The internationalization of young and small service firms:
Views from the southern hemisphere

Abstract

This study provides an understanding of the dynamics and micro-foundations of international entrepreneurship in a sample of young and small southern hemisphere service companies. A case study methodology was employed for this study. 31 *in situ* semi-structured interviews were conducted to document young and small services companies in three different countries: Chile, Colombia and New Zealand. Content analysis was performed.

Findings show that these young service companies manage to operate successfully outside their countries of origin, regardless of the liabilities of foreignness or liabilities of emerginess, because they have a strong capabilities and vision of expansion beyond the national borders. This allows small firms, regardless of their national origin, to design and implement an internationalisation strategy, to go out to these markets responding to perceived opportunities, and serve those target markets with their unique capabilities and their own superior strengths. The study contributes to both theory and practice, providing new insights of the reasons affecting the internationalization of these companies from developed versus emerging economies of the south.

Keywords
Internationalization of services; SMEs; international entrepreneurship; southern hemisphere; South America; Colombia; Chile; New Zealand

1. Introduction

The main objective of this study is to provide an understanding of the dynamics and micro-foundations of international entrepreneurship in young and small southern hemisphere – South American versus New Zealand - service companies, and in this way contributing both to the theoretical advance, and to provide new empirical evidence that allows a deeper comprehension of the reasons affecting the perceived international performance of these companies from developed versus emerging economies.

The initial design of this research was based on previous studies in Latin America on international entrepreneurship (Amorós *et al*, 2015, Felzensztein *et al*, 2015, Felzensztein, 2016, Gonzalez-Perez *et al*, 2016). However, this work goes beyond, and it seeks in particular to identify (i) specific factor endowments in the company; (ii) the institutional environment and networks at the country-of-origin, and (iii) attributes and features of the entrepreneur that help us to enhance our comprehension on what are the micro-foundations (Abell, Felin & Foss, 2008) that determines the successful process of small and young services business internationalization.

The services sector or intangible goods sector is also known as the tertiary sector in the three-sector theory of Fisher (1939), Clark (1940) and Fourastié (1963). The three-sector theory proposes that an economic activity shifts from the primary sector (raw materials), then the secondary (manufacturing), and finally the tertiary (services). Under this theory, low-income countries would most likely be focused in the primary stage, and their national income depends mainly on raw materials. Middle-income countries would generate their revenue predominantly from the secondary sector. Finally, in highly developed countries with high incomes, the tertiary sector would be the predominant one in composition of the GDP.

Nonetheless, the fragmentation of production, technological innovations and digital transformation has led the phenomenon known as "*servicification*", and it implies that the competitiveness of the manufacturing sector increasingly depend on services (Baldwin & Lopez-Gonzalez, 2013; Lodefalk, 2017). Currently, the services sector represents the largest contribution to most national economies; an important contribution of FDI and jobs creation, and it is becoming a driving force of the world economy. According to UNCTAD (2018a) boosting the domestic services sector by increasing its backward and forward linkages with the primary and the secondary sectors, as well the expansion of global value chains and its linkage with trade, could be an effective element of an inclusive development strategy; and services can provide intermediate inputs to all economic activities (UNCTAD, 2018b).

Furthermore, the services economy is decisive for achieving the 2030 Sustainable Development Goals (SDGs) (UNCTAD, 2018b). Infrastructure services such as energy, transport, health, financial services, education, telecommunications & information and communication technology (ICTs) services, have multilayered functions in development, and these services sub-categories are core of the 2030 Agenda for Sustainable Development.

Services trade is now an energetic part of world trade, the largest provider of current jobs in the world, and numerous develop countries, like New Zealand, and emerging economies, like Colombia or Chile, have received ample benefits by exploiting traditional and evolving services to their comparative advantage, including international trade of services (UNCTAD, 2018a). It's estimated that in 2017, services trade accounted by 51.1% of all world jobs (ILOSTAT, 2018). In Latin America and the Caribbean 64,4%, while in Colombia: 64,5%, Chile: 67,6% and New Zealand 73.1% (ILOSTAT, 2018). However, due the in-trade liability of many services activities its precise contribution to the economy and job creation still has limitations (UNCTAD, 2018a).

The services sector includes different sub-categories of international trade, being the major ones: travel/tourism, transportation, construction and other business services (UNCTAD, 2018a). Internationalization of services has been an important field of research as in the past decades as "more and more service firms are going abroad in greater numbers than ever before" (Javalgi & Martin, 2007: 391)

This paper is structured as follows: First a literature review, followed by the research questions. Then, the methodology is explained, together with discussion and conclusions.

2. Literature Review

Even though there is increasing evidence of specific strategic capabilities and resources of emerging markets firms which enhance their internationalization performance, and able these companies to compete on equal terms with firms from advanced economies (Cuervo-Cazurra *et al*, 2018; Cuervo-Cazurra, Newburry, Park, 2016; Chetty et al., 2015;); there are also recent studies (Boehe, 2016; Gonzalez-Perez *et al,* 2018; Hennart, 2014) which have explored how firms from emerging markets can internationalize in the scarcity of significant resources and capabilities.

According to the Heckscher-Ohlin theorem (Jones, 1956), the patterns of trade between countries is predicted by the factor endowments of a country. It explains a nation's product composition of exports, and its comparative advantage. Expressed in a different way, this theory predicts, that capital-abundant country will export the capital-intensive good, while the labor-abundant country will export the labor-intensive good.

