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## IMPACTS OF INTERNATIONALIZATION ON STRATEGIES AND BUSINESS MODELS OF LITHUANIAN FINANCIAL COMPANIES WHILE IMPLEMENTING THE MIFID

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**Abstract.** *This research is to scrutinize the main impacts of the Markets in Financial Instruments Directive (MiFID) on business models and strategies of Lithuanian financial firms in the context of the internationalization of a company. Being the second article in a series relying on the results of a survey of the influence of the MiFID on business models and strategies of Lithuanian financial companies (2010), it backs the analysis presented in the first article, where modifications in the performance of financial companies were analysed on the basis of such criteria as the lifetime and the size of a company. It also completes our scheme of the influence of the MiFID on business strategies and models. Adding the third shred of internationalization to a mosaic of contributions from the MiFID to Lithuanian financial companies, such aspects as management of financial and human resources, circulation of information and knowledge, the volume and transparency of investments, attractiveness for foreign investors and the number of clients, transaction costs, the valued-added profit, establishment of new departments, smoothness of development business strategies abroad, cooperation with other organizations while implementing the directive and many others are elucidated.*

**Keywords:** *strategies and business models of companies, Markets in Financial Instruments Directive, the level of internationalization.*

## Introduction

Nowadays knowledge-based economies are driven by a severe competition in the market, more demanding customers, shortening economic cycles of different products and faster introduction of new services to the market due to greater innovation performance and stronger technological intensity. Higher internationalization level is mainly triggered by the urgency to find new possibilities of organic and structural growth abroad or strengthening the profit margin, with a clearer cursor to emerging regions as well as the lack of highly qualified human resources in knowledge-intensive areas or with a set of unique skills. Due to such conditions, it is getting too complicated to forecast the outlook of various economies, sectors or companies. It seems that a global village is exploding while multiplying the volume of financial flows between various actors by a great number of times.

To encourage and, in parallel, to better monitor the ongoing integration processes within the EU, the European institutions prepare various regulations, directives, opinions or recommendations to accelerate the economies, to protect human rights and the rights of customers, to bring a set of rules and to eliminate barriers of trading as well as to reduce differences among European regions. However, such new legal initiatives as the introduction of the MiFID require stronger efforts and willingness at different levels. On the other hand, companies bear fruits only when all the necessary tasks are completed and significant changes in business models and strategies occur. Therefore, it is crucial to back our first article in a series of publications, based on the results of a survey of the influence of the MiFID on the business models and strategies of Lithuanian financial companies (2010), by adding the criteria of internationalization (Figure 1). The level of internationalization could be translated into such factors as having branches abroad, attractiveness for foreign investors, smoothness of developing business strategies abroad and many others.

Receiving the responsiveness and standard confidence ratios of c.a. 95 per cent, our survey has fully covered the whole market of Lithuanian financial companies (CEO-s or other top level managers of 22 financial brokerage firms of Lithuanian origin or foreign companies having branches in Lithuania operating longer than 2 years). In the light of the first signs of recovery from the recession and simultaneous integration to the Euro Zone, the implementation of the MiFID and its influence on business models and strategies of Lithuanian financial companies, depending on the level of internationalization, emerge as topics of significant importance and innovativeness.

