the growth of the fintech sector, i.e. new ventures that supply technology based financial services. One of the driving factors in the change of the financial sector is legitimacy. Fintech startups experience a liability of newness, whilst incumbents need to show their stakeholders that they are still relevant in 21st century banking.

This study set out to investigate how new ventures, in this case fintech startups, overcome the liability of newness and gain legitimacy when introducing their service on a new market. There is limited research on how high technology startups gain legitimacy (Di Paola et al., 2018) and more research regarding the fintech sector is warranted (Hornuf et al., 2016, Leong et al., 2017, Lee and Shin, 2018). In the book by Teigland et al. (2018) regarding the Swedish fintech sector, the authors argues that legitimacy is a factor that needs to be taken into account by both incumbent actors and new entrants to ensure success. This study has attempted to address these theoretical gaps whilst giving managers further insights in how Swedish fintech startups gain legitimacy. Furthermore, the study has investigated how incumbents, who historically do not have a culture of developing products, seek to acquire fintech startups to add innovation to their platforms. In addition, the study has investigated how the need for legitimacy affect the cooperation between fintech startups and incumbents.

6.1 Theoretical contribution

This study has brought together earlier views on legitimacy to see how they relate to how Swedish fintech startups gain legitimacy. A model has been introduced as an attempt to describe how fintech startups gain legitimacy through both external and internal actions. Many fintech startups seek to establish alliances with incumbents as a means to gain legitimacy for their service and access the incumbents systems. The dependency on the incumbents legitimacy, resources and systems results in an asymmetric power balance between the fintech startups and incumbents. Furthermore, alliances between fintech startups and incumbents provides both parties with aspects of legitimacy that they have difficulties in gaining on their own. The authors argue that the fintech startups are currently dependent on the incumbents. However, changes in regulations and further establishment of the fintech sector could result in a shift of this power dynamic.

6.2 Suggestions for further research

Like all studies, this thesis is subject to limitations. The study investigates how fintech startups gain legitimacy and how both incumbents and fintech startups gain legitimacy from strategic alliances. This study has primarily focused on how fintech startups overcome the liability of newness that is related to both their company and service in a new market. As the study has been exploratory, there might be uncertainties whether the researchers has found all dimensions that are important in the establishment of legitimacy among fintech startups. An initial model has been developed, and it will be up to future research to assess its applicability through both qualitative and quantitative studies. In addition, further research should investigate the cross-country generalizability of the model.

One limitation of the study is that the researchers only targeted internationalizing companies and companies that have successfully commercialized their service and expanded into a new market. Including companies that had failed in either their international expansion or commercialization could have given a more nuanced study. Including failures in the study could have given additional perspectives on how fintech startups try to address the liability of newness and establish legitimacy. Furthermore, targeting startups that have not yet commercialized their service could be of benefit for future studies. The researchers acknowledge that interviewing additional actors in the financial sector could be relevant to bring additional nuance regarding the need for legitimacy for both fintech startups and incumbent financial actors.

No end customers were interviewed in this study, which can be seen as a limitation. Research into how end users view the different actors in the financial ecosystem is warranted. The conducted research is solely based on the viewpoints of incumbents and fintech startups, which might not provide an holistic view on the different kinds of legitimacy possessed by each actor. Interviewing end users could further bring nuance in what forms of legitimacy that they value when considering providers of financial services.

6.3 Managerial implications

Managers within incumbent firms need to acknowledge the change that comes with fintech startups, and continue to be proactive towards alliances with startups to maintain legitimacy as a financial services provider. There is a mutual gain between fintech startups and incumbents as they can use each other to gain legitimacy. Fintech startups currently need incumbents in order to signal trustworthiness towards the startups stakeholders. Incumbents can help the fintech grow, whilst gaining innovation to their platform. As fintech startups gain more legitimacy, there might come a time where incumbents have difficulties competing in the financial sector. Incumbents firms should continue to establish alliances with fintech startups in order to increase their competitiveness and gain new revenue streams.

The proposed model in Section 5.5 illustrates the relationship between different types of legitimacy for fintech startups when establishing their service on a new market. The model was developed for managers at fintech startups to provide insight into the actions taken by other startups to gain legitimacy. However, the model can be of use for managers at incumbent firms as a means to understand their role in how Swedish fintech startups gain legitimacy.

