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Lessons Learned from Swiss Born Globals Entering Brazil[1]

Abstract

Purpose – The purpose of this study is to contribute to managers' understanding of the internationalization of born global firms (BG) from developed countries in emerging markets. Adapting the new institutional sociology approach, we provide insights into how BGs might strive to bridge institutional distance.

Design/ methodology/ approach – An explorative, multiple case study is used, focusing on two Swiss born global firms in Brazil.

Findings – The study shows that these two firms faced similar institutional challenges. However, they approached them in different ways and achieved different outcomes. The comparison of these two cases highlights key factors that may influence successful internationalization, namely niche strategies, high commitment modes of entry, and the liability of outsidership.

Research limitations / implications – The main research implication is that the market mode of entry, and high commitment entry modes, are conductive to local market knowledge acquisition. Future research should investigate how western BGs might overcome the disadvantages of foreignness and effectively gain acceptance in emerging markets such as in Brazil, China or India. This could be done by looking at micro processes, e.g., multiple identities in which BGs might strive to simultaneously fit in and stand out in the host market.

Practical implications – Our findings, which uncover key factors that influence internationalization, shall contribute to managers' understanding of how BG firms from developed economies enter emerging markets and overcome challenges.

Originality/value – Comparing these two cases highlights key factors that may shed light on the successful internationalization of BGs from developed countries in emerging markets. We first describe the institutional isomorphic pressures on the two Swiss BGs in Brazil. Second, we reveal how they engaged in isomorphic processes in order to bridge the institutional distance.

Key Words Brazil, liability of outsidership, mode of entry, niche strategy, Swiss Born Global firms

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Paper type Research paper

Introduction

Born global firms (BGs) have drawn the attention of both academics and business practitioners for over 25 years. They are distinguished for their ability to swiftly penetrate international markets, reach high turnover from international operations (Knight & Cavusgil, 1996; Oviatt & McDougall, 1994), and overcome barriers such as a lack of market knowledge, insufficient resources and high internationalization costs (Oviatt & McDougall, 1994). Prior research on BGs' internationalization reveal that they do not follow a specific pattern; their internationalization depends instead on the availability of internal resources such as knowledge and networks (Madsen & Servais, 1997; Sharma & Blomstermo, 2003), and they are particularly skilled in the management of intangible resources (Rialp et al., 2005). In a case study of two BG firms, Andersson (2011) found that they tend to use modes that allow them to take advantage of local knowledge and local networks. These investigations have chiefly been conducted in situations where both the host and home markets were developed economies. Although the riskiness of entering emerging markets (Freeman and Cavusgil, 2007) and the importance of networks (Andersson et al., 2018) have been acknowledged, very little is still known about BGs' internationalization strategies for such markets (Cavusgil and Knight, 2015, Gerschewski et al., 2015). To address this research gap, we investigated the following two research questions: 1) how do different institutional arrangements in Brazil impact Swiss BGs' implementation; and 2) how do BGs engage in isomorphic processes to bridge the institutional distance?

In this paper, we report results from a qualitative research study focusing on Swiss BGs in Brazil. In the summer of 2016, we conducted (1) semi-structured interviews with senior managers of two Swiss BGs, and (2) with private and governmental stakeholders supporting Swiss BGs and Small-Medium Enterprises (SMEs) in Brazil. The study shows that these two firms faced similar institutional challenges. However, they approached them in different ways and achieved different outcomes. The comparison of these two cases highlights key factors that may influence successful internationalization, namely niche strategies, high commitment modes of entry, and the liability of outsidership.

