FUNDAÇÃO GETULIO VARGAS
ESCOLA DE ADMINISTRAÇÃO DE EMPRESAS DE SÃO PAULO

MARIA ALEJANDRA CALVACHE SALAZAR

ENTRY MODE CHOICE AND MARKET SELECTION OF BORN GLOBALS IN DEVELOPING COUNTRIES: A MULTIPLE-CASE STUDY OF THE ECUADORIAN SOFTWARE SECTOR

SÃO PAULO
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Knowledge Field: Business Administration

Advisor: Prof. Susana C. Farias Pereira

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Abstract

The "Born Global" phenomenon refers to companies that regard the global market as their natural context and that start their internationalization process very early after inception. Traditional theories like the Uppsala model no longer can explain this process. Therefore, other theories have been emerging, such as the network perspective. There are some studies related to this field, mainly performed in developed countries with small markets and open economies. However, very few studies have been done in developing economies. Moreover, there are limited researches regarding the choice of entry mode and market selection of born global firms. Consequently, this study pretends to describe the main factors influencing the choice of entry mode and market selection of born global companies from developing economies. The focus of the research is the software industry and a multiple case study was performed to three companies in Ecuador. The methodology included in-depth interviews to founders as well as collection of secondary data. Drawing from empirical evidence, it was found that the main factors influencing entry mode choice are financial constraints, expected revenues, internationalization speed, niche markets and previous business experience of founders. On the other hand, market selection is influenced by similarities in language and culture, niche markets and network relations.

Key words: Born global, Internationalization, entry mode, market selection, developing countries, software industry.

Resumo

O fenômeno "Born global" refere-se a empresas que consideram o mercado global como seu contexto natural e que iniciam seu processo de internacionalização muito cedo após sua criação. As teorias tradicionais como o modelo de Uppsala não conseguem explicar este processo. Portanto, outras teorias têm surgido, como a perspectiva de redes. Existem alguns estudos relacionados a esta área, principalmente realizados em países desenvolvidos com pequenos mercados e economias abertas. No entanto, poucos estudos têm sido feitos em economias em desenvolvimento. Além disso, o número de pesquisas quanto à escolha do modo de entrada e seleção de mercados das empresas “born global” é bastante limitado. Consequentemente, este estudo pretende descrever os principais fatores que influenciam a escolha do modo de entrada e seleção de mercados das empresas, de economias em desenvolvimento, nascidas globais. O foco da pesquisa é a indústria de software e um estudo de casos múltiplo foi realizado com três empresas no Equador. A metodologia incluiu entrevistas com fundadores, bem como a coleta de dados secundários. Com base na evidência empírica, verificou-se que os principais fatores que influenciam a escolha do modo de entrada são as restrições financeiras, as receitas esperadas, a velocidade de internacionalização, mercados nicho e a experiência empresarial anterior dos fundadores. Por outro lado, a seleção de mercado é influenciada por semelhanças de língua e cultura, mercados nicho e relações em rede.

***Palavras-chave*:** Born global, internacionalização, modo de entrada, seleção de mercado, países em desenvolvimento, indústria de software.

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1. Introduction

Born Global phenomenon is a relatively new concept that appeared two decades ago and has been causing some controversy between researchers (McDougall, Shane, & Oviatt, 1994; Moen & Servais, 2002; Oviatt & McDougall, 1994; Rennie, 1993). Traditional models no longer explain the internationalization process of modern companies (Oviatt & McDougall, 1994). Technological revolution in the areas of information, communication, production, logistics and the reduction in transportation costs, as well as more interconnected markets, have created the perfect environment for companies to cross the country borders in a much easier, faster and less expensive way of how they did in the past (Knight & Cavusgil, 1996; Madsen & Servais, 1997). Changes in consumer behavior also gave birth to niche markets, where small companies are more flexible to attend their customized demands (Hennart, 2014). These companies have been named in very different ways: International New Ventures (Oviatt & McDougall, 1994), High technology Start-ups (Jolly et al., 1992), Early Internationalizing firms (Rialp, Rialp & Knight, 2005) and *Born Global*s (Knight & Cavusgil, 1996).

The *Born Global* approach provides an interesting perspective of how companies should internationalize, and breaks the paradigm of the traditional theories, whereby a company should go abroad once it has consolidated its domestic market. The *Born Global* is a group of small and medium sized companies that show an accelerated internationalization process and have the world as their marketplace (Knight & Cavusgil, 2004).

It is known that high-technology companies are particularly likely to the born-global effect (Autio et al, 2000; Bell, 1995; Coviello & Munro, 1995; Crick & Jones, 2000; Gabrielsson et al., 2008), so the software sector was chosen for this study. And in order to reduce the variations due to different country scenarios the research focused on one location: Ecuador, so that all studied firms were subject to the same geographic influences.

Small and medium enterprises (SMEs) characterize the “backbone of the Latin-American economy” according to Werner Hoyer, president of the European Investment Bank (Mann, 2012). However, a business that brings money for the local wealth from outside is definitely a better catalyzer for any country’s economy (Brenes, 2007).

Therefore, for developing countries like Ecuador, *Born Global* firms could represent an excellent way to overcome all the barriers of language, culture and geographic distance that traditional SMEs have been facing. There is the hope the born global phenomenon will help developing economies with their internationalization process, and that their growth strategies will provide lesson for many other organizations.

On the other hand, 90% of all software companies in Ecuador are SMEs (AESOFT, 2011). The software industry is still emerging in this country; however, previous studies (CIEPYMES, 2012; PROCHILE, 2012; AESOFT, 2011) show it has huge potential to develop, especially in the global arena. Moreover, the IT sector, including software, has been proved to be the most dynamic when talking about born global due to its knowledge intensive component (Rialp, A., Rialp J. & Knight, 2005). Previous case studies (Jolly et al., 1992; Bell, 1995; Coviello & Munro, 1995; Dib, 2008; Zárate, 2013) have been focused in this industry, which makes it easier to find differences between countries.

The rapid internationalization of firms has been investigated in SMEs located in developed countries (United States, Canada, the Nordic countries, England, New Zealand, Australia and others) but very little is known of similar studies in countries with developing economies (Thai & Chong, 2008; Nafula & Suarez, 2012; Zárate, 2013). In fact, after a research in important academic databases like EBSCO, ProQuest, ScienceDirect, ResearchGate, Google Scholar, it wasn´t found any previous studies related to born globals in Ecuador. It would therefore be interesting to investigate this type of companies within the developing economies context, where characteristics such as market instability and underdeveloped infrastructure become strong barriers they must overcome when entering international markets.

Inside the born global field there are only few empirical studies about entry strategies, market selection and the degree of market spreading (Shrader et al., 2000; Andersson & Wictor, 2003; Sharma & Blomstermo, 2003; Freeman et al., 2006). Therefore, the objective of the research is to identify which are the factors influencing entry mode decision and market selection of Ecuadorian born global companies from the software sector.

This thesis conducted a multiple-case study of three companies from Ecuador belonging to the software sector. It is composed by two parts, first a synthesis of existing literature on born global firms and second, a systemic analysis of the theoretical points of view applied into the specific cases. All along the research it was found several similitudes with existing literature as well as conclusions drawn from previous international case studies. However, there are some specificities related to developing countries that could complement the current born global literature.

The research is structured as follows. The first part of the thesis explores theoretical concepts of the born global phenomenon as well as theories related to entry mode decisions and market selection. The second part of the study synthesizes findings from the multiple case studies and proposes a framework for entry strategies and market choice. The proposition is followed by conclusions of the research and recommendations.

2. Literature Review

In order to better understand what has been said about the research topic and to set up the scenario for this research´s contribution, a summary of previous studies and concepts will be introduced in this section. First, a synthesis regarding born global phenomenon is presented. Secondly, some of the internationalization theories are explained. Finally, the main concepts of entry mode and market selection are exposed.

2.1.Born Global Phenomenon

This research will start with the definition of this new phenomenon of the born global firms. In order to establish the author´s own concept of a born global, a brief description and discussion of the several definitions found in the literature are presented. Then, the diverse features that characterize a born global according to several authors will be summarized. Finally, an analysis of the factors that were found as main triggers for the creation of this new type of companies is introduced.

2.1.1. Concept of a *Born Global*

Most studies on internationalized companies are built upon large and mature corporations with high market power, due to the economic representativeness of these companies in their countries of origin and in the countries receiving the investments (Chesnais, 1996). In this context, several theories have been developed to explain the phenomenon of internationalization of these great early movers: Internalization Theory (Rugman, 1981), Transaction Cost Theory (Williamson, 1981); Eclectic Paradigm (Dunning, 1980), Industrial Organization Theory (Hymer, 1960), Product Life Cycle Theory (Vernon, 1966), Theory of Competitive Advantage (Porter, 1980), Uppsala Model (Johanson & Vahlne, 1977) and Industrial Network Theory (Anderson et al., 1994).

However, managing business in the international market is not exclusive to large companies in developed countries. Many changes have occurred in the last decades which were derived from increased globalization, advanced communication technology, the internet, etc. Several studies have shown small and medium businesses with limited resources that have been achieving competitive success in the international arena (Bell, 1995; Oviatt & McDougall, 1994; Madsen & Servais, 1997; Knight & Cavusgil, 1996). As a consequence, the validity of traditional internationalization theories has been questioned (Oviatt & McDougall, 1994) and the phenomenon of born globals (Knight & Cavusgil, 2004; Rialp et al., 2005; Bell & McNaughton, 2000), firms that aim at international markets or even the global market from their inception, started to call the attention of researchers in recent studies dating back to the 1990s.

The first born global study that has been recorded of was performed by Rennie in 1993 for McKinsey and Co. This research was focused on Australia's high-value-added manufacturing exporters; and discovered two types of firms “domestic-based firms which fit the traditional idea of an exporting firm” and “born-global firms which began exporting, on average, only two years after their foundation and achieved 76 percent of their total sales through exports” (Rennie, 1993, p.4). It was the first time the term “born global” was ever used, but it soon became a standard denomination for rapid small and medium sized internationalizing companies (Meyn & Kragh, 2009).

There is a variety of terms that literature has given to this new type of firms. Oviatt and McDougall (1994) called these companies *International New Ventures* (INV), and then in a further study they stablished a sub-group called *global startups* (1995). A different research names these firms as *High-technology startups* (Jolly et al., 1992). Rialp et al. (2005) opted for calling them *Early internationalizing firms.* However, the most common term applied in most of the literature is *Born Globals* (Rennie, 1993; Madsen & Servais, 1997; Bell & McNaughton, 2000; Knight & Cavusgil, 2004; Dib, 2008). In order to follow the trend of the international business field, this research will employ the Born Global (BG) denomination.

Just as the different names, there's no agreement between authors on a specific definition and characteristics of a BG (Dib, 2008). A revision and discussion of the main concepts found in literature is presented in the following paragraphs. Certainly, they complement each other and all are equally valid.

Rennie (1993) concluded that Born Global are firms that begin exporting on average only two years after foundation and that their foreign sales represented three quarters of the total sales. Most of them have their competitive advantage based on innovation and quality, producing leading edge technology products and targeting them to niche markets.

On the other hand, Oviatt and McDougall (1994) defined an international venture as: "a business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries" (p.49). INV differ from traditional firms in adopting an international strategy right from the start, even though they count with only few employees.

According to Knight and Cavusgil (2004), born globals are "business organizations that, from or near their founding, seek superior international business performance from the application of knowledge-based resources to the sale of outputs in multiple countries" (p.124). Despite their limited resources (financial, human and tangible) these firms seek rapid and early internationalization. Due to their characteristics (lack of old bureaucratic systems) they can use their flexibility to succeed in the international arena (Knight & Cavusgil, 2004). Usually these small firms begin exporting one or several products within 2 years of establishment; they tend to export at least a quarter of total production, and their founders and managers see, from inception, the world as its marketplace (Knight & Cavusgil, 1996).

Contrary to Knight and Cavusgil (2004), other authors (Madsen & Servais, 1997) consider that the born-global phenomenon is not limited to high-tech industries and/or specific countries. However, they agree with the overall idea of born globals: “firms that seek to derive significant advantages from the use of resources or from the sale of outputs to multiple countries/continents right from their legal birth” (p. 579) These researchers affirm that born globals grow depending on the level of networking and cooperation with other firms, and evolutionary thinking inside the company.

Additionally, Gabrielsson et al. (2008) believed that a born global must have a product with global market potential, and the firm must have entrepreneurial spirit and a global vision from inception. It must also “carry the risks of a small start-up company; it cannot be a spin-off of a larger firm that is prepared to help it float” (Gabrielsson et al., 2008, p.88). Further, the author considered that born globals could belong to high-tech or low-tech industries.

Finally, after considering the Brazilian business scenario, Dib (2008) set up a definition of born globals suitable for emerging markets, which stated that “a born global is a company that within a frame of up to 5 years from its inception, has developed international business in at least one foreign market” (p.146).