Managers at fintech startups need to acknowledge the situation of the incumbents, and can arguably use this study to further gain an insight in how to approach and sell services towards incumbent actors. Incumbents wants to cooperate, but managers within startups should be wary of the historical culture of incumbents in order to approach them successfully. Strategic alliances have a legitimizing power and an incumbent can help the startup to gain further access to the financial sector. The incumbents want new innovation, and in order to establish a successful alliance, fintech startups should focus on innovative services with rigorous business models that adds value to the incumbents own platform.

Managers at fintech startups should not underestimate the need for legitimacy when entering a new market. One startup in the study, company C, managed to sign a contract with an incumbent. However, they realized that they could not convince their partner to start distributing their service. By recruiting a market expert in the new market, they proved their commitment and managed to gain the trust of the incumbent, which ultimately resulted in a successful establishment of their service.

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A
Appendix - Coding process

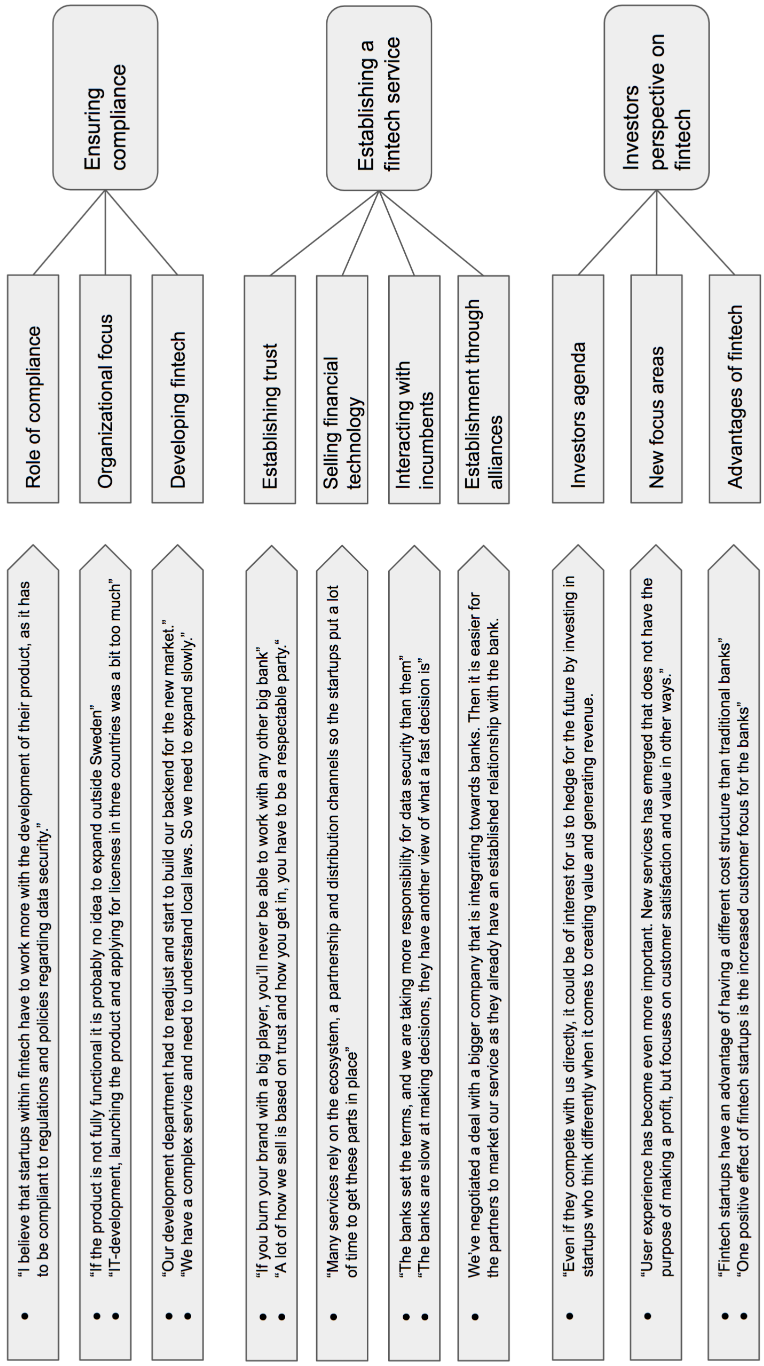

Figure A.1: Summary of the coding process

B

Appendix - Interview invitation template

Hi [Potential interviewee candidate],

We are two students from Industrial Engineering and Management at Chalmers University of Technology, and we are currently doing our Masters Thesis in internationalization strategies for Swedish Fintech companies. As the basis for our study, we are interviewing fintech startups that have undertaken or are currently undertaking an internationalization process, as well as venture capitalist companies that are working with fintech startups. This is why we are interested in talking to you about [Company X]'s perspective on this topic.

The interview will be 'face-to-face' alternatively over Skype and we will not use any company-specific information in the report. The questions will cover how [Company X] expanded outside of the Swedish market and what surprised you in this process. Our ambition is that the interview will last for an hour.

We would really appreciate if you took the time for an interview. If it is the case that you do not have these areas within your responsibility in the company, we would appreciate if you could get us in contact with the responsible person at your company. If you have any questions, don't to hesitate to send us an email.

Thanks in advance!

Best Regards,

Christopher and Jakob

C

Appendix - Interviewee description

C.1 Startups

Company	Description
A	Company A have a crowdfunding business model (Lee and Shin, 2018), 12 employees and the interviewee is the CEO and co-founder. The company has a platform, where the demand side is a B2B offering whilst the supply side is both a B2B and B2C offering. The company want to grow beyond the Swedish market, and the Nordic region is a relatively homogeneous region which makes an expansion easy for the company. They expanded to through an alliance with a Swedish bank.