Internationalization of born global firms

Concept of born global firms

BGs have attracted the attention of academics and business practitioners because their market behaviour cannot consistently be explained by existing internationalization theories (Johanson & Wiederstein-Paul, 1975). BGs stand out due to the early nature and pace of their internationalization. The concept emerged under various names: *innate exporters*, *international new ventures*, *global start-ups*, *high technology start-ups* or *infant multinationals.* However, the term BG is used most widely (Gabrielsson & Kirpalani, 2004; Knight & Cavusgil, 1996; Knight, Madsen & Servais, 2004; Madsen & Servais, 1997; Moen, 2001; Rennie, 1993; Sharma & Blomstermo, 2003).

An analysis of how BGs are conceptualized suggests that all of them present common features but also differences as depicted in Table 1. BGs present common characteristic such as an international orientation from inception. At the same time, definitions of BGs differ, particularly in terms of the ratio of export to total sales and age of the firm. These differences are explained by the size of the home market of the country where the research was conducted. In the United States, which has a large internal market, export activity is relatively small and thus an export indicator of 25% is perceived as high. On the other hand, in small countries such as Finland, where export activity is high, the application of a higher export indicator is perceived to be appropriate (Gabrielsson et al., 2008).

Insert table 1 about here

Existing research indicates that BGs are able to successfully enter international markets by building a competitive advantage though searching for a niche. They develop quality, high tech, innovative products that meet sophisticated needs of targeted segments of customers (Bell, 1995; Chetty & Campbell-Hunt, 2004; Gabrielsson & Kirpalani, 2004; Knight & Cavusgil, 1996; Knight et al., 2004; Rialp, Rialp, Urbano, & Vaillant, 2005; Weerawardena et al., 2007) which explains their ability to survive in international markets (Oxtorp, 2014). Second, BGs are able to skilfully read clients' needs as they maintain close relations with them and are able to react quickly to adjust to changing markets (Knight et al., 2004; Weerawardena el al., 2007). This demonstrates their ability to manage knowledge effectively, while a lack of knowledge about foreign markets is a major barrier to internationalization for larger firms (Johanson & Wiederstein-Paul, 1975). Indeed, BGs' market knowledge is the key driver of their swift internationalization (Brennan & Garvey, 2009). The initial knowledge base mostly comes from the founder or founding team (Chetty & Campbell-Hunt, 2004; Christensen & Jacobsen, 1996; Park & Rhee, 2012) who is/are experienced in a particular market and have a well-established network of international contacts (Christensen & Jacobsen, 1996; Moen, 2001). When such experience is lacking, BGs rely on different networks, both micro level, such as interpersonal contacts with external advisors, employment of experienced managers, and macro level, such as alliances (Loustarinen & Gabrielsson, 2006; Andersson & Evangelista, 2006). Summing up, business networks in international markets are important not only from a perspective of gathering resources and knowledge, but also as important triggers for international opportunities (Nowiński & Rialp, 2016).

Institutional theory approach to the internationalization of BGs

New institutional sociology focuses on how institutions relate to organizations, especially how they legitimize their activities to comply with the regulatory and social norms and values that are reflected in institutional systems (DiMaggio and Powell, 1983, Powell and DiMaggio, 2012, Haunschild and Miner, 1997). According to new institutional sociology, a foreign firm's gaining of acceptance (legitimacy) in the host market is a major factor in internationalization strategies (Xu and Shenkar, 2002). This is often connected to the concept of institutional isomorphism (DiMaggio and Powell, 1983) whereby mimetic internal forces (imitation of practices of other organizations) or coercive (pressure from other organizations) and normative (influence from professions) external forces provide the means of gaining legitimacy (Björkman et al., 2007, Kostova and Zaheer, 1999). We define institutional distance as "*differences between a host and home country in basic aspects of culture, including core values, beliefs, customs, and rituals, as well as legal, political and economic systems*" (Chen, Kirkman, Kim, Farh, & Tangirala; 2010 pp. 1116). To bridge the institutional distance and overcome the liability of outsidership (Johanson and Vahlne, 2009), firms venturing abroad tend to engage into institutional isomorphism, wherein they often imitate practices of local players in the host market, especially if the institutional distance between home and host countries is high (Salomon and Wu, 2012, Wu and Salomon, 2016).