We will employ in this research a combination of the definitions of Oviatt and McDougall (2004), Knight and Cavusgil (2004), and Dib (2008). For us, a BG is a firm that, within a frame of up to 5 years from its inception, seeks to expand into international markets taking advantage of its knowledge-based resources and flexibility. Besides the definitions, there are certain parameters that characterize a firm as a BG. In the following section we will discuss which these features are.

2.1.2. Characteristics of *Born Globals*

As we can see from the definitions presented in the previous section, despite the relative consensus on the determinants of the emergence of born global companies, like fast internationalization and global reach, there is certain theoretical conflict on defining their characteristics (Ferreira, 2012). Four major dimensions and categories can be identified from the academic literature that have been used to characterize a BG (Dib, 2008):

a. Date of company foundation/creation:

Some previous studies established that a BG is a company with a creation date starting from 1976 (Rasmussen, Madsen and Evangelista, 2001). However, most of the studies consider as BG firms that were founded from 1990 on (Moen, 2002; Moen & Servais, 2002; Rassmusen & Madsen, 2002). The reason why 1990 is considered the most accurate date is because many of the factors that are presented in the literature to justify the creation of a BG (globalization, internet, etc.) appeared at the end of the 90's.

b. Pace of internationalization (start of international activities after creation):

The pace of internationalization, considered to be the defining characteristic of a born global firm, refers to the time taken between the inception of the firm and its entry into international markets. There are several opinions in the literature about how many years after foundation the company has to become international, or start to export:

- after 2 years of their foundation (Rennie, 1993)
- less than two years after foundation (Moen, 2002; Moen & Servais, 2002)
- up to three (Knight & Cavusgil, 1996; Rasmussen, Madsen & Evangelista, 2001; Martinez, 2003; Mort & Weerawaderna, 2006)
- until six years (Zahra et al., 2000)
- up to 8 years (McDougall, Shane & Oviatt, 1994)
- up to 15 years, even though most of the companies should take 2 to 3 years to reach 50% of sales out of their continent of origin (Gabrielsson, Sasi & Darling, 2004).

c. International sales (percentage of revenue from overseas operations):

This item is particularly controversial within the literature since there's no agreement on a specific number. For instance, Oviatt and McDougall (1994) established that to be considered a BG, a company must have at least 5% of the total sales coming from international activities. Again here, this percentage diverges in the literature. Some other studies (Rasmussen, Madsen & Evangelista, 2001; Moen, 2002; Moen & Servais, 2002; Martinez, 2003; Knight & Cavusgil, 2004; Mort & Weerawaderna, 2006) say that at least 25% of its total sales must come from overseas operations. Other more demanding researchers (Gabrielsson, Sasi & Darling, 2004; Gabrielsson, 2005) set up 50% as the minimum percentage of the total sales coming from international activities.

d. *Scope of foreign markets:*

Authors like Chetty and Campbell-Hunt (2004) suggest that a company can only be considered as BG if it actually reaches markets all over the world. Others (Sharma & Blomstermo, 2003; Gabrielsson, Sasi & Darling, 2004) however, try to set up a difference between them depending on the number and location of markets reached by the firm. For instance, Gabrielsson (2005) affirms that a BG which international sales come from the continent of origin should be called Born International. Only if they come from outside their home continent then they are true Born Globals. However, within both the born global and international new venture literature (Rennie, 1993; Knight & Cavusgil, 1996; Madsen & Servais, 1997; Bell & McNaughton, 2000; Madsen et al., 2000; Rasmussen et al., 2001; Aspelund, Madsen & Moen, 2007; Moen, 2002; Oviatt & McDougall, 1994; Servais, Madsen & Rasmussen, 2000) there is no specific stipulation for the number of markets that a born global must reach.

An observation of all these variables suggests that the adoption of a definition for a Born Global depends on the type of country of origin of the company and the characteristics of their business environment (Dib, 2008). Table 1 summarizes the diverse specificities of born globals according to different authors.

In this dissertation, in order to suit the Ecuadorian economic environment, it's consider as born globals, firms that were established after 1990 and started its international activities **up to five years after** its foundation. The **international sales** must represent **more than 25%** of the total. As long as they have presence in more than two countries besides the home base, no matter in which continent, we will consider them as BG. This definition is justified by the difficulties that are faced by Ecuadorian firms in order to become born globals, compared to, for example, European companies (difficulties in relation to geographical distances, language barriers, economic and political instability, lack of investors and limited access to funding.).

Table 1: Summary of Born Global literature

AUTHORS	CHARACTERISTICS	DATE OF FOUNDATION	PACE OF INTERNATIONALIZATION	INTERNATIONAL SALES	SCOPE OF MARKETS
Rennie (1993)	Average sales $16 million Average age of 14 years Global mindset of management Leading-edge tech products	n.a.	2 years	76%	Multiple
Oviatt and McDougall (1994)	Young enterprises (age of 6 years old) Independent firms Proactive international strategy	n.a.	8 years	n.a.	Multiple
Knight and Cavusgil (1996)	Global mindset of management	90's	2 years	At least 25%	Multiple
Servais, Madsen and Rasmussen (2000)	Collaboration with foreign partners instead of subsidiaries	After 1976	3 years	Over 25% (sales or sourcing)	n.a.
Moen (2002)	Weak domestic market Niche market strategies	Since 1990	2 years	Over 25%	n.a.
Chetty and Campbell-Hunt (2004)	Aggressive learning and networking strategies	n.a.	2 years	80%	Worldwide
Luostarinen and Gabrielsson (2006)	Products with global market potential. Independent firms Global vision	After 1985	n.a.	Over 50%	From another continent
Dib (2008)	Networks are not required for rapid internationalization, neither do previous international experience of founders	Since 1990	5 years	n.a.	At least one foreign market

Source: Adapted from Gabrielsson and Kirpalani, (2012); Dib (2008)

There are some other features that characterize the rapid internationalized companies; they are summarized in Table 2. As we mentioned before, born globals can be either micro, small or medium sized companies, with an average of 50 employees. Usually born global firms fall into high initial investment, therefore, they have a shared ownership. (Eurofund, 2012). It's important to clarify that the appearance of born global companies is not limited to one specific sector. Several studies (Moen, 2002; Rennie, 1993; Madsen & Servais, 1997) have been done demonstrating that they can appear in all industries. Rennie (1993) validates that you can find BG in the food, beverage, and tobacco industries and even in scientific equipment, leather industry, wood, pharma, etc. However, all of these studied firms applied cutting-edge technologies in order to develop unique products or a new way of doing business. Nevertheless, born global phenomenon is mostly common in high-tech industries. Most of these firms invest their relatively scarce resources on commercialization rather than production (Burgel & Murray, 2000).

Oviatt and McDougall (1994) claim that one of the characteristics for a born global to be successful is the prior international experience of the managers which fosters the creation of international networks and the learning of foreign languages. However, Dib (2008) identified on his research that these weren't features present in Brazilian managers of BG. The characteristic that did appear was the global vision they had since inception.

Table 2: Characterizing features of born global firms

Characteristic	**Born Global**
Type of assets	Intangible (company's reputation, technical knowledge, deep understanding of the market and the product).
Innovation	High
Specialization	High (niche market strategies)
Customer orientation	Strong
Competitive advantage	Product differentiation
IT's usage	Active (specially internet)
Alliances and networking participation	High

Source: Adapted from Dib (2008)

Hennart (2014) also considers that international experience of the founders and network relationships are not a requirement for firms to become rapid internationalized. In fact, he proposed a model with 4 distinctive characteristics that must be present in a firm in order to be able to become a born global:

> I show that the speed with which firms can develop their international sales, and hence the probability that they will be INVs/BGs, depends on the business model they are implementing, that is, on the way they have linked the type of product or service they sell with a particular subgroup of customers using a specific communication and delivery method (p. 13).

Hennart's model (2014) focused mainly on the nature of the product/service, the channels of distribution and the size of the home market. :

a. BG sell products and services to niche markets all over the world.

The product is unique, due to its advanced technology, design, craftsmanship, specific provenance, or quality; therefore it has none or few substitutes. These characteristics make it easier for firms to reach their customers and avoid large expenditures on marketing campaigns and market research. However, these customers need to be internationally dispersed and highly experienced.

b. The products they sell don't need international marketing mix adaptations.

Niche customers have somehow homogeneous tastes; therefore the products need no adaptation to different markets. This high scalability of the products speeds-up the process of internationalization and reduces costs.

c. They use low-cost means of communication and delivery.

Internet is a huge ally for born global companies. They use this tool to locate their customers around the globe and to study them. Besides that, it provides low-cost channels for sales (e-commerce) and distribution (for digital products like software or media). The business model of the firm must take full advantage of this tool in order to become a born global.

d. Their home market is small for their product or service.

If the company doesn't find enough customers in its small market, it is more likely that it will internationalize sooner.

2.1.3. Factors explaining the emergence of born global firms

Multiple studies have led to a number of common factors found to be directly related to the development of born global firms (Rialp et al., 2005; Zahra & George, 2002; Oviatt & McDougall, 1994; Hennart, 2014; Knight & Cavusgil, 1996; Madsen & Servais, 1997; Moen, 2002; Servais, Madsen & Rasmussen, 2000). They can be divided in internal and external or environmental factors.

Knight and Cavusgil (1996) suggested that some of these external factors include the greater demand for specialized products due to globalization and the increasing role of niche markets. Globalization also means more intensive competition, which somehow forces firms to reach the international arena in order to survive (Brouthers et al., 1996). Another factor is shorter product life cycles, since it pushes companies to adopt an international perspective regardless their age and size (Ohmae, 1990; Oviatt & McDougall, 1994). Other causes for the raise of these organizations are the important advances in communication, transportation, and technology which make distances shorter, cut costs significantly, and put the means of internationalization much more accessible to all firms (Knight & Cavusgil, 1996; Madsen & Servais, 1997; Moen, 2002; Servais, Madsen & Rasmussen, 2000). The size of the domestic market also has an impact on the creation of born globals. Researches show that there’s a higher prevalence of born global firms where domestic markets are small or insufficient (Bell et al., 2004; Crick & Jones, 2000; Servais, Madsen & Rasmussen., 2000; Moen, 2002; Hennart, 2014). Last but not least, the emergence of global value chains has given the opportunity to small firms to develop and become essential actors in the business world (Eurofund, 2012).

Nonetheless, these external factors only explain partially the emergence of born global firms. A key aspect of the widespread emergence and their success lies in their internal environment. For instance, SME’s have some inherent advantages like flexibility and adaptability (Knight & Cavusgil, 1996). During the stage of product development, small firms have the ability to have a closer relationship with their customers which facilitates the product adaptation and customization. Another internal trigger is the global mindset of the entrepreneurs which before the 90s used to look into foreign markets only when opportunities were already evident. Their managerial competences and international experience foster their risk-seeking to explore markets abroad. (Eurofund, 2012)

Madsen and Servais (1997) classified the different internal and external factors in three main categories: new market conditions, technological development and improvement of people's capabilities. They are summarized in the following table:

Table 3: Factors for Born Globals' emergence

New market conditions	Increase of niche markets and specialization
	Small domestic markets due to specific products and services
	Easier technology transfer and knowledge transfer
	Inherent advantages of SME's like adaptability, flexibility and fast response
	Development of international partnerships including outsourcing and global networks
	Homogenization of consumers' preferences
	Internationalization of financial institutions and financial sources
Technological advances	New production technologies that made small scale production profitable
	Increase in the means of transportation and cost reduction of freights and fares
	Advances in telecommunications increased the availability of global markets to everyone
Improvement of people's capabilities	More people getting international experience
	Understanding of different cultures as well as better communication skills

Source: Adapted from Madsen and Servais (1997)

Based on the literature review, a SWOT analysis of born globals was done. This summary, presented in Table 4, will ease the identification of the factors that influence the entry mode decision and the market selection of born globals.

Table 4: SWOT analysis for BG

Strengths	Weaknesses
- Flexible and adaptable to customer needs - Global vision from inception - Educated customers - Differentiated and unique products - High scalability of products - Access to many networks - Intangible knowledge-based capabilities - Innovative culture - International experience of top management	- Lack of experience in international markets - Scarcity of financial and human resources (tangible capital) - Liability of newness and foreignness - High product development costs - Shared ownership
Opportunities	**Threats**
- Increase of niche markets - Global value chains may provide internationalisation support - Reduction of trade barriers and more dynamic and interconnected markets - Transportation and communication costs reduction - Distribution and sales through low-cost channels (Internet)	- Barriers to enter new markets - Lack of governmental policies supporting the internationalization procedure - Limited access to financial resources, no support from financial institutions.