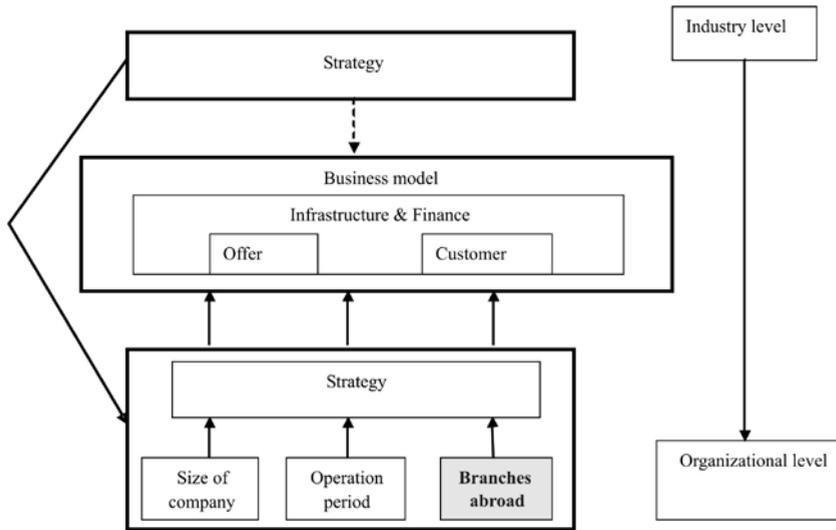


Figure 1. Influence of the MiFID on strategies and business models

Source: prepared by the authors on the basis of the model of nine building blocks by Bask et al<sup>1</sup>, the conceptual framework developed by Philip and Graham<sup>2</sup> and the model of choices and consequences designed by Casadesus-Masanell<sup>3</sup>

## 1. Ease to Implement the Directive and Internationalization

For a profound analysis of the influence of the MiFID on business models and strategies of Lithuanian financial companies, depending on the level of internationalization, at first, it is reasonable to draw the structure of sample companies in terms of their origin. This parameter is a useful tool to better evaluate the scope of the rather foggy factor of internationalization. Based on the results of our survey, 52% of financial companies under investigation are of Lithuanian origin, while 48% of sample firms are foreign organizations with an established branch in Lithuania. Having approximately equal numbers of internationalized foreign organizations and companies of Lithuanian origin, it is possible to identify the main obstacles to implement the MiFID and differences between the difficulties of the financial companies of Lithuanian origin and those that have established branches in Lithuania with a head-office abroad.

- 1 Bask, A. H.; Tinnila, M.; Rajahonka, M. Matching Service Strategies, Business Models and Modular Business Processes [interactive]. *Business Process Management Journal*. 2010, 16: 158–180 [accessed 25-03-2010]. <<http://www.emeraldinsight.com/Insight/viewPDF.jsp?contentType=Article&Filename=html/Output/Published/EmeraldFullTextArticle/Pdf/1570160108.pdf>>.
- 2 Philip, J.; Graham, W. *Developing and Codifying Business Models and Process Models in E-business Design*. [interactive]. 2004 [accessed 01-04-2010]. <<http://is2.lse.ac.uk/asp/aspectis/20040077.pdf>>.
- 3 Casadesus-Masanell, R.; Ricart, J. E. Competing through Business Models [interactive]. *IESE Business School Working Paper*. 2007, 713 [accessed 25-03-2010]. <<http://www.iese.edu/research/pdfs/DI-0713-E.pdf>>.

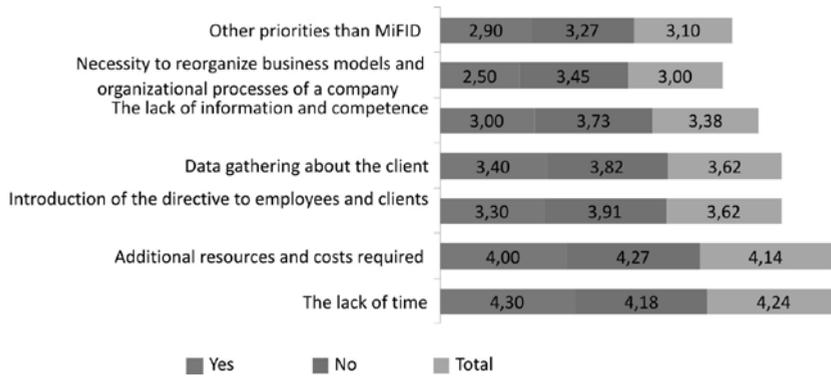


Figure 2. Difficulties to implement the directive in the context of the internationalization of an organization

Source: prepared by authors

The application of ratios (varying from 1—‘totally disagree’ to 5—‘totally agree’) representing difficulties to implement the MiFID appearing due to the internationalization of a company allowed finding out that foreign companies that have branches in Lithuania experience less difficulties to implement the MiFID compared to the companies of Lithuanian origin. This is mainly due to the fact that relatively older EU Member States and, in particular, financial companies of these countries had a long-term experience of managing financial instruments and following the Investment Services Directive (ISD). Being a newer Member State, Lithuania faces more obstacles in implementing the MiFID. For both groups of companies the lack of time and additional resources required appear to be the main difficulty while implementing the MiFID. In addition, companies of Lithuanian origin more often than foreign firms with a branch in Lithuania consider the introduction of the directive to employees and customers or clients, the lack of information and competence and the necessity to reorganize their business models and organizational processes as challenges.