Since the 1980s, Kravis, Heston and Summers (1982:8) had determined in their 34-country study that "services are much cheaper in the relative price structure of a typical poor country than in that of a rich country". The explanation given by Kravis et al (1982: 21) was "the wage level established in the traded goods industries will determine wages in the industries producing nontraded goods, mainly services. Because international productivity differences are smaller for such industries, the low wages established in poor countries in the low-productivity traded goods industries will apply also to the not-so-low productivity service and other non-traded goods industries. The consequences will be low prices in low-income countries for services and other nontraded goods". Bhagwati (1984) provides an alternative explanation to respond the question why services are cheaper in poor countries and suggest focusing on comparative endowments rather than on comparative productivity differences among sectors across countries. Melvin (1989) proposed that service trade can produce the same equilibrium as commodity trade, but substantial differences exist depending on whether the tradable commodity is capital or labor intensive.

Nonetheless, the understanding of the mechanisms at the level of individual action and strategic interaction or micro-foundations (Abell *et al*, 2008; Chetty et al., 2015) has been shadowed for explanations at the macro-level to comprehend and interpreting the international growth of small firms. Often, the understanding of firm internationalization has been delegated to international business, management or economics literature. There are relatively less studies (Acedo & Jones, 2007; Gonzalez-Perez *et al*, 2018; Hisrich, Langan-Fox, & Grant, 2007; Zhao, Seibert & Lumpkin, 2009) approaching international entrepreneurship from deepening on the role of personality and specific attributes of the entrepreneur on the (international) growth of the firm from a psychological or effectuation theory perspective (Chetty *et al.,* 2015).

Although, for decades there has been a generalized understanding that internationalization in both services and non-services firms occurs in stages, there is a lack of papers that describe or analyze the internationalization of firms as a process (Bunz *et al,* 2017; Gleich *et al*, 2016; Roberts, 1999; Tan *et al,* 2018; Turunen & Nummela, 2017). Turunen & Nummela (2017) studied the internationalization of Finnish services firms. The authors took into account the companies' networks, their embeddedness and entrepreneurial capabilities, such as the entrepreneur's language skills, global mindset and cultural awareness, and provided a framework to distinguish between passive developers, emerging developers and international entrepreneurs. Turunen & Nummela (2017) is a key research in our study context.

2.2 Institutional Development

In addition to these developments in research, governments have become aware of the inevitability of fostering international entrepreneurship (IE) and promoting exports focused SMEs, not only to enhance their economic development, but also increasing national and sub-national competitiveness (Alcaraz & Zamilpa, 2017; Holtbrügge & Berning, 2018; Stephan *et al,* 2015; Zhang *et al*, 2016; Zhang *et al,* 2017). Thus, different public policies have been developed to contribute to this purpose, enhancing formal and informal institutions to promote IE (Acs, *et al*., 1997). Public initiatives, such as supporting firms' internationalization by specialized public agencies, promoting and facilitating outward-foreign direct investment (FDI), strengthening the financial access for SMEs, fostering international commerce by free trade agreements (FTA), and the liberalization of economies, are common practices in modern emerging economies of Asia and Latin America (Felzensztein *et al*., 2015) and in small developed countries like New Zealand (Casey & Hamilton, 2014).

Several studies have been conducted to understand the role that institutions have had enhancing IE in emerging economies (Acs, *et al*., 2008; Bengoa & Sanchez-Robles, 2003; Luo, Xue, & Han, 2010) and New Zealand (Crick & Lindsay, 2015). These studies provided complementary concepts and methodologies, such as institutional-level proxies (Bengoa & Sanchez-Robles, 2003), and industry-level proxies (Barrell & Pain, 1996), to build a multi-level approach to comprehend the effect of the home environment in IE.

2.3 Local-Industry Attractiveness and Innovation

There is some evidence that in economies with a higher level of development in Latin America, like Colombia and Chile-, the vast majority of entrepreneurs do not have a tendency to sell their products or services to customers in other countries (Amoros *et al*., 2015; Felzensztein *et al*., 2015). Although the same studies show that near 39% are starting to orientate their business to foreign markets. Therefore it is still necessary to increase the international scope of those entrepreneurs, which mainly focus and target other Latin American countries. As a small distant economy, New Zealand entrepreneurs are constrained by the small size of the domestic market and the pressure to internationalise is great (Battisti, Jurado & Perry, 2014). It is well known that within the entrepreneurial orientation literature, international innovativeness is a crucial element for internationalization and has a positive impact on the performance and geographical scope of SMEs in international markets (Boehe, 2016; Dimitratos *et al.,* 2014; Felzensztein *et al.,* 2015; Knight & Kim, 2009). International innovativeness allows SME to develop unique products, which exceed customers' expectations and allow them to achieve global technological competence (Knight and Cavusgil, 2004; Dimitratos *et al.,* 2014).

Innovativeness involves the ability of the firm to promote new and creative ideas, products and processes designed to service the market (Lumpkin & Dess, 1996). Similarly, exporting may promote firm learning, and thus, enhance innovative performance (Golovko & Valentini, 2011). Nevertheless, exporting firms rely on export agents or intermediaries, which might be a barrier to intimate international collaboration. Therefore, they are comparatively less likely to come up with innovative products and processes because of their inability to work closely with foreign customers.

A study developed by Iacavone, Mattoo & Zahler (2013), indicates that the service firms appear to be as innovative as—and in some cases more innovative than—manufacturing firms, in terms of both inputs and outputs of "technological" innovative activity, although services innovations more often take a "non-technological" form (Geldes *et al.,* 2017).

Based on the above literature, we explore the following research questions: how can the success for international participation and growth of services providers in more advanced economies versus emerging economies be explained? Why do some small and young services firms from emerging economies have a comparative advantage in services trade? How do these firms compensate their burden due the combined liabilities of foreignness, youngness and size?