Source: Author

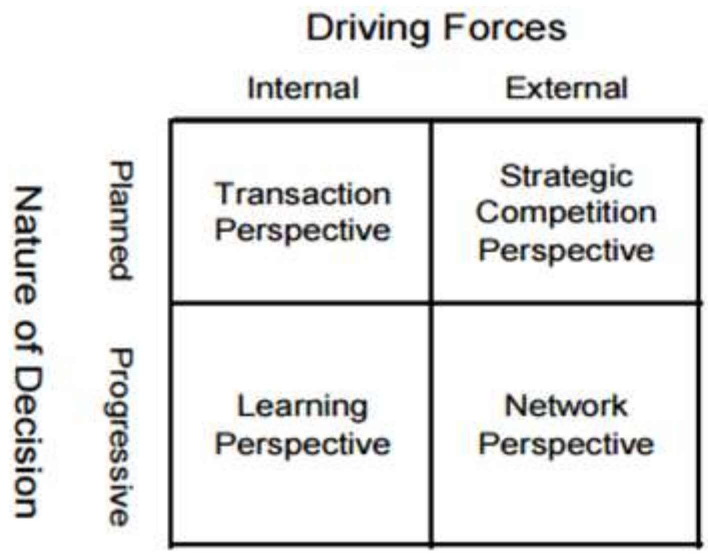
2.2.Internationalization theories

The term *internationalization* has different definitions. For instance, it can be defined as "the process of adapting firms operations (strategy, structure, resource, etc.) to international environments" (Calof & Beamish, 1995, p.116). A more complete definition is the increasing structural complexity of the organization as more resources are needed for cross-border operations (Shenkar & Luo, 2004). The internationalization of the firm is a procedure that involves the adaptation, change, and development of the firm's fundamental functions, systems, and structures. And it is a consequence of interaction with the multinational and transnational environment (Strandskov, 1995). A company usually decides to go abroad when the home market is already saturated and the opportunities to grow are diminishing and/or there are better possibilities to succeed abroad (Tayeb, 1992).

Several theories explaining internationalization of firms have emerged along the years. There's plenty of literature trying to explain why and how a company chooses to go abroad. In fact, there's a "theoretical jungle" as denominated by Rask et al. (2008). Strandskov (1995) presents a theoretical framework that helps to understand and clarify these different perspectives presented in the literature. He grouped the most relevant internationalization theories into 4 groups he denominated perspectives. These perspectives are: Institutional-economic, strategic competition, learning and network.

The classification of these four views is founded on two dimensions: drivers and the nature of the decision. Drivers refer to the forces, factors or influencers that initiated the internationalization process in the firm. They could be internal (aspects from within the firm; strength and weaknesses) as well as external (environmental conditions; opportunities and threats). On the other hand, the nature of decision points out if the internationalization process is a result of a planned action or if it just suddenly happened. When it is planned, decisions like market selection or operational form are the output of a very meticulous analysis of all relevant decisions and choices. When the nature of decision emerges gradually, then the consequences are an increase of learning and experience inside the company. In Figure 1 the positioning of the four theoretical perspectives according to the two dimensions is shown.

Figure 1: Four theoretical approaches to company internationalization



Source: Strandskov (1995)

The transaction perspective, located in the upper left corner with internal drivers and planned decisions, states that the company's internal factors will determine if it needs to internationalize or not. However, if it decides to do so, top management needs to evaluate all the possible outcomes of this decision and to draw a detailed plan of the steps and actions to be taken during the process. For instance, if the internal trigger is costs reduction, the firm needs to be sure that production abroad will reduce their expenses (Rask et al., 2008). The transaction perspective focuses on the single microeconomic transaction and the criterion for success is efficiency. In this perspective the internationalization process is the result of rational decisions made by management, who know which activities they should internalize and which externalize. The most representative theories enclosed in this perspective are: Transaction cost analysis model (Hollensen, 2007), transaction cost and internationalization approach (Buckley, 1988; Buckley & Casson, 1998; Johanson & Mattsson, 1988).

The learning perspective is influenced by internal drivers and progressive decisions. This is because the company will take future decisions on internationalization based on experiences it acquires gradually in foreign markets. The Uppsala model (Johanson & Vahlne, 1977; Johanson & Vahlne, 1990; Johanson & Wiedersheim-Paul, 1975) and the stages model (Bilkey & Tesar, 1977; Cavusgil, 1980; Luostarinen, 1970) symbolize this perspective. This view assumes that the internationalization process is started and continued by an internal factor of the firm (Rask et al., 2008).

The strategic competition perspective has external drivers and planned decisions: the company chooses to plan its internationalization strategy according to their competitive situation. The process of internationalization is triggered by environmental factors or industry-related conditions like foreign market opportunities. Therefore, the focus for analysis in this view is the industry in which the company operates and its position in relation to competitors. Consequently, the internationalization process is unpredictable and too situational. However, the decision is taken calmly, after a strategic plan is developed (based for example on competitor's analysis) (Rask et al., 2008).

Last but not least, the network perspective is classified under external drivers and emerging decisions. According to this view, the company makes its choices on the basis of power through political negotiations and trade-offs. The interaction with other players is a key factor for the firm's internationalization process (Rask et al., 2008).

It is recommended to use several theoretical perspectives for a more complete analysis since each will give different insights (Rask et al., 2008). However, in this thesis, only the learning perspective and the network perspective will be adopted because they seem the most appropriate to explain entry mode decisions and market selection within firms. Besides, they are somehow confrontational which may provide a richer outcome from the analysis. Both perspectives will be analyzed with more detail in the following sections.

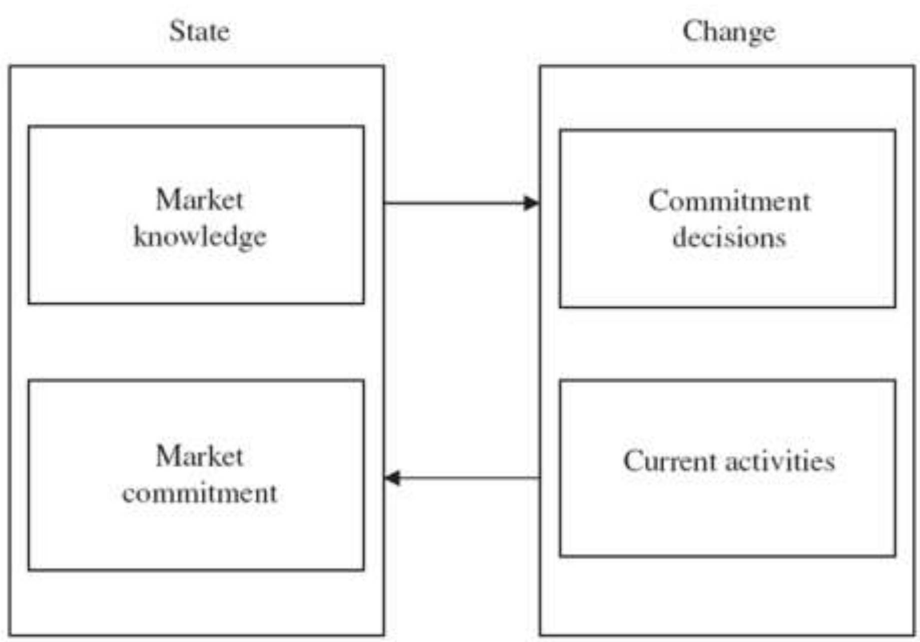
2.2.1. Learning perspective

According to the learning perspective, internationalization is a gradual process that takes place in stages. Each stage involves a higher compromise of resources. This incremental approach to internationalization is due to the lack of experiential knowledge and risk aversion. This section is focused on the most representative theory of this perspective which is the Uppsala theory. The theoretical framework for this theory was first developed by Johansson and Wiedersheim-Paul (1975) in their study of four Swedish firms, in which they observed that when firms internationalize, they move along in a series of incremental steps which they labeled as “establishment chain” or “step by step”.

In 1977, Johanson and Vahlne refined the model. They pinpoint 2 factors to be considered when deciding to internationalize: physic distance and the size of the potential market. They define “psychic distance” as “the sum of factors preventing the flow of information from and to the market. Examples are differences in language, education, business practices, culture and industrial development” (p. 24).

In their model, the researchers determine that market knowledge and market commitment are the main influencers of commitment decisions and performance of current activities (See Figure 2). They interact with each other in what seems to be a cycle. Once a firm enters the first foreign market, it acquires market knowledge that will serve as a catalyzer to increase market commitment and enter a third market (with a greater psychic distance).

Figure 2: The basic mechanism of internationalization



Source: Johanson and Vahlne (1977)

Market commitment encloses two factors: the amount of resources committed and the degree of commitment of those resources. The degree of commitment is higher when it is more difficult to transfer those resources to another market. On the other hand, market knowledge is unique for each market, varies along the time and helps the managerial team to make decisions. It encompasses competition, distribution channels, supply and demand, payment conditions, etc. Market knowledge and market commitment have a direct relation. Through experience a firm acquires market knowledge which reduces uncertainty and increases commitment decisions. In other words "commitments will be made in small steps unless the firm has very large resources and/or market conditions are stable and homogeneous, or the firm has much experience from other markets with similar conditions" (Johanson & Vahlne 1977, p. 30).

Therefore, the Uppsala Model assumes that the more a firm learns about a market, the more it starts committing resources into this market. A firm does this by following a series of learning stages or how they call it, an establishment chain. As figure 3 illustrates, the steps are the following: no regular export, independent representative (agent), sales subsidiary and overseas production (Johanson & Wiedersheim-Paul, 1975). Before a firm steps into the international arena, it must explore completely its domestic market. Usually the first step to go abroad is by exporting through agents. The second phase is when the company establishes subsidiaries. The final stage of the internationalization process is reached when the firm starts production in the foreign market. Producing subsidiaries usually produce for local or regional markets.

Figure 3: Uppsala model process: establishment chain

Source: Adapted from Johanson and Wiedersheim-Paul (1975)

The choice of markets also occurs in stages; firms will enter first to markets with closer psychic distance, and then they expand into markets that have increasingly greater psychic distance. Firm internationalization was thus characterized by incremental and risk-averse behavior which was unwilling to adjust to changes in firm or its environment (Johanson & Vahlne 1977, 1990).

The Uppsala model is criticized for not considering the new factors influencing the internationalization process of knowledge-intensive and high-tech SME's. Moreover, it limits its analysis of the process by focusing only in the firm rather than the people, for instance, the managers (Crick & Spence, 2005).

2.2.2. Network perspective

The learning perspective has been challenged by network theorists in recent years, whose main argument is that modern high-technology firms do not follow a stage process; rather they use their network partners' resources and experience to achieve a rapid internationalization (Mitgwe, 2006). Therefore, the main difference between the learning and the network perspective is that the latter is not incremental. Moreover, the network view doesn't mention anything about psychic distance (Johanson & Vahlne, 2003).

A network is defined as "the relationships between a firm's management team and employees with customers, suppliers, competitors, government, distributors, bankers, families, friends, or any other party that enables it to internationalize its business activities" (Zain & Ng, 2006, p.184).

The network provides resource exchange among its actors which will influence the strategic decisions and the firm's strategy. Network ties can exist between firms and individuals or only between firms; they can be economic oriented or not and can be of long or short term duration. Relationships are based on mutual trust, knowledge and commitment towards each other, and they include social, economic, legal and technological exchange (Coviello & Munro, 1997).

The most representative theory in the network perspective is the one developed by Johanson and Mattsson (1988). They stated that companies are dependent on resources that other firms control, and through a position within a network they can get access to these resources. The major function of a network is to provide contacts that can be used when they are required by the firm. Firm's position in the local network determines its process of internationalization since that position determines their ability to mobilize their resources within the network. All firms are interested in keeping these relations as long as they are mutually beneficial (Johanson & Mattsson, 1988; Johanson & Vahlne, 2003) and all companies are considered to be part of one or more networks through ties to their suppliers, subcontractors, customers and other market actors (Johanson & Mattsson, 1988).

A company should use its position on the established domestic network as a bridge to networks in other countries. According to Johanson and Mattsson model, the internationalization process begins once a firm starts maintaining relations with another firm that belongs to a network abroad (international extension). Once overseas, the company increases commitment in already established foreign networks which accelerates its international expansion (penetration). The next step is integrating their positions in networks in various countries (international integration).

Figure 4: Internationalization process according to the network theory

Source: Adapted from Johanson and Mattsson (1988)

Networking can be either active or passive. The active one occurs when the initiative is taken by the seller, while the inactive one arises when the first approach is given by a supplier, customer or importer that can open opportunities in foreign markets (Johanson & Vahlne, 2003). Ojala (2009) points out 3 types of network relationships: formal, informal and intermediary. The formal relationship refers to the relationship with other business actors whereas informal ones are related to social contacts with friends and family members. In the intermediary relationship, there is a third party that connects the buyer and the seller.