This relates to the internationalization patterns wherein firms may rely on incremental internationalization, as revealed in a case study of Swedish firms venturing into international markets, i.e., gradual acquisition, integration and use of knowledge about foreign markets. With decreased uncertainty about foreign markets, a firm might thus incrementally increase commitment to these foreign markets (Johanson and Vahlne, 1977). Alternatively, firms venturing into foreign markets may choose to develop relationships with local partners in order to accelerate business development in the host market and their commitment to the host market (Johanson and Vahlne, 2006). Indeed, firms are increasingly relying on an accelerated internationalization mode through host market knowledge developed in relationships, and there is growing evidence that some firms do not follow any specific pattern, such as in the case of BGs (Johanson and Vahlne, 2009). Instead, their internationalization depends on the availability of internal resources such as knowledge and networks (Madsen & Servais, 1997; Sharma & Blomstermo, 2003), and they are particularly skilled in the management of intangible resources (Rialp et al., 2005). They are distinguished for their ability to swiftly penetrate international markets, reach high turnover from international operations (Knight & Cavusgil, 1996; Oviatt & McDougall, 1994), and overcome barriers such as a lack of market knowledge, insufficient resources and high internationalization costs (Oviatt & McDougall, 1994). Thus, they seem to be more effective in gaining the hallmarks of insiders in the host market, indicating that they might effectively overcome the liability of outsidership (Johanson and Vahlne, 2009).

BGs from developed countries venturing into emerging markets

The topic of born global internationalization into emerging markets has recently been gaining in popularity. Distant markets are perceived as challenging situations in which to acquire and manage knowledge and they require proactive behaviour in relation with local partners. A multiple case study of Swedish firms in China reveals the importance of networks, and that local network development is dynamic over time and changes alongside experience in China (Andersson et al., 2018). In the early phase, BGs might use existing networks to acquire information and identify opportunities to facilitate entry into the new market. They then construct new networks to acquire information and improve their business development. Finally, after a successful establishment, they might use existing networks to exploit knowledge to penetrate the market (share technologies and solutions applied in other markets by connecting business networks in different countries). Indeed, relationships and networks in the host emerging market together with a global vision and a strong commitment to learn are strategic resources that allow a BG to succeed in emerging markets (Fang, Tung, Berg and Nematshahi, 2016). Freeman and Cavusgil (2007) also have explored the potential concerns of entrepreneurs entering emerging markets. In their qualitative study of Australian BGs in various host emerging markets, they indicate that emerging markets tend to be viewed as risky; thus, entrepreneurs might be "*cautious, conservative, and not willing to take the additional risk of geographic distance*" (p. 19). Despite some relevant studies on BGs in emerging markets, little is known about how BGs might bridge the institutional distance between home and host markets (Cavusgil and Knight, 2015, Gerschewski et al., 2015). To address this research gap, we investigated the following two research questions: 1) how do different institutional arrangements in Brazil impact Swiss BGs' implementation; and 2) how do BGs engage in isomorphic processes to bridge institutional distance?

Brazilian context

Brazil is the biggest economy of Latin America, with 209 million inhabitants, growing middle and upper-middle classes and well developed technological clusters (Nes, 2016). These features make it an attractive market for foreign companies to launch their operations. However, Brazil is only slowly opening to foreign firms. The military dictatorship from 1960s and 1970s favored stated interventionism and policy of import substitution to stimulate domestic industry. As a result, numerous trade barriers were created. From the late 1980s, Brazilian economic policies started to change and trade regulations underwent liberalization (Parente, Cyrino, Spohr, & de Vasconcelos, 2013). However, Brazilian regulations remain complex and difficult to master for foreign companies. For instance, the tax structure is composed of 74 different taxes and contributions (Leahy, 2016). Moreover, labour laws are strict and employee-oriented with high employment costs (Nes, 2016). Brazil is a developing economy and faces many political and economic challenges. These include the following: Brazil was strongly affected by the 2008 and 2014 economic crises; economic growth decreased by 3.8% in 2015 compared to 2014; the country has faced decreased consumption (-4%), reduced investments (-14.5%) (FocusEconomics, 2016), and currency instability; and few financial resources are available to the government. Further economic and political instability in the past resulted from the impeachment of President Dilma Rousseff and corruption allegations against President Michel Temer. The recently elected new president, Jair Bolsonaro, appears to be more interested in increased protectionism of national firms compared to his predecessors.