3. Method

3.1 Research Design and data collection

A case study methodology was employed for this study using in-depth personal interviews (Eisenhardt & Graebner, 2007; Welch *et al.,* 2011). This provides unique openings for theory development and richness of contextualized cases (Dawson & Hjorth, 2012). In understanding the cases for small service firms' internationalization in the southern hemisphere -Colombia, Chile and New Zealand- we conducted semi-structured interviews with entrepreneurs for about two hours each. An interview guide was used and the topics covered are listed bellow and are representative of our exploratory research questions. Each of those personal interviews with entrepreneurs was conducted *in situ* at the business premises. Interviews were transcribed and translated from Spanish into English in the cases of Colombia and Chile, and conducted in English in the case of New Zealand. Content analysis was performed. This helps us understand the *how and in what ways* small services entrepreneurs internationalized. This method is known as inductive content analysis and is a widely used research technique (Hsieh & Shannon, 2005).

A total of ten interviews were conducted in Chile (2017), eleven in Colombia (2017) and ten in New Zealand (2018). All the firms belong to different service sectors. The interview outline was divided into three main categories: company characteristics, characteristics of the entrepreneur and dynamics of internationalization.

There were relevant questions about the company: its size in terms of workers and sales, service category, industry of its clients, proportion of foreign ownership, year of establishment and year of internationalisation. In the second category, with regard to the entrepreneur, four relevant elements were evaluated: age, education, experience in international business, and languages spoken. Finally, in terms of the dynamics of internationalisation, the exports volume, speed of internationalisation, number of countries reached, international markets reached, regional or global reach. Lastly, interviewees were asked questions in order to better understand their internationalisation process from the beginning, their innovations and the support they received. These questions focused on eight relevant points: how the idea of internationalisation was born, what the internationalisation process is like, the degree of innovation of these companies, the competitive advantages they claim to have, the networks, the support they had for internationalisation and the barriers or limitations these companies face.

4. Results

For both Colombia and Chile (total companies interviewed 21), it is worth noting that 52% or over half of them are micro-enterprises. In other words, they had less than ten workers, probably because they were in the start-up stage, which is confirmed with 52% stating that their internationalisation process began in the decade of 2010, despite 81% being established in the decade of 2000 (probably closer to between 2008 and 2010 in most cases). Of all the companies, 76% do not have foreign owners. This is significant because despite having operations abroad, it can be said that over half of the companies interviewed do not have an office or subsidiary established in other countries, probably due to the barriers involved with starting up overseas. Of the ten New Zealand firms that were interviewed nine started as micro-enterprises –having less than 10 full-time employees.

In terms of sector, it can be said that over half of the companies interviewed belong to the information and communication services area, probably because internationalisation is easier and less expensive and more contact networks are obtained more quickly in this area. Nine of the New Zealand firms also belonged to this sector. This is also confirmed as 95% of the industry of their clients corresponds to services or retail. In terms of the industry of clients, about half had significant clients in foreign government agencies while the rest were in a range of sectors, usually large organisations.

In the second category of questions, which mainly corresponds to the age of the entrepreneur, forty-eight percent of entrepreneurs are between 30 and 40 years of age, and most of them have post-graduate qualifications. It is also worth noting that the same percentage has a significant level of experience in international business (between two and seven years), which may be relevant to the high level of sales these companies have achieved with such few workers and that they have only been established recently. Regarding languages, 95% are fluent in English, but only 24% know some other language. This is to be expected given that English is considered essential to conduct international business. In the New Zealand case, all of the interviewees were in the 45-55 age range and had tertiary qualifications. Six firms had been established for over ten years and six of the CEOs had exporting experience that was greater than ten years.

Finally, with regard to the dynamics of internationalisation, it can be noted that 48% export between 10% and 50% of their services, which is high for their rapid level of internationalisation, as over 70% have become internationalised in less than three years. In this study, less than half of the companies (48%) have focused on only one country. The rest have concentrated on either more than one but less than four countries (33%) or more than four countries (19%). In New Zealand internationalisation occurred within three years for 50% of those interviewed and the main countries targeted were Australia (70%) and the United States (50%). One aspect that is somewhat consistent with the guidelines of the study, given that the analysis focuses on two Latin American countries, is that 71% do international business in this region, which seems more evident due to the proximity that exists among the countries. Also, 43% of the rest have carried out internationalisation processes in developed and competitive markets such as Europe, the United States or Canada. On the other hand, it can be seen that 62% have global reach, and 57% dedicate their efforts to emerging markets (probably due to their high level of exportation within Latin America, as mentioned above).On the contrary, target markets of the New Zealand firms were primarily developed countries, such as the United States and Australia.

[INSERT TABLE 1 AROUND HERE]

Given the characteristics (table 1) and location of the countries, it can be said that the companies have similar characteristics – except for the New Zealand case which tends to have an earlier internationalization, sales to the government and smaller in terms of size. Even this, there are two important differences between firms in Chile and Colombia: the decade in which they started and the decade of internationalisation. This is an important difference as 70% of internationalisation in Chile occurred in the decade of 2010, but in Colombia this was 64% in the decade of 2000. According to this, it could be said that Colombia has more experience in terms of internationalising services than Chile, while New Zealand firms tend to have even more international experience that firm´s in Chile and Colombia.

In terms of entrepreneurs (table 2), it could also be said that Chile and Colombia have similar characteristics. However, it is necessary to emphasise that in Colombia 91% of the entrepreneurs interviewed have post-graduate qualifications, whereas only 50% have this type of degree in Chile, while in New Zealand post-gratuate education seems to have non or little importance. Another relevant difference is the experience in international business that these entrepreneurs have, as in Chile 60% have between two and seven years' experience, and in Colombia 64% have more than seven years' experience, while in in the case of New Zealand more years of international experience is seems to be common. This is also consistent with the year of internationalisation of the companies.