The network model doesn’t say anything about market selection in terms of geographical and psychic distance or how it impacts entry mode choice (Johanson & Mattsson, 1988; Johanson & Vahlne, 2003). However, several researches related to internationalization of knowledge-intensive SMEs have demonstrated that networks have an important influence on market selection and entry mode (Bell, 1995; Zain & Ng, 2006; Coviello & Munro, 1997; Coviello, 2006; Sharma & Blomstermo, 2003). Consequently, the network perspective seems to be useful for SME's (including born globals) since it helps firms to overcome the problems of limited resources, newness and foreignness (Lu & Beamish, 2001).

For instance, Bell (1995) in his study of small computer software firms found that interfirm relationships (with clients, suppliers, etc.) are crucial when choosing a market and mode of entry for small firms. Companies are influenced by domestic and foreign client followership, the targeting of niche markets and industry aspects rather than psychic distance.

Likewise, Zain and Ng (2006) concluded from their research that firms based their decision of entry mode on the market conditions but also on their network relationships. None of the three software firms studied were consistent with the stage theory and their entry mode was not a result of a planned decision. "Foreign market penetration is found to be facilitated by the opportunities created through network contacts, rather than solely by the strategic decisions" (Zain and Ng, 2006, p. 201). Networks helped the firms to access established distribution channels, acquire local market knowledge, gain new customers, obtain initial trust and decrease costs and risks. According to Zain and Ng (2006), a good network gives a firm security, thus encouraging it to engage in higher commitment entry modes. The networks mentioned in their findings included relatives, ex-employers, friends and contacts.

Moreover, Sharma and Blomstermo (2003) determined that it's easier for a firm that has business with international partners to go abroad than for a firm whose main suppliers, clients and partners are local. Sometimes, however, a firm that performs business in the domestic market might have relations with internationally active partners. This firm will have at some point to follow its international customers and start an internationalization process despite a significant cultural distance (Sharma & Blomstermo, 2003). Network ties of firms are firm specific and difficult to imitate and have consequences along the information they receive, and the timing of this information. Firms placed centrally in a network receive more, better, and early knowledge compared to their competitors. Network may also produce unexpected random information for firms (Sharma & Blomstermo, 2003). According to this research, ties can be strong or weak. A tie is weak when "the amount of time, emotional intensity, intimacy, and reciprocity is low" (Sharma &

Blomstermo, 2003, p.744). On the other hand, strong ties imply a high degree of interaction and commitment between firms and are costly to maintain. Therefore, ideally a firm should have many weak ties rather than strong ties.

Another important study about networks in small software firms was the one of Coviello and Munro (1997). They concluded that firms chose their initial market and entry mode according to information and facilities provided by their formal and informal relationships rather than on strategic decisions. It is often a major partner that guides foreign market selection and provides the mechanisms of entry mode. They present two different scenarios that can result from network relationships: one where network relationship triggers product development and market diversification activities and other where it constrains them (see Appendix 1).

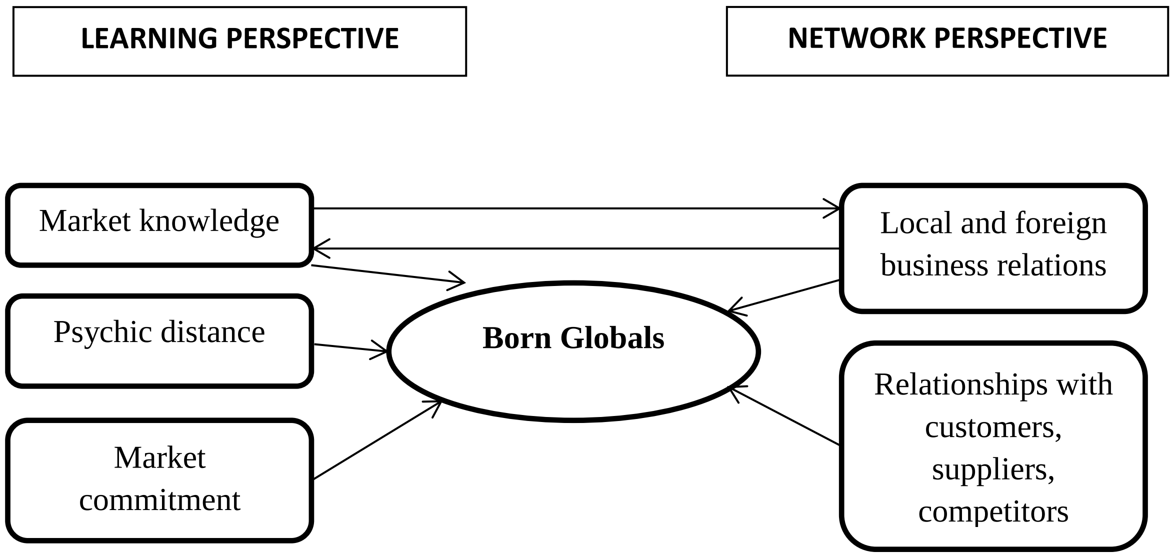
Finally, according to Freeman and Cavusgil (2007), entry modes vary depending on the types of relationships firms face in every market. For example, if a firm is connected to importers/wholesalers in a foreign market it will later on have access to foreign distributors that are linked to various agents. Existing distributor relationships can also provide access to potential alliances and joint venture partners. In this sense, firms need few financial resources to establish more elaborate modes of entry (like venture partners) quickly.

2.2.3. Conceptual Framework

Based upon the above literature review a conceptual framework was developed to help answering the research question. Few studies in the born global literature have focused on integrating both learning and network perspectives (Coviello & Munro, 1997; Masum & Fernandez, 2008).

However, both views seem to be interrelated with each other in terms of market knowledge. Figure 5 illustrates the conceptual framework.

Figure 5: Conceptual Framework



On one hand, the learning perspective presents an internally driven approach to internationalization, based on market knowledge acquired though firm's experience that increases over time. On the other hand, the network perspective offers an externally driven approach, where the internationalization process relies on a network of formal and informal relationships. Both perspectives encompass market knowledge as a key factor for internationalization: firms can gain more knowledge about different markets through their current activities but they can also have access to different types of information through their networks. Therefore, integration of these perspectives brings the internally and externally-driven views together, allowing a richer understanding of internationalization process.

2.3.Internationalization strategy

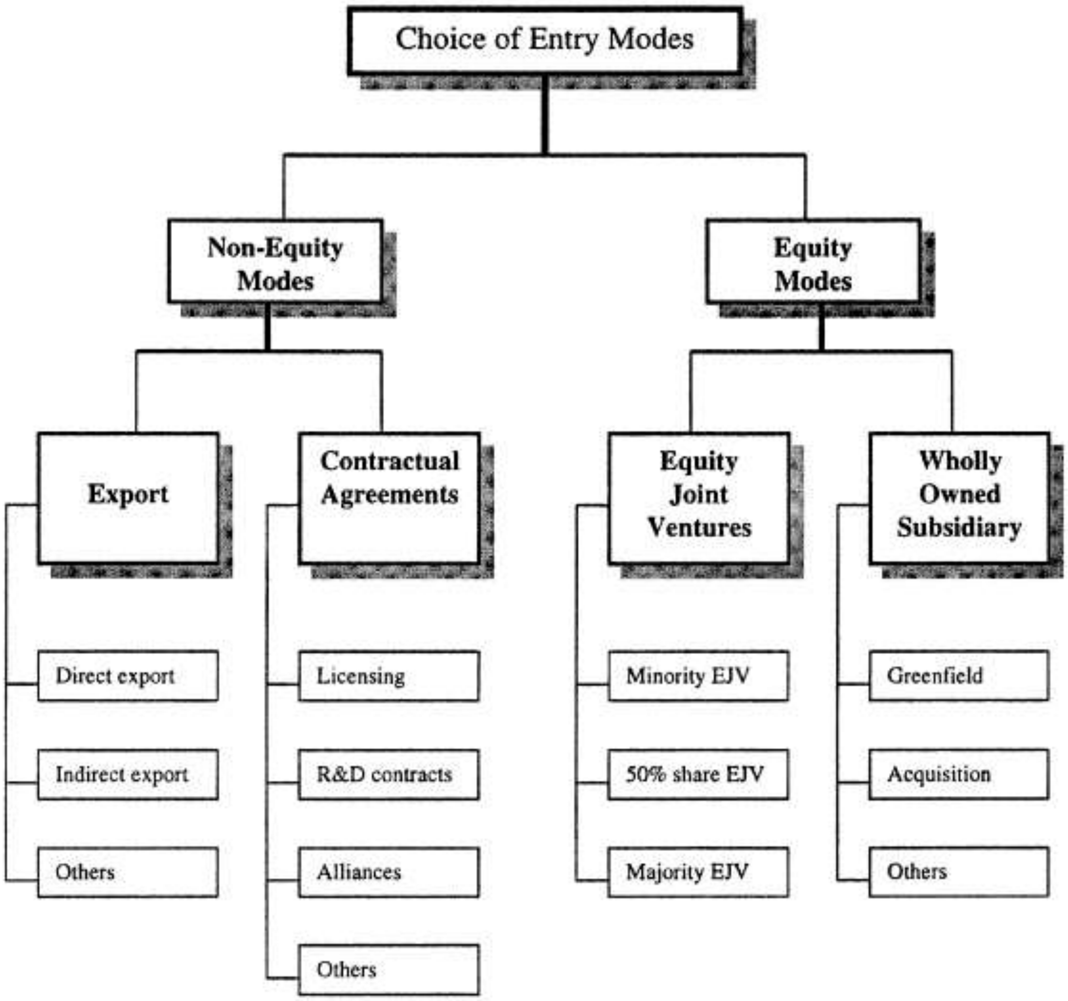
When we analyze a company's internationalization strategy, the two most important and crucial aspects are the international market selection and the choice of entry mode (Bradley, 1995). The first foreign market a company decides to target determines the success or failure of the internationalization process. It can be either a catalyzer or a deterrent for international expansion, and till some extent, the first market ties the firm to a certain geographical area (Douglas & Craig, 1992). The choice of entry mode is also essential since it determines the commitment in a target market and establishes the control a firm has over its products overseas. These two aspects are key to formulate a good competitive strategy in the international arena and to achieve the desired objectives (Taylor & Jack, 2011). This is why we focus this study on these two decisions.

2.3.1. Entry mode

Root (1987) defined entry mode as an institutional arrangement for organizing and conducting international business transactions that allows the entry of a company's products, technology, human capital or other resources into a foreign company. Entry modes play a very important role in the process of internationalization. The right choice of market entry will affect the firm's international operations and performance and thus determine its survival (Zhou et al., 2007).

In order to have a better understanding of the different types of entry modes a firm can choose, the hierarchical model proposed by Pan and Tse (2000) will be used and explained. Figure 6 illustrates the hierarchy of these entry modes.

Figure 6: A hierarchical model of choice of entry modes



Source: Pan and Tse (2000), p.538

Entry modes can be divided in two depending if there's equity investment involved: equity-based and non-equity based. Non-equity based modes enclose exporting (direct and indirect) and contractual agreements (licensing, alliances). On the other hand, equity based includes joint ventures and wholly owned subsidiaries.

i. Exporting: it is considered the first step to enter international markets as it is the least risky and easiest entry mode. Exporting can be defined as the marketing and direct sale of goods produced in one country into another. Between the advantages of this entry mode we have the reduced risk of operating abroad and the opportunity to learn before investing in bricks and mortar. Moreover, the chance to achieve economies of scale from its global sales volume and acquisition of knowledge of the host country. The disadvantage is mainly the lack of control in the marketing of the products abroad, the costs of transportation and sometimes tariff barriers (Hill, 2007). Export can be direct or indirect. Direct exporting occurs when the seller of the good contacts and negotiates with a buyer in a foreign country and undertakes de risks of delivery. Sometimes the negotiation can be done with a third party (agent, distributor). Indirect methods of exporting are the selling of goods in one country to a buyer who then undertakes to transport them to another country (Johnston & Beaton, 1998). Indirect export includes the use of trading companies, export management companies, piggybacking and countertrade (Johnston & Beaton, 1998).

ii. Contractual agreements: Contractual entry modes are long-term, non-equity associations between an international company and an entity in a foreign target country that involve the transfer of technology or human skills from the former to the latter (Root, 1994). Contractual entry modes include franchising, licensing, strategic alliances and other entry modes (turnkey contracts, and different management contracts). The two relevant to the software sector are:

   a. Licensing: method of foreign operation whereby a firm in one country agrees to permit a company in another country to use the manufacturing, processing, trademark, know-how or some other skill provided by the licensor (Johnston & Beaton, 1998). Licensing is a good entry mode when there are capital limitations since there's less cost of manufacture, investment or operation and it gives a very fast return. It provides a low-risk and is considered the fastest and easiest way of entering a market (Terpstra & Sarathy, 1997). The main disadvantages of licensing are the limited form of participation (just to the length of the agreement, process or trademark), return is lower than through export, and the licensor has no control over marketing operations and cannot exploit the market to its full potential. (Johnston & Beaton, 1998).

   b. Alliances: it's a contractual agreement between two or more companies where they decide to cooperate for a common purpose. These agreements often have a limited scope and function. The main advantage of partnering with a firm is the local market knowledge it can contribute to the foreign company. Strategic alliances are usually undertaken to allow each company to pursue a new market, product or strategy that they can't manage on their own. A good ally must have brand reputation, or a good network that can provide access to potential customers. The disadvantages of alliances include the lack of control and the possibility of partner's goals being different from the ones of the firm (Pan & Tse, 2000).

iii. Joint Venture: is a company result of the investment of two or more other firms. Investors share ownership and control over property rights and operations. Joint ventures main advantage is that the risk is shared, parent companies are protected and firms can combine the local-in-depth knowledge of one with the know-how in technology of the other. Problems that can be encountered are lack of full control of management, disagreement on third party markets to serve and different views on expected benefits (Pan & Tse, 2000).

iv. Wholly Owned Subsidiary:

   a. Greenfield: the process of establishing a new, wholly owned subsidiary from the ground up. It's often complex, potentially costly and risky, but it affords the firm maximum control and can provide above-average returns. In order to acquire the local expertise, the firm may have to hire host-country nationals (sometimes from competitive firms) or costly consultants. An advantage besides the maintenance of control of all operations is that it gains local market knowledge. Besides the disadvantage of high costs, Greenfield investment is a slow process (Pan & Tse, 2000).

   b. Acquisitions: occurs when a firm gains control of another one by purchasing its stock, exchanging stock, or, in the case of a private firm, paying the owners a purchase price. Acquisitions allow a very quick entry into the market and imply less risk since the operations are already established (good customer based, recognized brand, organized staff). However, they can be very expensive and integration problems between the acquired firm and the home office may appear (for example differences in corporate culture) (Pan & Tse, 2000).