B	Company B are working within the area 'payments' (Lee and Shin, 2018) and the interviewee is the CEO of the company. The company have around 30 employees and uses a web-based platform for payments and financial administration, and the service is B2C. The choice to expand was in line with the industry trend, along with the ambition to grow the company beyond the Swedish market. The new market was approached by doing extensive research before entry.
C	Company C have a payments business model (Lee and Shin, 2018) and he interviewee is the CEO and co-founder. They currently have 10 employees and their service is an ecosystem for payments based on their technology and their service is in a B2B setting. Their reason for expansion is since the Swedish market is too small for their product. They have an alliance with a payment provider that helps them establish their business on new markets.

D	Company D falls under the category capital markets (Lee and Shin, 2018). The company's business model revolves around providing a communication platform for customers and providers regarding specific financial products and is a B2B service. The interview was with the COO and the founder of the company. The products sold on the platform are held to an international standard, which made the service global from conception. The company conducts extensive preparation and establish a local sales office when entering a new market.
E	Company E is developing a platform that enables the use of Artificial Intelligence (AI) for companies within various industries, one of which is the financial sector. They mainly sell their software to companies (B2B), they currently employ around 35 people and the interviewee is the COO. They developed their product for a global market from the start, and are conducting extensive preparation before entering a new market.
F	Company F is developing a service which enables authentication through a smartphone application. They sell their product to large companies and they have chosen to solely sell their products through local partners that already have an established relationship. Company F's product relies on integration with the large companies IT-system and they solely sell B2B. The company has 20 employees and the interviewee is the CEO and co-founder.
G	Company G falls under the category 'payments' (Lee and Shin, 2018). The company develops a platform for companies to send electronic invoices. The platform is offered as an B2B solution and the company itself has north of 200 employees. The interviewee is one of the co-founders of the company. The main reason behind Company G's initial international expansion was because of the need of one of their domestic customers.
H	Company H's business model is under the 'insurance' category (Lee and Shin, 2018). The company is a full service provider delivering a pricing model for insurance companies. Their main customer is insurance companies (B2B). The interviewee is the founder and they have aroud 20 employees. Their goal was to be an international player from the start so they developed their product with this in mind. They started their expansion in the Nordic region mainly due to the existing network of the employees.