Having identified the main difficulties in implementing the MiFID in Lithuanian financial companies, it is reasonable to reveal a set of negative changes appearing due to the implementation of the MiFID, which should be logically followed by positive contributions to business models and strategies in the context of internationalization. Within our model, internationalization is translated into the possession of branches abroad.

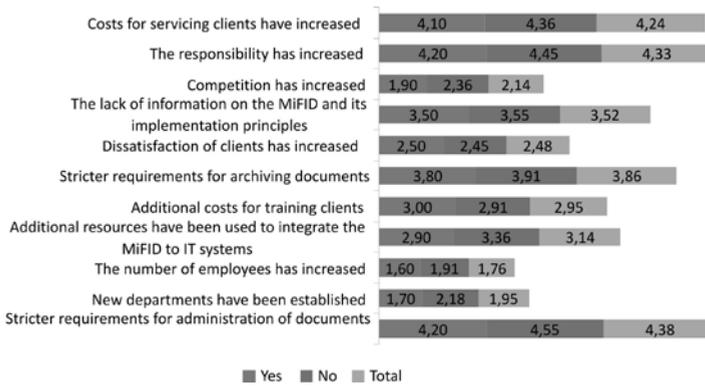


Figure 3. Disadvantages of the MiFID in the context of the internationalization of an organization  
 Source: prepared by authors

Similarly to the case regarding obstacles to implement the MiFID, sample companies of Lithuanian origin experienced slightly more disadvantages than firms with a foreign mother company outside Lithuania. This is largely in line with stricter requirements of documentation and increased costs for companies of Lithuanian origin, as the MiFID is a relatively new experience for them, while foreign firms having branches in Lithuania have more experience with the ISD. With no respect to whether sample firms possess branches abroad, the major disadvantages brought by the MiFID are increased responsibility and costs for servicing clients as well as stricter requirements for administering documents, although companies of foreign origin have better coped with all the changes. On the other hand, no changes or insufficient attention to a certain problem could be even more damaging. For instance, the CEOs or other top level managers of financial companies of Lithuanian origin who participated in the survey have not declared new established departments or new employees hired, what could be an illustration of modest efforts or the lack of resources.

The analysis of the major disadvantages of the MiFID, in parallel, should be liaised to advantages of the MiFID in the context of internationalization, as some changes could be advantageous for one group of companies and devastating for another.

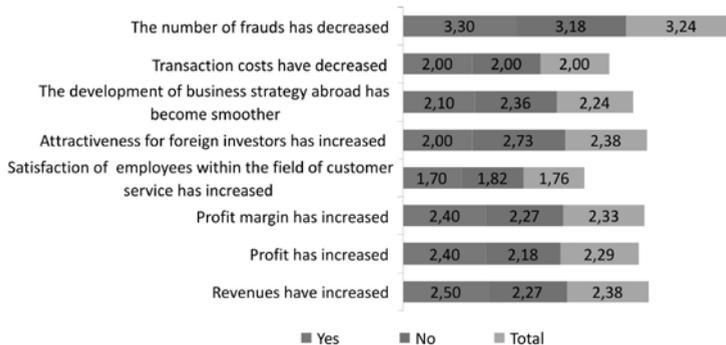


Figure 4. Advantages of the MiFID in the context of the internationalization of an organization  
 Source: prepared by authors

Being more conservative, CEOs or other top level managers of both companies operating uniquely in Lithuania and foreign firms having branches in Lithuania more disagree than agree with a statement that the MiFID brought positive changes to the performance of their companies. Though there is only a little difference in terms of advantages, it seems that, in comparison to foreign companies, firms of Lithuanian origin more often state the increased attractiveness for foreign investors, what could be explained by the target of the MiFID, being compulsory for both worse and better positioned economies and sectors, to strengthen the protection of investors and to increase the competitiveness within the Europe's financial sector. Therefore, the worse positioned companies in the market (often lacking informational, financial and human resources, compared to companies having branches abroad) experience more significant contributions.