As we have seen, equity modes require a major resource commitment in the overseas location. A huge investment is required to set up an independent operation abroad. Besides the financial investment, equity modes also require human capital and adaptation to local management. In a nutshell, there's a big difference between equity-based and non-equity-based modes in regards to resource commitment, risk, return, control and other characteristics (Pan & Tse, 2000).

Other researches classify entry modes based on the level of commitment into low-commitment and high-commitment (Sharma & Blomstermo, 2003; Zahra et al., 2000).
The choice of entry modes depends on both endogenous factors (mainly business potential) as well as exogenous factors (describing the business position in the target market or the industry in which the firm operates). In this sense, firms should base their selection on the level of commitment they are willing to make and on their assessment of the external risks associated with their international operations. Low commitment modes are considered low control entry modes as well, and even though they are less demanding, they can reduce market presence and present less opportunities for market learning (Zahra et al., 2000).

2.3.1.1. Entry mode and born globals

Literature regarding born globals and their entry mode to foreign markets its quite limited, despite the importance of entry mode choice in these firms due to the lack of resources and constraints for a rapid internationalization (Shrader et al., 2000; Andersson & Wictor, 2003; McDougall et al., 2003; Sharma & Blomstermo, 2003).

In order to analyze the dilemma born globals face when choosing an entry mode, two aspects that drive their decision and which are deeply rooted in their characteristics need to be highlighted: unique know-how and lack of resources. Firms that have a unique know-how tend to choose high-commitment entry modes. By keeping their knowledge away from partners and intermediaries, they reduce the risk of exposure and maintain a high control over their core capabilities (Buckley & Casson, 1998; Hill et al., 1990). On the other hand, the lack of resources (mainly financial ones) forces born globals to decide on low-commitment entry modes (Knight & Cavusgil, 2004; Rennie, 1993).

Examining the literature, there appears to be a general agreement stating that born globals usually choose a low commitment entry mode in order to overcome resource constraints and lower risk (Burgel & Murray, 2000; Coviello & Munro, 1997; Crick & Jones, 2000; Gabrielsson & Kirpalani, 2012; Jolly et al., 1992; Madsen et al., 2000; McDougall et al., 1994; Shrader et al., 2000; Freeman et al., 2006).

According to several studies (Madesen et al., 2000; Jolly et al., 1992; Crick & Jones, 2000), non-equity modes (exporting, licensing and strategic alliances) seem to be the preferred modes of entry for rapid internationalizing firms. It's very reasonable, since they offer a high degree of flexibility, require low resource commitment and provide partners with the required market knowledge and local competences. Born globals have many resource constraints that may hinder some entry modes (Solberg, 2012). However, by leveraging foreign distributors' competences, small firms can reduce uncertainty and risk of entry and exit (Knight & Cavusgil, 2004). Moreover, the use of intermediaries is probably the fastest way to enter a foreign market, which is critical for these rapid internationalizing firms (Chetty & Campbell, 2004). Major investments abroad might follow gradually, but other less resource-intensive options such as joint ventures and sales subsidiaries are favored over wholly owned subsidiaries (Foreign Direct Investment) (Madsen et al., 2000). Piggyback marketing is also a common strategy among these firms (Leonidou & Samiee, 2012).

Other studies confirm that entry mode decision is taken based on human and organizational characters. For instance, Gleason and Wiggenhorn (2007) found that born global firms which employ international joint ventures or international acquisitions do so because of the characteristics of the management team, firm-specific characteristics and cultural similarity of markets.

2.3.2. International market selection

International market selection (IMS) is defined as the selection of the country where or with whom the firm will do a foreign transaction. IMS is considered as a very important strategic decision and a key aspect during internationalization process. In existing research following the stages model for internationalization three main approaches have been identified: the systematic, the non-systematic (both considered as traditional approaches), and the relationship approach uncertainty (Andersen & Buvik, 2002).

The systematic approach uses a very organized and formal decision process to find the optimal market through the usage of various statistical methods that help analyze market potential and competitive advantages (Papadopoulos & Denis, 1988). Different criteria are used in this approach, like country-specific and market-specific indicators. Since it is very rational, most of the times it suggests how decisions should be made rather than how decisions are actually made by the firm uncertainty (Andersen & Buvik, 2002).

On the other hand, the unsystematic approach encourages firms to follow “rules of thumbs” like psychic distance. Different studies have shown that most of the times SME’s, due to the lack of resources, don’t follow the rational approach, they rather base their international market choice on an opportunistic basis (Musso & Francioni, 2012; Francioni et al., 2013). An opportunistic approach is understood as means that a certain stimuli bring a foreign market opportunity to the attention of the firm. This approach normally involves little or no information search before entering the foreign markets (Dimitratos et al., 2010). In this case experiential learning is the key that enables the company to have higher commitment and later enter a market with higher psychic distance (Papadopoulos & Denis, 1988; Johanson & Vahlne, 1990).

Traditional approaches consider that clients are out there in a country, and they will become a next point to deal with after the market is chosen. However, many times companies receive unexpected or unsolicited orders from abroad and they chose their entry market as a result of this (Andersen & Buvik, 2002). This decision can be explained based on the relational approach. It suggests that a firm should select an entry market guided by its relationships, as to avoid uncertainty (Andersen & Buvik, 2002). Figure 7 shows a summary of all three IMS approaches.

Figure 7: International Market Selection approaches

Approach	Systematic	Non-systematic	Relationship
Decision problem	Selection of country	Selection of country	Selection of exchange partner
Level of analysis	The selling firm	The selling firm	The dyad
Purpose	Normative	Descriptive	Mainly descriptive
Decision-making model	Rational	Disjointed incrematalism	Bounded rationality
Marketing paradigm	Discrete transaction	Discrete transaction	Relationship marketing
Time horizon	Not specified	Not specified	Long term
Connections to other decisions problems	IMS treated as an isolated decision	IMS as a function of the firm's internationalization	Not specified
Information search	Extensive	Little/none	Limited
Type of information	Country-/market-indicators	Perceived psychic distance (subjective)	Perception of goal comparability, trust, and performance
Sources of information	Secondary data	Experiential knowledge	Business relationships-network

Source: Andersen and Buvik (2002), p. 351

2.3.2.1.Market selection and born globals

Several researches have concluded that born global companies pay little or no attention to psychic distance when choosing the market they want to target (Jolly et. al, 1992; Madsen and Servais, 1997; Freeman et al. 2006; Freeman and Cavusgil, 2007) since managers are more network-driven and opportunistic. Market potential considerations (size and ability of being a lead market) and previous experience of the entrepreneur/management team in a specific country are other factors that influence market selection of rapid internationalizing firms (Lehmann & Schlange, 2004; Bell et al., 2004; Crick & Jones, 2000; Knight & Cavusgil, 1996). Moreover, since the product of born global firms is designed for a global market, they often start activities simultaneously in several markets and not always on the closest ones (Madsen, Rasmussen and Servais, 2000). Bell (1995) states "psychic distance has become much less relevant as global communication and transportation infrastructures improve and as markets become increasingly homogeneous" (p.62).

On the contrary, some other studies suggest that born globals initially select psychically close markets in order to reduce risk and favor same language, but are then able to leverage technical expertise, networks and entrepreneurial skill to move very quickly to psychically distant markets with more opportunities (Freeman & Trudgen, 2014; Fan & Phan, 2007). A possible explanation for the capacity of born global firms to leave aside psychically close markets is that they often possess innovative corporate cultures and belong to knowledge-intensive industries therefore they target specific niche markets rather than geographic regions (Autio et al., 2000; Madsen et al., 2000; Bell et al., 2005; Knight & Cavusgil, 2004).

Networks play an important role in born global market selection since they facilitate a first approach to potential foreign customers, important suppliers and valuable foreign partners. A market with one or all of these actors is considered as a lead market. (Freeman et al., 2006; Coviello & Munro, 1997; Sharma & Blomstermo, 2003). This suggests that for born global firms, the cultural distance and/or the geographic proximity of the market are less important because the firm needs to commercialize its main product in key markets first. The reason is that such markets are the fundamental to broad and rapid market access which is important because the fixed costs in these firms are relatively high. Since this is the main factor influencing the choice of the initial market, the importance of psychic distance as market selection criteria is reduced (Jolly et. al, 1992).

3. Research Methodology

This dissertation is a qualitative research defined as a “development of concepts which help us to understand social phenomena in natural settings, giving due emphasis to the meanings, experiences, and views of the participants” (Pope & Mays, 1995, p.42). A qualitative study would suit better the conditions of this investigation since the research question doesn´t imply quantitative data. Since the topic of study is new and there is little information related to it, an initial, exploratory study following an inductive approach was chosen.

The strategy of inquiry used all along the research will be case study. It seems like case studies have been favored by researchers in order to understand born global internationalization (Evers, 2010). This methodology is useful in the research contexts where previous theory seems inadequate or incomplete and an empirical testing of the theory is required (Eisenhardt, 1989; Yin, 2009). Eisenhardt (1989) suggests that in order to have enough room for comparison, a multiple-case study of 4 to 10 cases is the ideal. This analysis of similarities and differences between the cases allows the researcher to give possible reasons of certain patterns, trends or connections (Yin, 2009). In order to limit variation, cases were chosen from a single country and industry. The software sector was chosen because there are several studies with focus on it (Bell, 1995; Coviello, 2006; Coviello & Munro, 1997; Moen et al., 2004; Zain & Ng, 2006) which will complement the existing results and reduce the potential for confusing outcomes (Zahra et al., 2000).

Therefore, the empirical multiple-case study was conducted using three born global companies which belong to the software industry and were founded in Ecuador.

The case firms were selected from a database provided by AESOFT (Ecuadorian Software Association) which comprised most of the software firms in Ecuador. From that list, only the ones that met the born global criteria were chosen, stated as the following:

1. Founded in Ecuador after 1990
2. Have business operations abroad
3. Maximum of 100 employees worldwide
4. Early internationalization (maximum 5 years after foundation)
5. More than 25% of total sales coming from abroad.

By using these sources altogether nine suitable firms were identified. These firms were contacted with an e-mail request to attend the research. Four of the nine firms answered and were willing to share their knowledge and experience regarding their internationalization process. Even though we interviewed the four companies, this research presents only 3 firms for the case-study. This is because after interviewing the fourth company, we realized it didn’t fit completely in the born global profile (it was part of a bigger corporate group); therefore, we couldn’t include it in this investigation.

In order to develop this research, two different sources of information were used: primary and secondary (Yin, 2009). Primary includes in-depth interviews performed to top management/founders. Secondary information encloses data obtained from websites of the studied companies, articles from newspapers and magazines, companies’ brochures and other in-company documentation, as well as reports of the software sector, which provided more accurate and unbiased information.