I	Company I is categorized as a 'payments' business model (Lee and Shin, 2018). The interviewee is the CEO and co-founder and company I employs around 10 people. They have two ways of reaching the end users, through bank collaborations (B2B) where they rely on alliances with payment providers and directly through their website. The service operates both in a B2B and B2C setting, but is primarily used for companies. There has been a plan from the beginning to expand the service outside of Sweden in order to grow.
J	The company falls under the category 'payments' (Lee and Shin, 2018). The company currently has around 30 employees, the interviewee is the CEO and Co-founder of the company and the company has a B2C service. The desire to expand could be attributed to two factors: it was in line with the purpose of the company to expand into new countries and the industry trend was that individuals needed their service to span across national borders, so they followed their existing customers.
K	The company falls under the category 'wealth management' (Lee and Shin, 2018). The company has around 35 employees and the interviewee was the CEO and Co-founder of the company. The product is a B2B offering. The service has been built to scale well, and the specific industry they operate in is standardized. The reason for internationalization is since the Swedish market is too small for their product. They enter new markets through alliances with banks.
L	The company falls under the category 'payments' (Lee and Shin, 2018). The company has around 10 employees and the interviewee was a co-founder and CEO of the company. The service revolves around handling invoices, and the service is B2B. The company is dependant on having an alliance in distributing their services in new markets. The reason for the company's internationalization was due to two reasons. First and foremost the company had the ambition to go global from the start. Secondly, the CEO stated that they have a partner in Sweden that wanted them to start a subsidiary in Norway.

M	The company is within the category of ‘payments’ (Lee and Shin, 2018). The company has 5 employees and the interviewee was the COO and Co-founder. The company is dependent on two different actors namely: payment providers and merchants (i.e. any company that sells a product/service for individuals), from which they retrieve transaction data. The product is primarily B2B but the company is looking into launching a B2C offering as well. The main reason behind their international expansion is due to the small size of the Swedish market.
N	The company falls under the ’wealth management’ category (Lee and Shin, 2018). The company has 20 employees and the interviewee is the CMO and co-founder . The service is a B2C offering and does not rely on an partner for their expansion. The reason for expansion to new markets is to grow beyond the Swedish, but also because they feel that they can expand at a low cost. The low expansion cost allows for an unsupported and reactive entry approach.
O	The company falls under the ’wealth management’ category (Lee and Shin, 2018). The company has 20 employees and the interviewee is the CEO and co-founder. The service is a B2C and B2B offering and they rely on alliances when expanding into new markets. The reason for expansion to new markets is to grow beyond the Swedish, but also because they had already established an alliance on the Swedish Market.

C.2 Investors

Company	Description
A	Company A is a bank-owned venture capital firm that has around 20 companies in their portfolio in different fin-tech related areas. The interviewee is a senior advisor in the fund, which exclusively invests in fintech companies. The interviewee has a say in the investments that are done by the fund and has a hands-on role in each company, either a supporting player or a member of the board. The investment in the companies has the purpose as a strategic partnership, but also with the possibility to later integrate the startup in the bank's organization.
B	Company B is a Venture Capital firm with a main focus on fintech companies. Their main mission is to identify fintech startups that have potential to grow and support the entrepreneurs in this journey. The interviewee is an investment manager and his main responsibilities are to prospect new startups and support the companies they currently have in their investment portfolio. They are currently 17 employees at the firm.
C	Company C is a bank that are investing in fintech companies to increase their competitive advantage. The interviewee works with finding and prospecting fintech startups and the bank has the ambition to either partner och partly invest in the fintech that they find interesting.
D	Company D is a bank owned venture capital firm and they have around 20 companies in their investment portfolio, 8 of which are fintech startups. They mainly invest in companies from the Nordics and Baltics. The interviewee is an investment manager whose main responsibilities are to find and prospect new startups, as well as managing their current investments.

D
Appendix - Interview schedules

D.1 Startups

First and foremost we would like to start of by thanking you for taking the time to participate in this interview. The purpose of this interview is to gain knowledge in fintech startups that aspire to establish themselves on the international scene, as well as to map out the challenges that these companies face and how they try to tackle these challenges. In order to understand how actors in the fintech sector in general carry out an internationalization process we are conducting interviews with startups, and with VC's. Our aim is to use the information from this interview to provide a more holistic view about the internationalization process.