Though transformations, in general, are better accepted by the more flexible companies, modifications always demand building a set off new skills and knowledge as well as increased responsibility with a clear focus on customers and clients; therefore, in the shorter run, the satisfaction of employees within the field of customer service does not increase. The most appreciated contribution from the MiFID so far is the decreased number of frauds, what again is related to the basic objectives of the directive.

## 2. Internationalization and Impacts of MiFID on the Components of a Business Model

Having scrutinized the main advantages and disadvantages of the MiFID in the previous section of the present article, we will now focus on the influence of the MiFID on the core components of a business model in the context of the internationalization of a company. Therefore, firstly, the impact of the directive on the base of clients will be examined taking into consideration the possession of branches abroad.

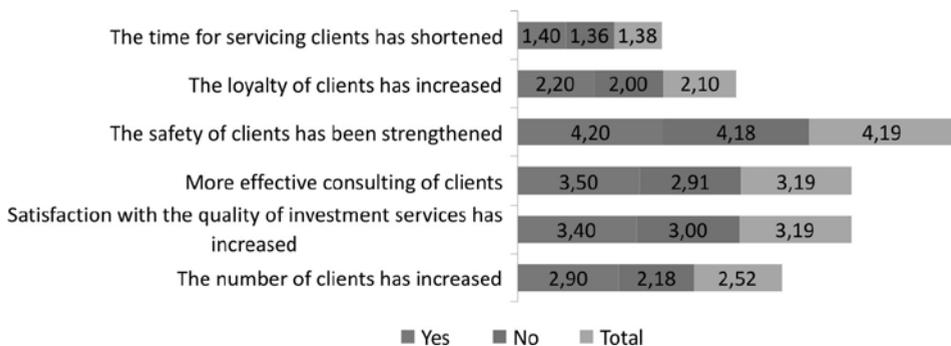


Figure 5. Influence of the MiFID on clients in the context of the internationalization of an organization

Source: prepared by authors

As Figure 5 shows, there is a slight difference between foreign companies having branches in Lithuania and companies operating uniquely in Lithuania. Foreign firms having established their business in Lithuania experience more positive changes than the ones of Lithuanian origin mainly due to the fact that the head offices of the former are located in more experienced members of the EU, where companies have been following the EU laws for a longer period of time. Largely internationalized firms of foreign origin more agreed than disagreed with the statement that the number of clients has increased due to the implementation of the MiFID. As it was expected, these companies were also able to provide their clients with more effective consulting, as they rarely faced the lack of information or financial resources. However, the results of the present survey illustrated a weak cooperation of Lithuanian financial companies with various organizations, even though it is particularly value-adding under the circumstances of experiencing so many obstacles while implementing the MiFID.

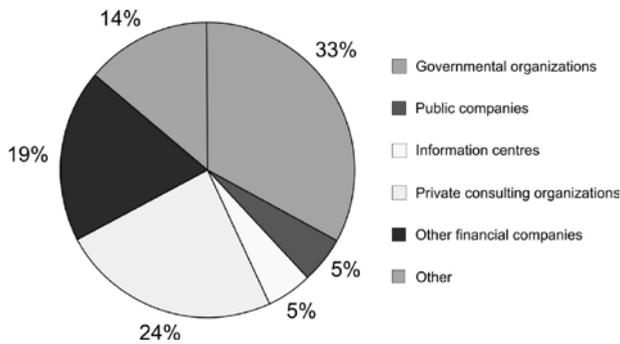


Figure 6. Classification of respondents on the basis of collaboration with other organizations

Source: prepared by authors

As it is seen in Figure 6, the majority of respondents collaborated with governmental and private consulting organizations while implementing the MiFID; however, they ignored public companies and information centres. In spite of a severe competition in the market, almost one fifth of the sample firms have entered into cooperation with other financial companies. Hit by the lack of information as well as insufficient financial and human resources, Lithuanian companies should not forget the possibility to outsource some activities to other organizations, to participate in common projects and to strengthen the public–private symbiosis. Focusing on the satisfaction of client needs with all the changes inspired by the MiFID, only 55% of the respondents organized consultations for their clients. The results would have been far better, if the cooperation with other organizations had been more active.