The interviews were semi-structured and open-ended and were conducted with the help of an interview protocol (see Appendix 2) in order to avoid missing information and to cover the same topics with all the interviewees (Yin, 2009). The interview protocol was developed with the help of the literature review done previously. Each section of the protocol corresponded to one part of the literature review. We identified the factors that were present in previous studies in order to validate them (or not) with the Ecuadorian reality. The interviews were performed to either the founders or the general managers of the firms (1 interviewee per company), which are/were involved on decision-making processes in the early stages of internationalization (mainly regarding market and entry choice). The interviews were carried out in Quito, in the office of each firm on October 2015, and were carried out in Spanish. They lasted around 60 minutes and all of them were digitally recorded. After carefully listening to all of them, they were transcribed. A second listening was conducted to ensure correspondence between the recorded and transcribed data. In addition, some telephone and e-mail conversations were used to collect further information and clarifications from the interviewees. The collected data was also compared with other sources, such as websites and annual reports of the case firms. All the interviewed companies are mentioned with their actual name and location thanks to their approval. The focus of the interviews was mainly market selection and entry mode decisions, however, some questions regarding the internationalization triggers and some background information about each firm were also asked.

The analysis of the cases was performed by linking the existing literature with the new findings in a pattern-matching approach, using a cross-comparison method in order to explore theoretical replication (Yin, 1998).

4. Data Presentation and Analysis

In this section the main findings of this research are presented. It starts by introducing the software industry in Ecuador in order to set up the background for the analysis. Then, the three studied companies are briefly presented. The most important part of the study, the results, are divided according to the three main focus of this investigation:

internationalization process, entry mode choice and international market selection. Finally, a deep analysis of each category is done linking the literature with the results.

4.1. The Software Industry in Ecuador

There are several sources of information about the software industry in Ecuador and numbers vary according to the different sources. Therefore, this research will rely on information issued by the Ecuadorian Association of Software (AESOFT) since it has the most up-to-date data and it's a reliable source. According to this Association, the software sector is perceived as a growing industry in Ecuador. Sales in 2013 reached USD 300 million, from which around USD 30 million came from exports. The industry generates nearly 8000 jobs (AESOFT, 2014).

According to the Superintendence of Companies in 2011 there were 633 software companies, from which 35% were Ecuadorian. The distribution of these firms is as following: 49% in Quito, 37% in Guayaquil, 6% in Cuenca and the remaining 8% distributed in smaller cities. Most of the firms in this industry are small or medium companies. In fact, SME's represent 97% of all the companies in the sector. Among the larger companies there is high number of foreign firms (AESOFT, 2011).

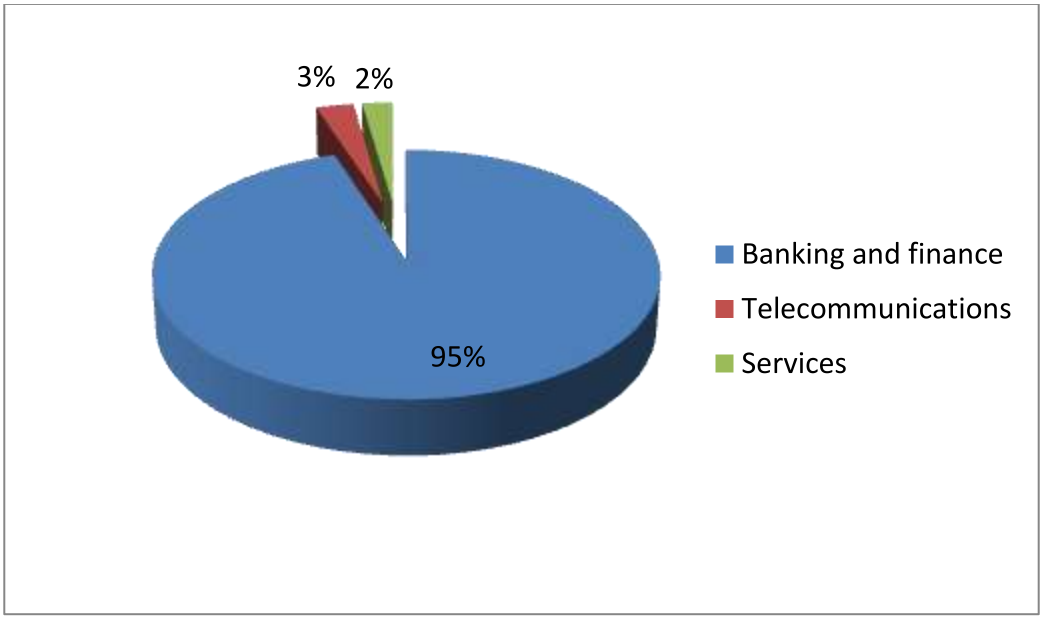
From the total number of software companies, only 30% export their products and services. From this percentage, around 90% is addressed to Latin American countries. The second biggest customer is the USA (AESOFT, 2011). According to Vela (2012), Latin America is one of the main regions of interest to Ecuadorian software developers mainly for two reasons:

- Most of the software programs are developed in Spanish. Moreover, the conditions of the countries in the region are very similar, which enables a software to be easily adapted to their needs/reality.
- The proximity of these countries is also an advantage, since most of the times software developers have to travel to the places to perform product demonstrations to potential clients.

Nevertheless, the Latin American market can be tough to penetrate for companies from outside the region. Local solutions tend to be cheaper than the outside solutions, plus the language and cultural aspect is a very big barrier (Vela, 2012).

As figure 8 shows, Ecuador's exportable offer in the software industry is highly addressed to banking and finance.

Figure 8: Ecuador's exportable offer



Source: AESOFT (2014)

Products include different tools for human resource, commercial and accounting management, management of trusts, control and withdrawal transactions at ATMs using smart cards.

Most of the Ecuadorian software count with the ISO certifications which guarantee their quality compliance and increase competitiveness in the international arena (AESOFT, 2014).

In 2009 software represented 0,5% of the Ecuadorian's GDP. It is a low number, especially when compared to other Latin American countries (1,6% in Costa Rica and Panama and 1,5% in Uruguay). This low number may be attributed to the internal situation the sector has to face regarding lack of governmental support and barriers to access loans. There isn't a clear line of policies that supports this industry. Moreover, in order to issue a credit, banks demand requirements that cannot be met by these firms (tangible collaterals) (Vela, 2012).

According to Vela (2012) the main characteristics of the Ecuadorian software market can be summarized as the following:

- International recognition of the Ecuadorian software
- Increasing exports
- High recognition in the Latin-American banking industry
- Very well-prepared human capital at relatively low cost

The compound annual growth rate (CAGR) of nearly 30% during the last 10 years shows a balanced growth of the industry. Software companies are confident that there's still huge potential to be explored and that in the coming years the sector will become stronger and with a higher international presence (AESOFT, 2014).

4.2. Presentation of the companies studied

In this section the main characteristics of the three software companies studied in this research are described. The firms are presented with their real names thanks to the authorization of their founders/managers. All of the organizations were founded in Ecuador and they provide a wide portfolio of products. Some details are given regarding the niche markets they attend, as well as important numbers like sales, number of employees and international presence. All this data is highly important for the subsequent analysis.

4.2.1. Spyral Software & Consulting

Spyral Software & Consulting is an Ecuadorian Company founded in 1993. It has implemented more than 480 solutions and has a portfolio of more than 220 clients all over Latin America (Sánchez, 2014). The company is located in Quito. Spyral Software & Consulting has 4 main products addressed to specific niche markets (Sánchez, 2014):

- Spyral Teams: human resource management, including payroll, timing, trainings.
- Spyral ERP: software for accounting solutions, invoicing, finances.
- Spyral Portuario: port administration software

- Spyral Banking: back office
- Spyral Movies: management of movie theaters

Spyral Software & Consulting was created with the mission to cover the local market and had very short term goals. However, they were surprised by the huge demand their products had from abroad, and in less than 5 years they saw themselves selling internationally (PC WORLD, 2010). Antonio Sánchez told about the beginning of their international journey: “We started exporting in 1997. We had the opportunity to create an alliance with MACOSA[1] that opened our doors abroad. Our first client was Banco del Sol in Bolivia. MACOSA had sold them a product which required our complementary service, so they put us in touch with the client” (personal communication, October 8, 2015). After that, they have been expanding to different markets in Latin America: Panama (1999), Peru and Venezuela (2000), Dominican Republic (2002), Uruguay (2005). Spyral Software and Consulting doesn’t have direct presence in any of the mentioned markets. In the beginning, the company used a door-to-door sales strategy, until their customer base grew a little and companies started demanding their products and services. Nowadays they operate through distributors in each country and also have direct export to specific clients (Sánchez, 2014).

The firm counts with important quality certifications like EFMQ +200 and ISO 9001:2000. Besides that, they are constantly looking for new partners. In 2015, the annual sales were about one million dollars, and exports contributed with the 30% of that figure (Sanchez, A., personal communication, October 20, 2015).

The future plans for the firm are addressed towards market consolidation rather than market expansion: “We want to strengthen our position in the markets we have presence nowadays. It has become more difficult to enter new markets because local competition is tougher” (Sanchez, A., personal communication, October 8, 2015). They also want to form alliances with foreign companies, not with the purpose to go abroad, but rather to bring those companies to Ecuador and acquire their experience and knowledge (Sanchez, A., personal communication, October 8, 2015).

[1] Maquinas de Comercio S.A. (MACOSA) is an Ecuadorian company founded in 1953 that started selling cash registers in the country. In 1974 it developed the first software for the local baking industry and thanks to its success, it reached international markets.

4.2.2. Gestor Inc.

Gestor Inc. is a technology company that provides solutions for the international financing sector, specifically addressed to the financial sector. "It was founded in 1997 in Quito, and from the very beginning the mission was to reach international markets. It was a result of former employees of multinational companies and the desire to impose fresh ideas in the software industry" (Falcony, A., personal communication, October 14, 2015). Their products, which target a specific niche market, are the following:

- Gestor Trusts: management and operation of different trusts.
- Gestor Funds: asset and liability management of investment, mutual and pension funds.
- Gestor Investments: portfolio management, capital market and money market, back office management.
- Gestor Securities: management of investment accounts, brokerage, custody of securities (Gestor, 2014).

Their business strategy is based on a core product that is slightly customized according to each customer's requirements and to adapt to the business regulations in each country. However, they don't offer tailor-made software solutions. They provide business to business solutions, which includes customer support and maintenance.

Gestor Inc. counts with important clients in 13 countries of Latin America: Ecuador, Venezuela (2000), Guatemala (2001), Peru (2002), Argentina (2003), Mexico (2004), Colombia (2004), Panama (2007), Costa Rica (2010), Uruguay (2011), Honduras (2012), Dominican Republic (2013), Nicaragua (2013). Their customer base (more than 50 clients) includes well known banks like BBVA, Banco Santander, HSBC, Scotiabank, etc (Gestor, 2014). Falcony commented: "The only place where we have a representative office is in Mexico, due to the size of the market. In the other countries, we export directly to the customers (mainly banks and trusts)" (personal communication, October 14, 2015).

The firm owns certifications that guarantee the quality of their products: ISO 9001:2000, ISO 9001-2008, as well as several best practices (SLA, PMI and ITIL) (Gestor, 2014). In 2014, the sales reached 2,5 million dollars, from which 75% came from sales abroad.

In the upcoming years, Gestor Inc. will continue to conquer new markets. “We are planning to enter in Paraguay by the end of this year. Also in the future we have Brazil as a target market. However, due to the size of this country, we will create a joint venture with a local company (Falcony, A., personal communication, October 14, 2015).

4.2.3. BusinessMind

BusinessMind is a company specialized in offering consulting services, outsourcing, IT training and solutions for business project integration. It was founded in Quito in mid-2004 by former executives of Oracle Ecuador after it decided to close its local subsidiary. Since the beginning, the goal of the company was the internationalization. They have around 200 clients in the region (124 in Ecuador, 68 in Colombia and more than 20 in Chile), especially in the sectors of government, telecommunications, finances, retail and utilities (Angulo, 2012).

Their products include information security, business continuity, analytics and big data, business process management (BPM) and service oriented architecture (SOA). They have important business partners like Redhat, IBM and Oracle, which products they distribute in the different markets BusinessMind is present. These certifications (over 60 in total) gave the company the credibility to start the international expansion. In fact, nearly 80% of BusinessMind's revenues are related to Oracle solutions (Molina, 2007). Their strategy is to offer tailor-made solutions for each client. The CEO of the firm, Ricardo Freire, considers that their main competitive advantage is the adaptability and flexibility they have as a company. Their main asset besides the know-how of their team members is their customer base. For him, success stories are very important to increase the firm’s reputation (personal communication, October 13, 2015). Moreover, they provide after-sales services like advice and follow up.

BusinessMind has 5 wholly owned subsidiaries located in Ecuador (Quito and Guayaquil opened in 2004), Colombia (Bogota and Medellin opened in 2007) and Chile (Santiago opened in 2009). Furthermore, this year they started a strategic alliance in Peru. The firm employs about 100 professionals from which 70% are specialized technical consultants. The firm counts with ISO 9001:2008 certification (Angulo, 2012).