[INSERT TABLE 2 AROUND HERE]

Regarding the dynamics of internationalisation (table 3), it can be said that New Zealand and Colombia has the higher percentage of exports. In the case of New Zeland having 20% of firms exporting more than 75% of their sales, while Colombia 64% exports between 10% and 50% of their services, whereas in Chile 50% export less than 10%. Colombia internationalizes more in a single country (64%) whereas Chile and New Zealand firms are more diversified in their international scope. In terms of the place of internationalisation, there is also a difference as in Chile the highest percentage of internationalisation is within

Latin America (90%), whereas in Colombia only 55% internationalise in this region, while in the case of New Zealand is 4%. Australia is clearly key for New Zealand firms.

[INSERT TABLE 3 AROUND HERE]

We can say that both coincide in terms of how the idea to do business was able to be achieved, with advantages in terms of technical knowledge and expertise for both being of similar proportion (70% for Chile and 100% for Colombia). However, in Colombia 64% stated that they started with their own business (self-employed) and 73% did this by providing services exclusively to the local market. In the question related to internationalisation, both stated that they used referral marketing. However, in Chile many stated that this arose from circumstantial opportunities, demand-driven services (such as those that allowed them to move abroad, for example) and the possibility of diversifying markets, as opposed to in Colombia, where all the entrepreneurs emphasised that they specialised in a market niche, and that their own local clients hiring their services abroad was also influential.

In terms of industry, the companies in both Chile and Colombia stated that their internationalisation process was due to high local demand for specific services (60% and 55% respectively). As for competitive advantages, both have similar values, as they say that their main strengths are added value, knowledge and technical expertise. Yet in Colombia they stated that most of their advantages correspond to the speed with which they respond to the needs of their clients. In both countries they indicate that their degree of innovation is mainly due to going beyond traditional services, but they clearly differ in networks, as Colombia primarily attributes its internationalisation process to word of mouth from clients, whereas in Chile they entirely recognise the help of local networks and the assistance in accessing foreign markets, as well as recognising the help of the local government from organisations such as Corfo and ProChile, an indicator that ranks low in the responses from Colombia. In the case of Colombia, there is no single barrier to internationalisation that stands out, but in Chile it is culture that stands out as the main barrier (for example, the language spoken in the foreign countries, and how they do business). Looking to the future, companies in Colombia only indicated that *increasing their sales* is the significant factor, unlike the Chileans, who in the future hope to increase sales and enter specific markets, either large markets or Pacific-Rim countries, and develop international recognition and branding.

4.1 Institutional development

Of the 10 participants in Chile, six of them stated that in terms of networks, they rely on cooperation to access international markets. The same number also stated that they have support from local networks. Some also stated the support of institutions such as Wayra. In this regard, Mario Mora, creator of the First Job website, highlighted the importance that business incubators, especially Wayra, had in this process, not only because of the networks they create, but also the physical spaces they provide for companies to work in different countries: *"They are very important. We received investment from Wayra, an accelerator present in 13 countries. We have used all of Wayra's offices in Mexico, Colombia,*

Argentina and Brazil. We have received support from local managers, for example we can use Wayra's office in Colombia. There is a person there…"
[INSERT TABLE 4 AROUND HERE]

In the case of well-known government institutions such as Corfo and ProChile, there are varied opinions in terms of internationalisation. Some, for example Welcu, who is in charge of a ticketing platform, state the importance of Corfo in this process: *"Corfo has given us two lines of financing. Corfo is great (…) they have been vital. If you add up the funds, this is probably 150 million pesos, or around 300,000 dollars. If you think about it, this is about half of what we have raised, so it has been really important. And it is a subsidy. I don't have to return the money to Corfo", Nicolás Orellana, Founder.* Orellana mainly points out that for example the difference between Corfo and ProChile is that Corfo provides the tools to start operating through different competitive funds, such as the seed money scheme, whereas ProChile offers key tools to learn about the internationalisation process through its programmes, such as collaborative coaching. In other words, the main difference between the two is that ProChile screens and only helps in internationalisation processes, as the owner of Aeronautical Solutions explains: *"What happens is that Corfo helps all companies equally, SMEs or whoever, those that export or do not export. On the other hand, ProChile, which depends on the Ministry of Foreign Affairs, help is aimed at getting out into the world", Ricardo Quintana, CEO.*

80% stated that they are supported by the local government, and those that do not have this support are supported by large companies, as these are organisations that were not thinking about internationalisation and only did so because large companies asked them to provide their services abroad. An example of this is KitCorp, a company that provides architectural services, who states: *"we work with international brands, and they have international definitions. Therefore, what they do here, they do in other countries. It is almost 'copy and paste'. Currently, for example, we are setting up an Adidas store in Dubai, in Sao Paolo and in Chile, and everything is the same. It is the same shop. The parameters are the same", Ítalo Contenla, Founding Partner.*

Finally, in terms of criticism, it is noted that there is no established guideline to be able to use the programmes offered by ProChile. Although their main mission, as mentioned above, is to help SMEs with the internationalisation process, the process to follow is defined as confusing and cumbersome, as Jorge Nazer, President and CEO of the Alto Group, indicated. This is confirmed by Mario Mora, creator and CEO of First Job: *"I don't think there is a process. There should be a guideline, and Chile wants to become a hub for exporting services and products. There should be a how-to-do-business guide, but there isn't".*
[INSERT TABLE 5 AROUND HERE]