To examine the influence of internationalization on investments—the second component of the previously presented business model—while implementing the MiFID in Lithuanian financial companies, it is reasonable to scrutinize contributions from the

directive to various investment-related figures, taking into consideration the possession of a foreign mother company outside Lithuania.

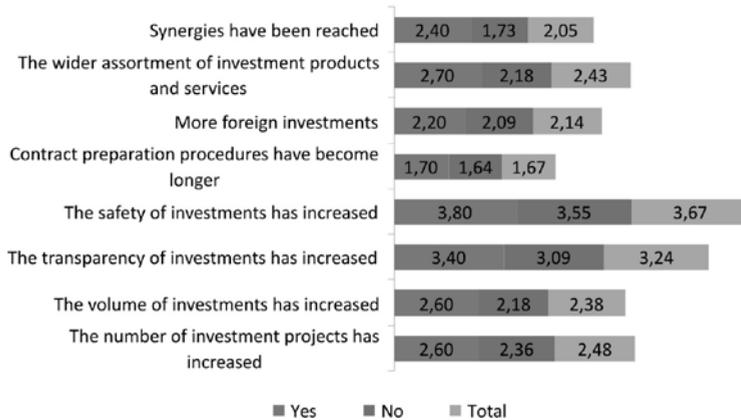


Figure 7. Influence of the MiFID on investments in the context of the internationalization of an organization

Source: prepared by authors

As it is illustrated in Figure 7, foreign companies having branches in Lithuania experienced more positive changes in terms of investments, although these changes were less significant than expected. The CEOs or other top level managers of the companies under investigation agreed that the safety of clients and the transparency of investments have increased, and disagreed that procedures of preparing a contract have become longer, while regarding other statements companies remained neutral. Though the majority of respondents have not witnessed an improvement in the assortment of investment products and services and have not reached remarkable synergies, companies of foreign origin, while accomplishing these objectives, have performed slightly better, which is an important finding of the present research.

Apart from focusing on the base of clients and investments as the main components of the business model, it should not be forgotten that some other factors such as the financial performance and infrastructure of a company are also influenced by the MiFID. Within our research, these changes appeared as higher expenses, mainly related to the fact that the MiFID is in force from 1 November 2007; thus, companies faced a lot of difficulties and costs to implement it. On the other hand, one can consider the higher cost base as an investment in the longer run, as harmonization, passporting and easier trade of financial instruments should definitely lead to a brighter outlook of Lithuanian financial companies and the small Lithuanian economy as a whole.

## Conclusions

Building business models, oriented towards a robust organic and structural growth of revenues and profits, companies often face the necessity to reshape their structure of revenues and to cross their national borders. In the light of faster globalization and internationalization processes, managers need to think globally and act locally, taking into consideration such aspects as innovative managerial techniques, the combination of various strategies as well as a cross-cultural and variety management. Sometimes the expansion of business abroad could be a single correct solution to cope with a severe competition. The ongoing integration of the EU also brings new regulations, directives, opinions or recommendations that obviously reshape the performance and behaviour of the Lithuanian financial actors. Not surprisingly, the results of the present survey prove that internationalization is crucial in implementing the MiFID, as running branches abroad enabled sample companies to face fewer difficulties, compared to the firms of Lithuanian origin. On the other hand, the aim of the MiFID itself is to ensure a better protection of investors, higher transparency as well as to promote the trading of financial instruments among EU Member States.

Having thoroughly reviewed the contributions of the MiFID to business models and strategies of Lithuanian financial companies in the context of internationalization, our analysis revealed that foreign companies possessing branches in Lithuania experienced more positive changes and fewer difficulties while implementing the MiFID than the firms of Lithuanian origin. Scandinavian banks with established branches in Lithuania have been operating for a long period of time in a well-developed financial system; thus, these organizations have a long-term experience in following the EU law related to financial instruments and are more efficient in applying the directive. The present survey brought another interesting finding related to the influence of possessing branches abroad on such components of the business model as investments and the base of clients. More positive changes were noticed in foreign companies having branches in Lithuania than in Lithuanian ones.