Methodology

The aim of the research is to explore how BGs from developed countries internationalize to emerging markets, and particularly how they bridge the institutional distance between home and host countries. To achieve the research objective, we use a multiple case study methodology in which we compare the different experiences of two BGs, Gamaya and Vela Solaris, upon entering Brazil. Vela Solaris was founded in 2007 and entered Brazil in 2009, where it faced challenges in penetrating the local market. Gamaya was established in 2015 and swiftly entered Brazil. This comparison highlights different approaches to internationalization and identifies relevant factors, as well as challenges and opportunities faced by the two firms. A multiple case study is an appropriate approach as it renders it possible to gain deep insights into an under-explored phenomenon (Stake, 1994). This approach is considered most relevant to provide explanations to an under investigated phenomena in international management (Piekkari & Welch, 2011).

The decision to investigate Swiss companies entering the Brazilian market was purposeful. The Swiss context presents a particular home market with a combination of push factors - small home market size and challenges associated with high production costs and the high value of the Swiss franc. Swiss companies are renowned in high-tech industries for superior quality and innovativeness. Swiss BGs in comparison to other Swiss SMEs present high internationalization dynamics (Baldegger, 2016). After one year of functioning, they operate on average in 8.8 foreign markets, and after three years, in 13.5 markets. In contrast, an average Swiss SME operates in only 4.1 foreign markets after one year and 6.5 after three years. Foreign sales account for 83.4% of the BGs' turnover compared to only 54.5% for the average SME. Additionally, Swiss BGs are more willing to enter complex and distant markets such as South America (45.1% of BGs compared to 25% of Swiss SMEs), which indicates that they may suffer less from institutional distance than SMEs (Baldegger, 2013). We choose Brazil as a host country in order to uncover how BGs bridge the institutional distance between home and host markets. Brazil is an attractive Latin American country due to its' size, pace of growth and high-tech focus. On the other hand, it is challenging market to enter due to the complexity of regulations, and political and economic instability.

Data collection

Vela Solaris and Gamaya were chosen based on the purposeful sampling strategy (Kumar et al., 1993) for the theoretical replication logic (Yin, 2009). They both can be considered as BGs following the definition provided by Gabrielsson et al., (2008): they have more than 50% of global sales from global markets; they have a global vision at inception; their products are unique; and their international activities are characterized by both precocity and speed. Table 2 provides a brief summary of Vela Solaris and Gamaya's backgrounds and internationalization history.

Insert table 2 about here

We began our investigations with a secondary data analysis, examining press releases about the BGs in Brazil, internet sources and international documentation received from swissnex in Brazil. Swissnex is the Swiss Consulate for Education and Technology and one of its missions is to support technology-intensive Swiss start-ups. On the basis of the information gathered, we developed semi-structured interview guides to gain insights into managerial processes related to the BGs' internationalization in Brazil. In the summer of 2016, we conducted semi-structured interviews with senior managers of two Swiss BGs and with private and governmental stakeholders supporting Swiss BGs and SMEs in Brazil. All interviews were recorded and transcribed. Moreover, detailed notes were taken following off the record discussions. Our aim was to contribute to managers' understanding of the internationalization of Swiss BGs in Brazil. All interviews were recorded, taped and transcribed to enable us to develop a multidimensional perspective. Each interview lasted 60-90 minutes and the semi-structured interview guide consisted of open questions covering the following four themes: internationalization decision to enter Brazil; implementation into Brazilian institutional context; network development in Brazil; and firm specific advantages. Some of the questions were, for example: tell me about the internationalization strategy of your firm; what are key challenges and opportunities in business development in Brazil?; can you tell me about key cultural differences between Switzerland and Brazil?; can you tell me about the current political situation in Brazil and how it impacts your business development in Brazil?; what is your strategy on network development in Brazil?