Of the 11 participants from Colombia, ten highlighted that they have the support of referrals from their own clients in terms of networks, and these are recognised as the most important. This is indicated by one of the owners of *Clínica de Especialidades Oftalmológicas (CEO)*, who said: *"The main mechanism to attract private clients is word of mouth. Patients come because they were recommended by other satisfied patients"*, whereas other companies were supported after the internationalisation process, i.e. when their own country realised that the exported service was successful, as is the case of *Escanografía Neurológica*, who said *"networking with the health group of the Chamber of Commerce helped us to realise that we had advantages to compete internationally"*. Something similar happened with *Canine Star*, as they did not receive any kind of support at the beginning until they won an entrepreneurship prize and entities realised the importance of this support. Sophos Banking is also proof of this, saying "*it was the high-level referral networks and word of mouth from the big banks that have given us clients. The networks developed from reputation for good work."*

Although not all companies stated that they had received institutional support or indicated the importance of formal and informal networks, it could be said that the service companies that were more successful outside the local market are those that stated the importance of government institutions. In the case of Chile, the most mentioned institutions were Corfo and ProChile. For example, in the case of Aeronautical Solutions, Ricardo Quintana highlights the importance of the information provided by the ProChile contact centre in developing his business, as this training gave them a lot of material that was essential to develop the business where there was no local market.

In the case of support networks, such as incubators or co-working spaces for example, the entrepreneurs highlighted that although they do not provide financial support, they do offer tools to learn about different cultures, workspaces in other countries and the ability to do business and build long-term relationships with different clients in other countries, which allows them to study the market better when making the decision to enter other countries. For example, this is the case of First Job, who emphasised the great work by Wayra in their internationalisation process, as this allowed them to not only learn about other cultures, but also provided them offices in many countries around the world in order to assist them in developing their business and achieving the growth goals proposed.

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The importance of developing networks on the ground cannot be understated in the New Zealand experience (table 6). In the words of the CEO of a technology company who collects tax revenue for governments around the world, it is essential to have face to face communication with the market you are trying to enter: *"Get on the plane; people ignore you otherwise. Specially these cultures that all about saving face. They won't tell you by email but when you turn up they will."* However, 67 percent of these networks were developed by the companies themselves, relying on their reputation and their customers to establish networks. Thirty seven percent of all companies received support from local networks, almost three quarters of these provided by industry networking events such as conferences and for many of the companies interviewed in New Zealand attendance at these events was an important source of networking, and of sourcing clients. As the CEO of a web development company stated: *"If we can get in front of a conference we can get in front of prospective clients in one hit."* Typically, government agencies such as The New Zealand Trade and Enterprise (NZTE) were helpful in providing a starting point for the development of these networks, as the CEO of a cyber security company stated *"everyone knows someone who knows someone"*.

The government was the overwhelmingly source of support by New Zealand companies with 90% having sought assistance this way. NZTE and the Ministry of Foreign Affairs and Trade (MFAT) agencies were the first port of call for 68% of all companies interviewed. Assistance received ranged from information about overseas markets, to hands on assistance with contacts on the ground in the new markets, capability development and funding. As the export promotion agency NZTE was by far the most accessed, followed by MFAT for markets in non-traditional markets, such as the Middle East. The commercial manager of a consulting firm recalled how this helped them develop their market in the Middle East: *"We were invited to go to the Middle East by NZTE and MFAT. That trade trip led to us developing a government IP commercialisation model with governments in the Middle East".* The local Wellington Regional Economic Development Agency (WREDA) was also used for support, primarily in the early stages of internationalisation. The CEO of a project manager firm found them useful: *"WREDA were initially helpful to learn the ropes".*

In particular access to government funding was seen as a great incentive to increase exports due to the way the assistance was provided, requiring companies to pass a certain threshold on their own before they qualify for grants. The CEO of a cybersecurity company recalled: *"When we got to a certain size we became of interest for NZTE because NZTE doesn't want to be seen as overpromoting, so you need to prove yourself through scale and size".* The CEO of a cloud-based people presence company underscored the importance of receiving these grants in relation to being able to export and scale: *"Export grants have been invaluable…without them five of our staff wouldn't be employed and a third of staff employed because we are able to export. The grants have helped us to consolidate, focus, get the right processes in place in order to scale. They've been instrumental to allowing us to grow.*"

4.2 Local-Industry attractiveness

In the case of Chile in terms of internationalisation, 100% stated that their main tools were referral marketing, as is the case of Kit Corp, who indicated that their internationalisation was thanks to their own clients: "When these clients have operators or suppliers that help them with their processes in Chile, when they arrive to other countries, they feel more comfortable continuing to work with the same companies" said Ítalo Contenla, Founding Partner. Sixty percent (60%) stated that their reason for internationalisation was because of demand-driven services. In other words, foreign companies require products available in Chile and even sell more of these abroad than in Chile, given the service conditions, as is the case of Aeronautical Solutions, who stated that their overseas sales are much higher than those from the local market: *"We made the decision to internationalise the company basically because in our country there is no demand for what we do (…) the experience we have is that Latin American countries have a lazy attitude towards paying on time, I mean, they are not proactive, they are reactive", Ricardo Quintana, Founder and CEO.*
[INSERT TABLE 7 AROUND HERE]

Sixty percent (60%) stated that their internationalisation process was thanks to a circumstantial opportunity and 80% indicated that this was because of market diversification. Generally speaking, they believed that it was less risky and easier to make profit by diversifying their products in two countries. Mario Mora, CEO of First Job, states this more clearly: *"The main reason (for internationalisation) was that it was easier to sell 200,000 in each of the five countries, than trying to make one million than in just one country. We thought that it was much easier to look abroad to achieve this. If one customer gives us approximately 5,000 or 10,000 dollars, then I need 100 clients. In Chile, we had 16. For us, it was easier to reach 20 overseas rather than 100 in Chile."*