We would also like to ask for your permission to record this interview so we can focus on the conversation instead of writing down your answers. As researchers we put a great effort in keeping what is said in this interview confidential, and we will make sure that the information cannot be traced back to your company in the final report.

Questions:

1. Tell us about your role in the company
    - What do you do on a day-to-day basis?
    - How does your role relate to the strategic questions for the company?
2. How long have you worked at the company?
3. Can you tell me about your product/service?
    - Who are your customers?
    - Who are your partners?
4. Can you tell us about your first market outside Sweden
    - What made you want to enter new markets outside Sweden?
    - Which was your first market outside of Sweden, and why?
    - What was your experience internally with internationalising at this stage?
5. How did you prepare for this expansion?
    - Did you receive support or help in this preparation?
6. What surprised you during this internationalization?
7. How did you handle these surprises?
8. What did you learn from this internationalization process?
9. If you were to look into a new market for expansion today, what would you stress or be extra attentive about?
10. What to your expansion plans look like today?

Final questions:

- Do you have any questions for us?
- Is it okay if we contact you again for a possible follow-up interview?
- Do you have any contacts that work within this area that we can talk to?

D.2 VC's

First and foremost we would like to start by thanking you for taking time to participate in this interview. The purpose with this interview is to gain knowledge in how you support and facilitate for fintech startups that aspire to establish themselves on the international scene, as well to map out the challenges that presents themselves for these companies and how they try to tackle these challenges. In order to understand how actors in the fintech sector in general carry out an internationalization we are conducting interviews with startups, and with VC´s. Our aim is to use the information from this interview to provide a more holistic view regarding how the internationalization process looks for all parties involved.

We would also like to ask for your permission to record this interview so we can focus on the conversation instead of writing down your answers. As researchers we put a great value on keeping what is said in this interview confidential, and we will make sure that the information cannot be traced back to your company in the final report.

Questions:

1. What is your name and position at the company?
2. How long have you worked at the company?
3. What do you work with on a daily basis/How does an ordinary day look?
4. What is your role related to the company's work with internationalization?
5. What is your experience with internationalization processes for fintech startups?
6. How do you support fintech startups when they want to enter a new market?
    - Do the fintech startup acknowledge your support?
7. What fintech companies have you assisted in an internationalization process?
    - Do you have a concrete example of when you helped a company?
    - How did you help?
8. Is there anything they have more difficulties with / underestimate in this process?
9. What are the main challenges?

Final questions:

- Do you have any questions for us?
- Is it okay if we contact you again for a possible follow up interview?
- Do you have any contacts that work within this area that can we can talk to?

D.3 Bank owned VC's

First and foremost we would like to start by thanking you for taking time to participate in this interview. The purpose with this interview is to gain knowledge in how you support and facilitate for fin-tech startups that aspire to establish themselves on the international scene, as well to map out the challenges that presents themselves for these companies and how they try to tackle these challenges. In order to understand how actors in the fin-tech sector in general carry out an internationalization we are conducting 15 interviews with startups, and 4 interviews with VC's. Our aim is to use the information from this interview to provide a more unbiased view regarding how the internationalization process looks for all parties involved.

We would also like to ask for your permission to record this interview so we can focus on the conversation instead of writing down your answers. As academics we put a great value on keeping what is said in this interview confidential, and we will make sure that the information cannot be traced back to your company in the final report.

Questions:

1. What is your name and position at the company?
2. How long have you worked at the company?
3. What do you work with on a daily basis?
4. How does your bank work with fintech startups?
5. What's your scope? What kind of fintech startups do you target for potential partnerships?
6. How do the exchange look like?
   - Transactional?
   - Partnership?
7. Do you approach fintech or do they approach you?
8. What is your experience with internationalization processes for fintech startups?
   - Difference between markets?
     - Nordics
     - Rest of Europe
9. Do you support fintech startups when they want to enter a new market?
   - Anything specific? What do they need help with?

Final questions:

- Do you have any questions for us?
- Is it okay if we contact you again for a possible follow up interview?
- Do you have any contacts that work within this area that can we can talk to?