BusinessMind's total revenues in 2014 were thirteen million dollars and international operations accounted for 60% of total sales (Freire, R., personal communication, October 13, 2015).

Future plans for the next years include the establishment of a sales subsidiary in Peru and create a joint venture to enter Mexico. Freire stated: “Last year we started a consolidation plan of all our subsidiaries. We want to have one main headquarter located in Quito that provides all the back-office support to the different countries” (personal communication, October 13, 2015).

4.3. Results and Analysis

The multi-case study was performed with a focus on three main categories: internationalization process, market selection and entry mode. A summary of the researched companies’ key characteristics is presented in the table 5:

Table 5: Characteristics of the interviewed software companies

Company	Number of employees	Foundation year	Internationalization year	Annual sales 2014 (million)	Number of Markets	% of foreign sales/total	Entry mode*
Spyral Software & Consulting	45	1993	1997	1	Domestic + 6	30%	1
Gestor Inc	85	1997	2000	2,5	Domestic + 12	75%	2
BusinessMind	100	2004	2006	13	Domestic + 3	60%	2

Note. Entry mode refers to the number of entry strategies adopted along the internationalization process.
Source: Author

As shown in table 5, all of the companies have a born global profile. They are small and medium firms that entered their first international market 2-4 years after their foundation (Rennie, 1993; Knight & Cavusgil, 1996; Rasmussen, Madsen & Evangelista, 2001; Zahra et al., 2000). All of them have over 25% of their sales coming from abroad

(Rasmussen, Madsen & Evangelista, 2001; Moen, 2002; Moen & Servais, 2002; Martinez, 2003; Knight & Cavusgil, 2004) and they have international presence in more than 3 countries employing one or two different entry mode strategies (Coviello & Munro, 1997). In order to make the analysis of the results easier we will from now on, denominate the firms as follows:

Spyral Software & Consulting: Firm A

Gestor Inc.: Firm B

BusinessMind: Firm C

4.3.1. Internationalization process

Before starting the internationalization process, all the companies seem to have developed very quickly a strong customer base; however, they didn't consolidate the entire domestic market. Firm A stayed four years developing the local market before going abroad. Firm B had 10 very important clients in the local market. Firm C established first two sales offices in Ecuador before reaching other markets. According to Coviello and Munro (1995) firms are able to internationalize very quickly by linking themselves to extensive, established networks. The software industry is based on referrals so having well-known companies as clients gives the company a huge advantage to create a solid image locally in order to be able to go abroad and be recognized (Sanchez, A., personal communication, October 8, 2015) . This local customer base also became their main asset which guaranteed their international success: "Our local network was key to our success, since it allows you to mobilize resources abroad" (Sanchez, A., personal communication, October 8, 2015). Moreover, high quality human capital and unique know-how were other factors considered very important for internationalization. Alfonso Falcony affirmed: "The excellent quality of our human capital is a very important asset we have" (personal communication, October 14, 2015). For Ricardo Freire, the know-how is very important as well: "Our main asset is the know-how of our team members. The choice of the right team to start the international operations certainly defined our success" (personal communication, October 13, 2015).

Two of the three companies (A and B) target very specific niche markets. They consider this characteristic as a competitive advantage, since specialization allowed them to be the best in what they do. Moreover, high scalability of their products allowed them to reach many countries in a short period of time, corroborating the findings of Hennart (2014). Ecuadorian software market is perceived as potential but small, which is a factor boosting rapid internationalization, as mentioned by Knight and Cavusgil (2004) and Hennart (2014). Innovation is a key aspect for the sector due to its dynamism, and the three companies are constantly innovating to keep up with international competition. Alfonso Falcony, founder of Gestor Inc., clearly stated that “lack of innovation will lead to a firm’s disappearance” (personal communication, October 14, 2015).

Companies B and C had a global vision from inception. This means, internationalization was part of the company’s strategy from the very first day of their creation, and the actions and decisions taken were always pointing to international markets. Consequently, these firms had a planned internationalization (Crick & Jones, 2000). There is no experimental stage at the beginning; the three companies conquered their first international market very soon after inception. They somehow follow the Uppsala model (Johanson & Vahlne, 1990; Johanson & Wiedersheim-Paul, 1975) at the initial phase, but they don´t complete the last step of the establishment chain (Johanson & Wiedersheim-Paul, 1975) which is overseas production. In fact, Firm C breaks the gradually internationalizing approach of the chain (Johanson & Wiedersheim-Paul, 1975). This company from the beginning established sales subsidiaries, investing high amounts of resources and totally jumping the establishment chain. When there´s no global vision (as in the case of Firm A), the companies are driven abroad either by local partners or some other actors of their network (Bell et al., 2004; Zain & Ng, 2006; Tjosevik & Refsland, 2012). This is in accordance with the findings of the relationship perspective (Johanson & Mattsson, 1988) that a good positioning in the local network can be key to start international activities. The evidence therefore corroborates what was proposed on the Conceptual Framework presented in the previous pages, where the learning perspective is complemented by the network perspective. Only together, the internationalization process of this type of firms can be fully explained.

It can be seen that Firm A followed an opportunistic rather than systematic strategic decision-making, because it was reactive and followed the customers and pull factors from network relationships (Tjosevik & Refsland, 2012). In their desire for looking for international clients they form alliances and partnerships with big local companies as well as companies that have businesses abroad. They also participate in international fairs that could open them doors to the outside world (Falcony, A., personal communication, October 14, 2015).

Regarding the founder’s background, two of them (Firms B and C) worked previously in multinational IT companies and had managerial positions. Only one did a Master abroad, the others had only local education. Therefore, previous international experience doesn’t seem to be much relevant as a trigger for rapid internationalization as what Dib (2008) concluded for Brazilian companies.

The three firms complained during the interviews about the difficulties for accessing credits and qualified financial constraints as the main barrier when going abroad. At the beginning, the founders were the ones financing the firms with their own money, since it was and still is very hard to get a credit from financial institutions due to the lack of tangible assets the companies possess. For instance, Alfonso Falcony mentioned: “At the beginning, it was my credit card and the stakeholder’s which suffered” (personal communication, October 14, 2015). A specific characteristic of this industry is that it has different regulations depending on the country, in what respects to intellectual property rights, consumer protection, and data protection. Therefore, legal framework of a market can sometimes become a barrier for internationalizing. Alfonso Falcony commented: “We had to face some legal barriers in some markets like Costa Rica, where banks belong to the government and the process to sell to them is much more bureaucratic” (personal communication, October 14, 2015).

There are evidences from data collected that the triggers for internationalization may vary from firm to firm but as a summary some examples can be mentioned: global vision from inception, risk spreading, influence of the local network, increase of profits and future competitive advantage.

It´s important to highlight that the software sector might have certain specificities that make it easier for a company to become global. It is a very dynamic and fast paced industry, where you both innovate and keep up with the competition or you suddenly die. This might certainly influence the internationalization strategies chosen by firms performing in this industry. Therefore, it´s necessary to decide if the companies analyzed are following a ¨born global¨ approach, or if they just respond to the needs of their competitive and fast paced environment. In order to get a deeper understanding, let´s evaluate the entry mode choice and market selection.

4.3.2. Entry Mode Choice

Table 6: Entry modes of studied companies

Company	**Entry Mode**
Firm A	Direct export
Firm B	Direct export and sales subsidiary
Firm C	Sales subsidiary and strategic alliance

Source: Author

As table 6 shows, Firms A and B opted for a low commitment entry mode: direct exports, sometimes with distributors and others directly to the end consumer. Due to resources limitations, mainly financial ones in the case of analyzed Ecuadorian firms, and risk aversion, these companies decide to choose non-equity entry modes at the initial stage. This is supported by previous research (Knight & Cavusgil, 2004; Rennie, 1993; Brouthers et al., 1996) which suggested that software firms perceiving higher international risk and with lack of resources favored non-equity entry modes.

Firm A stayed with export for all the markets and has no plan to increase commitment. This decision made by firm A is not in accordance with the Uppsala model (Johanson & Vahlne, 1990; Johanson & Wiedersheim-Paul, 1975), where the choice of entry mode is seen as a learning process and increasing commitment to the market. On the other hand, firm B also stayed with direct exports but decided to open sales subsidiaries only in large markets (i.e. Mexico). In Falcony's words: "We started with a distributor in Mexico. But we saw that he didn't put emphasis on selling our product. So one year later, we decided to open our own sales office. It took us half a year to set up everything" (personal communication, October 14, 2015). This corroborates the findings of Brouthers and Nakos (2005) which stated that firms that were entering to markets whit high potential preferred equity entry modes. The initial phase has a low resource commitment, but once they acquire experience and knowledge from their previous markets as well as network, they increase the commitment (Madsen et. al, 2000; Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 1977).

Firm C presents a very different scenario regarding entry mode choice. This company jumped all of the steps of the establishment chain and went directly to setting up a sales subsidiary. The factors that influenced the company to opt for an equity entry mode were to increase revenues, and the idea of creating a "Multilatina" company from the beginning. This entry mode requires a higher planning and also implies higher risks. The previous experience of the founders was key when choosing this entry mode. They knew the business, they had good market knowledge and they were able to attract investors to overcome the financial limitation. Therefore, evidence shows that this choice was taken based on human and organizational characters. This is aligned with Gleason and Wiggenhorn (2007) who found that born global firms which employ equity entry modes do so because of the characteristics of the management team or firm-specific characteristics. Moreover, it's evident that software born globals still choose less-resource intensive options such as joint ventures and sales subsidiaries over wholly owned subsidiaries (FDI) (Madsen et al., 2000).

Contrary to the findings of previous literature (Buckley & Casson, 1998; Hill et al., 1990), where researches affirmed that firms with a unique know-how tend to choose high-commitment entry modes, analyzed Ecuadorian firms seem to give little attention to exposure of know-how. This can be explained because there is already a lack of intellectual property rights inside the local market (AESOFT, 2011); therefore, they care little about fakes or foreign companies copying their knowledge. For instance, Antonio Sanchez remarked: "Our product requires customer support and for that you cannot gain know-how. Besides, even if someone copies the know-how, they won't steel your customer base and you will still have an advantage over them" (personal communication, October 8, 2015). Moreover, according to Falcony, the level of specialization is so high that they are confident is very hard to replicate their knowledge: "Our product is very complex so it's very hard to copy. We develop the product from scratch and then we give after sale support; a competitor would take ages to learn all that" (personal communication, October 14, 2015). According to the interviewees the most important factor influencing entry mode choice is financial limitations, since this prevents them from investing more and taking higher risks.

Firm A is a clear example of diversification strategy (Tjosevik & Refsland, 2012; Bradley, 1995), which consists on entering fast to many foreign markets and reaching a wide geographical scope, but keeping low levels of resource commitment. Firm A has presence in 13 countries because they limit their sales through exports, and they only chose equity entry modes when the markets are too big. Contrarily, firm C opted for a concentration strategy (Tjosevik & Refsland, 2012) which consists of selecting the most promising markets and penetrating them with high resource commitment. Firm C has presence only in 4 countries but they have sales subsidiaries in all of them. Nevertheless, they were the fastest ones in internationalize. This can be explained by the great connections and experience the founders had.

Table 7: Correlation between entry mode, revenue foreign sales

Company	Entry Modes	Total sales 2014 (USD)	Niche market	Speed of internationalization (average of years)	% of foreign sales/total sales
Firm A	Direct export	1 million	YES "We know our clients and we have a good network of distributors that do the selling job for us"	2,4	30%
Firm B	Direct export and sales subsidiary	2,5 million	YES "We sell directly to our clients because we target a very specific niche market. We collaborate with important banks and trust funds in Latin America"	1,3	75%
Firm C	Sales subsidiaries	13 million	NO "Our products in each market are different since they adapt to the needs of the customer. It's easier to give customer support with our local offices there than travelling each time"	3,7	60%

Source: Author

On the other hand, table 7 suggests that the firms with only direct export have lower revenue than the company that has their own subsidiaries. This ratifies that company C has a bigger control of its sales, and can boost promotion, contrary to exports where firms don´t have any control over marketing strategies and they have to compete with other products distributed by the same agent (Zahra et al., 2000). Moreover, the data shows that the percentage of sales from abroad is higher when there is a combination of two entry modes.

Another aspect that could be detected from the results is that specific niche markets stay with low commitment entry modes while less specialized firms chose to invest more. Firms targeting niche markets are able to handle customers in the market without investments in a subsidiary. On the other hand, the lack of specialization requires physical presence in the markets in order to tailor customer needs and deal with localization (Burgel & Murray, 2000; Crick & Jones, 2000).

Finally, it can be mentioned that the results are in accordance to Coviello and Munro (1997), who showed that companies change their entry mode strategy and that they use a number of different entry modes simultaneously. Moreover, low commitment entry modes provide a fast pace of internationalization (Moen, 2002), as demonstrated by cases of Firm A and Firm B , which enter a new market on average every 2,4 and 1,3 years respectively. Table 8 is a clear summary of the main factors influencing entry mode choice for the analyzed companies.