Another relevant factor in terms of industry (specifically in Chile) was that 60% responded that their method of internationalisation was thanks to the high local demand for industry-specific services to which they belonged. In other words and as mentioned above, there are companies that only internationalised because of their clients, such as Kit Corp: *"The growth of a Chilean operator increases and develops in that country, and invites us to be part of the growth process. That is the answer." Ítalo Contenla, Founding Partner (when asked about industry-related factors).* In the case of Welcu, who stated that their product can be easily expanded to other countries: *"Events are a service and are held all around the world, so in our industry it is natural to open up in other countries because there are similar problems in all countries. So, yes. The industry pushed us." Nicolás Orellana, Founder.*
[INSERT TABLE 8 AROUND HERE]

In the case of the internationalisation process in Colombia, 100% stated that their process was aimed at a specific niche market, i.e. they specialised in a market that they knew did not have high demand, but was interesting for other markets, as is the case of Canine Star: *"Since the beginning, the breeds selected for reproduction were those with high international market potential. Basically, attractive breeds for the North American market."* Ninety one percent used referral marketing and 64% stated that their internationalisation process was only due to local clients operating in other countries.

45% stated that their internationalisation was because the local market was saturated or did not operate well, as is the case of *Clínica de Especialidades Oftalmológicas*: *"In Colombia there are more and more limitations in the subsidised health system (financed by the government), and healthcare providers are taking up to 120 days to pay their creditors. This has led healthcare companies to seek alternatives in finding prepaid medicine clients as well as private and foreign clients who pay faster, which allows cash flow to maintain business operations".* Also, 55% said that there is plenty of local demand for specific services, as is the case of another health-related company, *Escanografía Neurológica*: *"Due to its recognised technical and medical abilities, the company felt confident in becoming visible as a healthcare provider to foreigners. There are few local competitors, and the demand for diagnostic services is growing."*

Although there are cases of companies that go abroad because the local industry is not very attractive (as is the case of companies such as Aeronautical Solution, given the specific service they offer and the low level of competition around the world), many of those interviewed managed to move abroad because their own clients required their services overseas, as the General Manager of KitCorp mentioned, as leaving the country was never part of their plans. On the other hand, there are companies that wish to diversify the risk or increase their level of sales, which does not necessarily mean that the industry is not very

attractive for local demand. All in all, most of the companies interviewed stated that they launched overseas due to the low level of demand in the country for their services, and it was after success had been proven in other countries that they began to generate income and succeed in their own country.
[INSERT TABLE 9 AROUND HERE]

The primary reasons for internationalisation in New Zealand are the physical remoteness of the country and the constraints of a small domestic market. These make it necessary to go international to survive. As the CEO of a web development company stated: *"you need the scale of Australia to make things viable, and then beyond that"*. However, the challenges and risks involved in exporting meant that over two thirds of all companies still considered that they had a significant local demand for their services, while only twenty percent reported a saturated local market. The size of the New Zealand market is an important reason to internationalise, with one CEO from a cybersecurity company reporting that only 0.5% of sales are domestic.

The path to internationalisation was most often through focus on one specific market, with 44% of all companies preferring this strategy (see table 9). The CEO of a technology company who collects tax revenue for governments was critical of the prevailing belief that companies from New Zealand *"have to be a jack of all trades because it's a small market*" and he countered this by stating: *"You have to be agile. If you look at successful businesses they specialise"*. This approach to internationalisation was corroborated by the CEO of a cloud-based people presence company "*To get scale you have to sell to everybody in New Zealand but as we go to export markets we have to get more refined"*. Once one market was entered referral marketing was used by 19% of companies, as was the case with the consulting company we interviewed: *"After earning one contract in the region we were able to access others through word of mouth."* This same company also benefited from circumstantial opportunities, when the New Zealand government signed a Memorandum of Understanding with the United Arab Emirates with commercial intent. In all, 25% of companies took advantage of circumstantial opportunities to internationalise and a further 12% sought to diversify their markets, in most cases pivoting from failed earlier attempts to internationalise.

4.3 Innovation

In terms of competitive advantages, 70% stated that this is due to their high technical knowledge and expertise, and 90% indicated that they have added value that responds to the needs of the clients.
[INSERT TABLE 10 AROUND HERE]

In terms of industry, 80% stated that they are innovative as they go beyond traditional services, mainly because they have new business models, they try different things or have different business models. Even so, each of them stated that their form of innovation was different. For example, Welcu indicated that their innovation is mainly due to changing the way events were done before, whereas First Job stated that their main innovation is due to their target market segment. Mrisk is more emphatic about this, as they say that the

company's environment and culture are guided by innovation in all its forms: "*I believe that innovation thrives here, as we innovate in everything we do, right from the very bottom. Although there are things happening on a worldwide scale, you go to Google and see that there is environmental management software. Deep down we are the same. Everyone is developing software and this is always being innovated, especially for such a dynamic issue as environmental management, sustainability, reporting as an issue of sustainability. Social responsibility is an issue that is constantly evolving."* Felipe Dussailant, General Manager. Finally, if they also had a reason to innovate, those interviewed stated: "We believe we are innovative because we change according to market behaviour based on the things we create", Edmundo Casas, Founding Partner.
[INSERT TABLE 11 AROUND HERE]

In the case of Colombia, 100% of the companies stated that their competitive advantages are based on technical knowledge and expertise, for example Canine Star, who also stated that innovation is important to obtain these advantages: *"Innovations and designs that have the potential to be patented have been made for veterinary operating rooms and showrooms. Software has been implemented for medical information of all veterinary patients and kennel dogs."* Sixty four percent stated that this is due to them responding quickly to the needs of consumers, and 82% say that they have added value that responds to the needs of the clients.