Given the fact that only three years passed since putting the MiFID into action, the present article is particularly value-adding for both companies of Lithuanian origin and foreign firms with branches established in this Baltic country. A proven positive influence of possessing branches abroad on business models and strategies makes us believe that it is crucial to keep closer relations between the mother company and the outsourced branch. There could be a separate department established to strengthen this liaison in the financial companies of foreign origin. Having a weaker support from the mother company or operating uniquely in Lithuania, cooperation with various organizations for sharing the information and knowledge as well as monitoring the influence of the directive is recommended. A particular organization or a couple of actors should be established to provide necessary information and support in various implementation-related issues. These organizations could examine whether the directive is implemented in a right way. To smooth the process of implementation, the investment service providers should employ a couple of experts responsible for the compliance and MiFID-related

issues. In terms of scientific publications, the need for a new research conducted few years later is obvious, as within the recovery of the economy companies are expected to be more willing to participate in business. Therefore, there should be more colours appearing in the future horizon of the Lithuanian financial sector.

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## INTERNACIONALIZACIJOS SVARBA LIETUVOS FINANSINIŲ KOMAPNIJŲ VERSLO MODELIAIS IR STRATEGIJOMS ĮGYVENDINANT FINANSINIŲ PRIEMONIŲ RINKŲ DIREKTYVĄ

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**Santrauka.** *Spartėjantys globalizacijos ir internacionalizacijos procesai, nykstančios geografinės ribos ir dėka neriboto informacinių technologijų potencialo intensyvėjantis tarptautinis verslas atveria ne vien galimybes, bet ir kelia iššūkius. Priverstos ieškoti naujų pajamų ir pelno didėjimo šaltinių įmonės savo veiklą dažnai perkelia už nacionalinių sienų ribų arba tarpsta elektroninėje erdvėje, o labiau integruotoje Europos Sąjungos ekonominėje aplinkoje vadovaujamosi ne tik pirmine teise, bet vis naujais reglamentais, direktyvomis, rekomendacijomis ar nuomonėmis. Siekiamos atitikti vartotojų lūkesčius ir sustiprinti savo konkurencinius pranašumus, finansų kompanijos privalo įgyvendinti novatorišką kompanijos strategiją bei vadovautis holistiškais verslo modeliais, kurie taip sudėtingai formuojami ir kuriems tokios didelės įtakos turi menkiausi reglamentai arba direktyvos. Keletas niuansų gali nulemti verslo sėkmę, todėl vis sunkiau tampa numatyti tolesnės kompanijų plėtros perspektyvas ir įgyvendinti užsibrėžtus tikslus.*

*Susiklosčius tokioms aplinkybėms, tarptautinė užsienio kapitalo finansų kompanijų, veikiančių Lietuvoje, patirtis, ypač labiau išsivysčiusiose Europos Sąjungos šalyse, leidžia*

*efektyviau vadovautis Finansinių priemonių rinkų direktyva (MiFID), o ir jos poveikis kompanijų verslo modeliams bei strategijoms yra didesnis. Pabrėžiant finansų įmonės tarptautiškumą arba nacionalinę kilmę bei motininės kompanijos patirtį, vadovaujantis Europos Sąjungos teisine baze, šiame straipsnyje aprašyto tyrimo rezultatai pagrindė MiFID direktyvos svarbą formuojant Lietuvos kompanijų verslo modelius ir strategijas. Nors Direktyvos įteigti pokyčiai, praėjus trejiems metams nuo MiFID įsigalėjimo, yra pirminiai bei netipiniai, nes būtent šis direktyvos įgyvendinimo etapas reikalauja daugiau finansinių, informacinių, laiko ir žmogiškųjų resursų bei sutampa su pasaulį sukūrusios krizės laikotarpiu, tačiau jie leidžia pasimokyti iš praeities klaidų, priimti novatoriškesnius strateginius sprendimus ir numatyti geresnes Lietuvos finansų kompanijų ateities perspektyvas.*

**Reikšminiai žodžiai:** *įmonių strategijos ir verslo modeliai, Finansinių priemonių rinkų direktyva, įmonės internacionalizacijos lygis.*

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