Table 8: Factors influencing entry mode choice

Factors	**Interviewees' quotes**
Financial constraints	"Our country doesn't provide access to credit if you are a company that sells intangibles". Firm A
Network relations	"We chose markets accordingly with sporadic clients that we met at a fair called COLAFI. All the main banks of Latin America attend this event, therefore it was our best shot to get new clients". Firm B
Previous business experience of founders determines level of risk seek	"The three founders had previous experience working in an IT multinational company. We like to take risks, and when we created the firm we wanted it to become a Multilatina". Firm C
Niche markets	"Our products are addressed to financial institutions and human

	resource departments. Our clients are pretty much homogenized, so we don't need a physical presence in each market to customize their needs". Firm A
Expected revenues	"We wanted to replicate the success stories we had in the local market and to increase our profits". Firm C
Internationalization speed	"We needed to keep the pace of global competition. We knew we had to be fast in reaching the markets". Firm B

Source: Author

4.3.3. International Market Selection

Uppsala model (Johanson & Vahlne, 1990; Johanson & Wiedersheim-Paul, 1975) states that a firm starts its internationalization by expanding to countries nearby or with a lower psychic distance. The present research seems to corroborate this theory since psychic distance appears to play a very important role in market selection for Ecuadorian software firms. These findings are also aligned with previous studies from Bell (1995), Coviello and Munro (1997) and Moen et al. (2004).

However, psychic distance (Johanson & Vahlne 1977) in the presented case-studies has more to do with culture and language characteristics rather than geographical proximity. As we have seen, the analyzed firms focus their expansion to the Latin American region. According to the interviews one of the biggest barriers for Ecuadorian software companies to go beyond this region is the lack of bilingual IT professionals. For a software company that must have low costs and have excellent IT professionals in order to be competitive, becomes very difficult to hire English speaking developers. The few professionals that are both, outstanding IT engineers and with English proficiency, receive very good offers and are usually hired by big multinational companies (Vela, 2012). Another possible explanation for choosing Latin American countries is related to the fact that most of the software products require intensive liaison with customers in order to specify requirements, install the software, and give after-sales support (Chetty & Campbell-Hunt, 2004; Coviello & Munro, 1997; Moen et al., 2004). Therefore, it requires constant visits to the clients and it’s certainly cheaper to go somewhere nearby than to fly to another continent.

However, data collected indicate that inside the Latin America region, the markets were chosen in two different ways: based on network relationships (firm A and B) and according to the size and potential of the market (firm C). Firms A and B use an opportunistic and non-systematic approach to pick the market they want to enter. These results are in accordance to previous studies (Jolly et. al, 1992; Madsen & Servais, 1997; Freeman et al. 2006; Freeman & Cavusgil 2007) where managers appear to be more network-driven and opportunistic. They are carried to the different countries by an external force: it´s either their local partners or their international clients that draw the path they will follow. For these firms, geographical distance seems less important since they are highly focused on their niche markets. A particular case is the one of firm B, which niche market is so specialized (fiduciary funds) that they cannot address countries outside the Latin American region because this legal frame doesn´t exist in the rest of the world[2].

In the case of firm C, the situation is different. Because its entry mode implied a very high commitment of resources, the company needed to be sure the market choice was the right one.

speed of internationalization is faster, which is very important for a born global company. Moreover, born globals with non-equity entry modes have a wider international scope.

Another important conclusion that can be drawn form this research is that, for the analyzed companies, niche markets don't require high commitment entry modes while less specialized markets do. Evidences show that when customers are homogenized it's easier to maintain control in the distance, but when there's a need for customization, then a sales subsidiary is the best choice.

Regarding market selection, the findings pointed out that Ecuadorian firms choose their markets by placing a higher emphasis on language and cultural proximity instead of geographical distance. Once again, networks (Zain & Ng, 2006, Coviello & Munro, 1997; Coviello, 2006; Sharma & Blomstermo, 2003) are high influencers for market selection: sometimes firms need to follow their customers even without knowing the market in advance. This is why niche markets affect market selection as well.

Furthermore, this study demonstrates that the level of commitment in the entry mode also establishes the type of international market selection approach applied by the firms. Low commitment usually is driven by non-systemic and relationship approaches while high commitment by a more systemic approach, which is in line with previous findings (Musso & Francioni, 2012; Francioni et al., 2013).

Ecuador, by being a small market, is a good place for the creation of born global firms. Still, the existence of certain limitations may hinder their foundation or success. For instance, born global firms in Ecuador face strong financial constraints and the language barrier is very strong. It can be concluded that rapid internationalizing firms in Ecuador are rather Born Regionals, because they limit their expansion to Latin America. Therefore, the government has to establish policies that adapt the financial system to the needs of these firms, as well as attracting business angels and venture capitals that could provide a financing alternative to this type of born globals. Moreover, it's necessary to create alliances with universities in order to increase the level of bilingualism as well as technological knowledge in order to improve the quality of human capital and increase international competitiveness. We have seen that influencing factors, for market selection and entry modes, for developed countries not always apply to the smaller economies and scenarios of developing countries. An example, managers in developing economies don´t have previous international experience.

This study is limited because its focus is only in the software industry. A future research should be applied to other industries in developing countries to validate the findings of this investigation. Moreover, the study is based on only three studied companies. In order to be tested, a further research in a higher number of companies could be performed. Limitation also includes the theories used in the research. Other theories like resource based view can be employed in order to see the results in a different angle.

One aspect that could be deeply studied is the relation between entry mode choice and market selection with performance, as it seems in this research that both decisions highly impact revenues and international scope. A further investigation could be realized by comparing Ecuadorian software born globals with other Latin American countries that seem to have a more developed scenario for the creation of these firms, like Colombia and Uruguay. Another interesting area for research is the role of the internet in entry mode choice and market selection.

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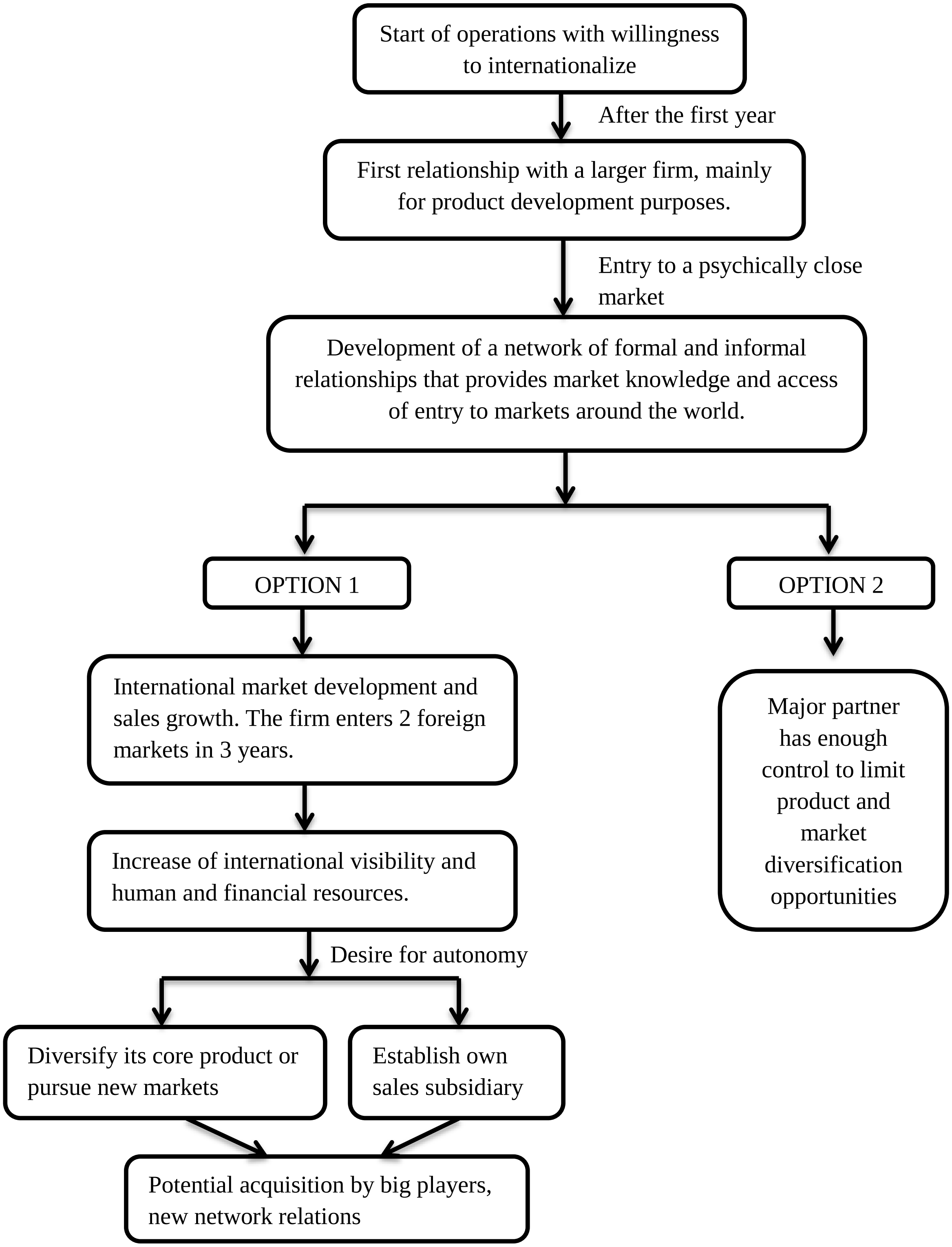
7. Appendixes

Appendix 1: Process of internationalization according to the network perspective



Source: Adapted from Coviello and Munro, 1977.

Appendix 2: Interview Protocol (40-60 min)

General Information about the company and the respondent

Name of the company:
Name of the respondent:
Position of the respondent:
Ownership of the firm:
Year of foundation:

Year of internationalization:
Number of employees:
Total annual sales:
Sales abroad:
Products/services:

1. Can you tell me about your educational background? Did you have any previous international experience before establishing your company?

General internationalization questions

1. What do you think about Ecuador's market potential for software? Is innovation key to the sector?
2. What's the main asset of your company? (know-how, reputation?) What's your competitive advantage?
3. Is your product addressed to a specific niche market? Who are your main global competitors?
4. What were the main reasons to go abroad?
    a. Domestic saturation
    b. Profit maximization
    c. Risk spreading
    d. Future competitive advantage
    e. Network pressure
    f. Others
5. What was the first product you began selling abroad? Was it easier to introduce the next products?
6. Did you have a planned or a progressive internationalization process? If so, could you please describe it?
7. Did your company face any financial, human, technological or any other constraints when going international? Which were the main barriers you had to overcome? Tell me about it.

International Market Selection

8. Name the countries where your company has international activities with and the year of internationalization.
9. How did you choose your first international market? Did you do a strategic plan and detailed study of the market or did you have a customer or partner in that country?
10. From the following market selection criteria, which factors influence your selection process? Please rate 1 to 8 (1 being the most important and 8 the least important) according to importance:
    a. Geographical proximity
    b. Market knowledge
    c. Market opportunity (size of the market)
    d. Growth opportunity (lead market)

e. Similar market (language / business culture)
f. Foreign network/relationships
g. Previous international experience of the management
h. Niche market rather than geographic regions

11. Did you target one market at a time or several at once? Do you prioritize Latin-American countries as possible overseas markets?
12. How did you gather information about the foreign target market before entering it?
13. Where the following markets easier to enter? Did you acquire market knowledge from your previous experience?

Entry Mode Choice

14. Which of the following aspects do you consider when deciding how to enter a market? Please rate 1 to 6 (1 being the most important and 6 the least important) according to importance:
    a. Resources
    b. Market knowledge
    c. Network
    d. Risk exposure of know-how
    e. Timing (fast or slow internationalization process)
    f. Return (high or low profits)
15. When you choose and entry mode, is it more important to your firm to keep control over the product and know-how or to reduce the risk of internationalizing?
16. Did you choose different entry modes for different markets?
17. Which entry mode best describes your internationalization process?
    a. Direct export
    b. Indirect export
    c. Licensing
    d. Strategic alliances
    e. Joint venture
    f. Acquisition
    g. Greenfield
    h. Others, specify
18. What are the advantages and disadvantages of the chosen entry mode?
19. How would you rate the degree of resource commitment during the initial stage of internationalization: very low, low, medium, high, or very high?
20. Did the internet play any role in your internationalization process?

Future visions

21. What are your future plans regarding internationalization? (open a foreign subsidiary, stay with exports only, etc.)
22. To your perspective, why is your company successful abroad? Would you say your entry mode strategy had something to do? Which other factors can be responsible for your success?
23. What advice would give to other Ecuadorian software firms that are considering internationalizing?