In terms of industry, it can be said that 73% believe that they are innovative because they go beyond traditional services, as is the case of C2 Game Studio, who say: *"The company is innovative in the sense that it enters an undeveloped market locally, and had no concerns when it was about to begin to develop apps when iPhones were just starting to become popular".*

For Chile and Colombia it seems that the higher the level of innovation of firms, the greater the international scope, as is the case of Alto, Aeronautical Solutions and Welcu, among others. Those companies that have low local demand and more innovative services have a higher level of operations abroad, mainly in long-range and high-level countries (for example Aeronautical Solutions, who has contracts with Russia, or Alto, who has operations both within and outside Latin America, in Mexico and Spain.
[INSERT TABLE 12 AROUND HERE]

All New Zealand companies interviewed believed that they are innovative because they went beyond traditional services. This aspect was closely linked to adding value that responds to the needs of clients, something that 48% of companies considered they had achieved (table 12). As the CEO of a cloud-based service provider reported: "*We've built our capability over time in one area and created software that is instantly recognisable as fit for purpose".*

The advantage of having superior technical knowledge and expertise was identified by 35% of all companies. The CEO of a web and mobile app company believed that their advantage was to spot opportunities using existing technology and knowhow. He summed up their advantage as *"being good at disrupting industries and disrupting processes"* and also identified a quick response rate and an above average service to customers by stating *"we're just really good at what we do. You can achieve things incredibly quickly and that astounds people"* The ability to add value in response to customer needs was reported by 48% of companies as an important source of their competitive advantage.

Finally, of interest from the New Zealand interviews is the fact that 17% identified innovative business practices. For instance, the CEO of a design software company highlighted their track record, quality of product and team culture, while the CEO of an opensource technology company believed that the expertise and technical knowledge gave them competitive advantage because they fostered staff development: *"We have a fantastic team and we've invested a lot in them. We have a core leadership team and we grow juniors to senior positions"*.

5. Conclusions

Despite the data having been collected in three different countries –two fast growing emerging economies in South America and one developed economy of the Pacific- the sample shares some characteristics. These are firms in the service sector, and over half of them are in ICT sub-sector. The vast majority of companies that participated in the study (81%) were young (post 2000's) and small (less than 10 employees). Their owners are predominantly of national origin. The firms' operations beyond the national borders of their countries is mainly via exports. With respect to the entrepreneur. The owners have a high educational level (postgraduate degrees), fluency in the use of English, and they have between 2 and 7 years of international business experience. 70% managed to have international operations in the first three years. So they can be considered micro-multinationals (Dimitraros *et al.,* 2014).

Although it is more common for these companies to do business in countries of their own strategic region with similar levels of socio-economic development, with geographical proximity, or with countries that share cultural aspects (e.g. New Zealand doing businesses in the United States and Australia), a high number of the firms actively participate in highly competitive markets in regions with higher GDP (e.g. Colombian firms in the USA) and with substantial cultural differences. This observation provide us insights to answer our research questions stated in the introduction.

These young service companies manage to operate successfully outside their countries of origin, regardless of the liabilities of foreignness or liabilities of *emerginess*, because the entrepreneurs have a strong capabilities and vision of expansion beyond the national borders. These companies have a clear perception that there are opportunities to compete and growth in international markets. This allows them, regardless of their national origin, to design and implement an internationalisation strategy, to go out to these markets responding to perceived opportunities, and serve those target markets with their unique capabilities (learning capacity, network access and government support), and their own superior strengths (knowledge and technical skills). These companies share a vision that they can successfully compete in more advanced economies, like micro-multinational (Dimitratos *et al.,* 2014)

We can suggest that institutional development seems to be positively related to the scope of the initial internationalisation stage of South American SMEs (institutional development is related to support from public entities such as Corfo, incubators, ProChile and others). The degree of innovation of those firms is related to the scope of the initial internationalisation stage of SMEs (Felzensztein *et al.,* 2015). Finally, New Zealand firms seems to be more exposed to a greater scope of international markets, serendipity and effectuation effects (Chetty *et al,* 2015). Firm´s from South American economies can learn lessons from the New Zealand experience, as all these countries belong to the new Asia Pacific economic alliance. Finally our study contributes to the international entrepreneurship literature toward understanding the decision-making process of young and small services firms for selecting and entering foreign markets.

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Table 1: Descriptive analysis

		Chile		Colombia		New Zealand	
		n	%	n	%	n	%
Size of Company (workers)	Micro <10	6	60%	5	45%	2	20%
	Small (up to 50)	2	20%	3	27%	5	50%
	Medium < 200	2	20%	3	27%	3	30%
	Total	10	100%	11	100%	10	100%
Size of Company (Sales)	Micro	2	20%	3	27%	9	90%
	Small	4	40%	4	36%	1	1%
	Medium	4	40%	4	36%	0	0%
	Total	10	100%	11	100%	10	100%
Service Category	Business Management and Administration	1	10%	0	0%	0	0%
	Production services	1	10%	1	9%	0	0%
	Information and Communication Services	6	60%	6	55%	8	80%
	Research or study services	0	0%	3	27%	1	10%
	Staff services	1	10%	0	0%	0	0%
	Sales services	0	0%	1	9%	0	0%
	Operating services	1	10%	0	0%	1	10%
Industry of Clients	Primary Resources or Manufacturing	1	10%	0	0%	0	0%
	Services or Retail	9	90%	11	100%	7	70%
	Government Sector					3	30%
	Total	10	100%	11	100%	10	100%
Foreign Ownership	0%	8	80%	8	73%	10	100%
	Mixed	1	10%	1	9%	0	0%
	100%	1	10%	2	18%	0	0%

Decade of Establishment	1980	0	0%	1	9%	0	0%
	1990	0	0%	1	9%	3	30%
	2000	9	90%	8	73%	6	50%
	2010	1	10%	1	9%	1	20%
	Total	10	100%	11	100%	10	100%
Decade of Internationalization	1990	0	0%	0	0%	1	10%
	2000	3	30%	7	64%	3	30%
	2010	7	70%	4	36%	6	60%
	Total	10	100%	11	100%	10	100%

Table 2: Entrepreneurial Characteristics

		Chile		Colombia		New Zealand	
		N°	%	N°	%	N°	%
Age	<30 years	3	30%	1	9%	0	0%
	>30 and <40 years	4	40%	6	55%	1	10%
	40 or over	3	30%	4	36%	9	90%
Education	Completed high school	0	0%	0	0%	10	100%
	Completed university	5	50%	1	9%	9	90%
	Post-graduate	5	50%	10	91%	0	0%
IB Experience	<2 years	3	30%	0	0%	0	0%
	>2 and < 7 years	6	60%	4	36%	2	20%
	7 or more	1	10%	7	64%	8	80%
Languages	English	10	100%	10	91%	10	100%
	Other Languages	2	20%	3	27%	1	10%

Table 3: Internationalization Process and Markets

		Chile		Colombia		New Zealand	
		N°	%	N°	%	N°	%
Export Volume	<10%	5	50%	0	0%	3	30%
	>10% and <50%	3	30%	7	64%	4	40%
	>50% and <75%	1	10%	0	0%	1	10%
	>75%	1	10%	4	36%	2	20%
Speed of Internationalization [Years taken]	1 year	2	20%	6	55%	2	20%
	> 1 and 3 years	5	50%	3	27%	4	40%
	> 3 years	3	30%	2	18%	4	40%
Reach: Number of Countries	1	3	30%	7	64%	0	0%
	> 1 and < 4	3	30%	1	9%	5	50%
	> 4	2	20%	2	18%	5	50%
Reach: International Markets	Latin America	9	90%	6	55%	1	4%
	USA, Canada and Europe	4	40%	5	45%	7	32%
	Australia	0	0%	0	0%	8	37%
	Rest of the World	1	10%	3	27%	6	27%
	Total	14	140%	14	127%	22	100%
Reach: Regional or Global	Regional Reach	4	40%	4	36%	9	53%
	Global Reach	6	60%	7	64%	8	47%
	Total	10	100%	11	100%	17	100%
Reach: Developed Economies	Emerging Markets	6	60%	6	55%	5	30%
	Developed Markets	3	30%	5	45%	10	70%
	Total	9	100%	11	100%	15	100%

Table 4:

Institutional Development in Chile

	Frequency %		Frequency %	Examples
Networks	**60%**	Cooperation to enter local markets	**20%**	Wayra
	60%	Support from local networks	**10%**	YPO.org and Endeavor
	30%	Stated that their most important networks are their own clients, or they establish the networks themselves along the way		
Support			**40%**	CORFO (seed money)
	60%	Stated that the most important support was from the local government	**30%**	ProChile (Contact Chile)
	40%	Those that did not accept networks internationalized through large companies that requested their services abroad		

Table 5: Institutional Development in Colombia

	Frequency %		Frequency%	Examples
Networks	**91%**	State referrals from their own clients as the main support network	**36%**	Word of mouth
Support	**45%**	State that agencies that promote exports have been their main institution of support	**55%**	Proexport
			18%	Ruta N

Table 6: Institutional Development in NZ

	Frequency %		Frequency %	Examples
Networks	34%	Support from local networks	27%	NZTE
			73%	Industry networking events
	67%	Stated that their most important networks are their own clients, or they establish the networks themselves along the way		
Support	90%	Stated that the most important support was from the local government	22%	WREDA
			68%	NZTE & MFAT
			10%	Callaghan

Table 7: Local-Industry attractiveness in Chile

	Frequency %	Chile
	60%	Demand-driven services
	100%	Use of referral marketing
	60%	Circumstantial opportunities
Internationalisation	80%	Market diversification
Industry	60%	Plenty of local demand for specific services

Table 8: Local-Industry attractiveness in Colombia

	Frequency %	Colombia
	100%	Focused on a niche in a specific market
	91%	Used referral marketing
Internationalisation	64%	Local clients operating in other countries
	45%	Saturated local market
	55%	
Industry		lenty of local demand for specific services

Table 9: Local-Industry attractiveness in NZ

	Frequency %	New Zealand
	44%	Focused on a niche in a specific market
	19%	Used referral marketing
	25%	Circumstantial opportunities
Internationalisation	12%	Market diversification
	70%	Plenty of local demand for specific services
Industry	20%	Saturated local market

Table 10: Degree of Innovation of the company in Chile

	Frequency %	Chile

	70%	Technical knowledge and expertise
Competitive advantages	**90%**	Have added value that responds to the needs of clients
Industry	**80%**	Believe that they are innovative because they go beyond traditional services

Table 11: Degree of Innovation of the companies in Colombia

	Frequency %	Colombia
	100%	Technical knowledge and expertise
	64%	Speedy response to the needs of consumers
Competitive advantages	**82%**	Have added value that responds to the needs of clients
Industry	**73%**	Believe that they are innovative because they go beyond traditional services

Table 12: Degree of Innovation of the company in New Zealand

	Frequency %	NZ
	35%	Technical knowledge and expertise
	48%	Have added value that responds to the needs of clients
Competitive advantages	**17%**	Innovative business practices
Industry	**100%**	Believe that they are innovative because they go beyond traditional services