Data analysis

We applied the qualitative approach based on grounded theory (Glaser and Strauss, 2009), where theory is the derivative of empirical data analysis directly referring to observed reality. The methodology allows one to maintain serendipity, i.e., to investigate a phenomenon which initially was not assumed by the researcher, but is of key importance for the interlocutors. Internationalization of BGs in emerging markets has been investigated to a limited extent in the literature and exploratory techniques are appropriate. First, we followed in the vivo coding technique (Saldana, 2013). Initially, the codes had a purely descriptive character and mainly applied to the first sets of field notes. Subsequently, these codes were re-examined for their fit with the data and to avoid restrictions. Second, we moved to pattern-matching by comparing the data with views from the literature (Miles & Huberman, 1984) and relying on constant comparison methods (Charmaz, 2009). This approach revealed patterns emerging from the data, and by building on the literature, key concepts were discovered. Data provided in-depth insights into the context of Swiss BGs in Brazil (institutional distance) and allowed to identify BG's efforts to bridge the institutional distance. In a third step, we compared the empirically-based patterns with views expressed in the literature to 'map' the codes and examine how they interconnect to uncover previously unknown relationships (Corbin and Strauss, 2008). Specifically, our findings show that these two Swiss BGs faced similar institutional challenges. However, they approached them in different ways and achieved different outcomes. The comparison of these two cases identified key factors that may contribute to successful internationalization, namely niche strategies, high commitment modes of entry, and the liability of outsidership.

Our objective is not to provide generalizations regarding the internationalization of BGs from developed economies entering emerging markets. We aim instead to gain insights into a unique institutional context of the home and host market: Swiss BGs (outstanding innovation but very expensive; excellent country image but small market) and Brazil (high political and economic volatility and corruption; but large, innovation-oriented market).

Findings

The Brazilian market presents numerous institutional challenges for Swiss firms. Firstly, for Swiss BG firms and SMEs, it remains difficult to navigate the administrative complexity. For example, the representative of Swiss Business Hub revealed: "*Brazil is a difficult country to enter for a foreign firm essentially because of the administrative process, which is too long and requires time and energy*." Additionally, for SMEs and BGs which are financially more sensitive, Brazil is risky foreign market. For example, it is difficult to do business in Brazil without holding Brazilian residency status. The government is making an effort to attract more investors by giving permanent residence to those who invest locally. However, the residency requirement is an important constraint for Swiss BGs as they tend to choose market entry mode requiring less financial commitment to test the market. As the representative of Swiss Business Hub noted, "*A firm without any (initial) contact in Brazil rarely enters the market for implementing a branch or opening an office*." An important weakness of this entry mode is the low control of operational activities by the company and the lack of possibility to develop business relationships with local stakeholders, which is important in Brazil. The representative of the Swiss Business Hub in Brazil indicated that for Swiss companies, this may be risky way of entering the market as BGs lack cultural and institutional market knowledge: "*Most of the time we finish entering in contact with firms that already have a partner in Brazil because one day they have to meet that partner in an event and directly they started to work with that partner without carrying out research on how the market works. That model/attitude causes many problems for the Swiss firm. Consequently, is important for the firm to really well plan, with trusted people/partners and people that are already acting in the Brazilian market*." Moreover, Brazil's tax system is very complex, taxes are high and can exceed over 60% of the total price. This is a significant challenge for Swiss firms whose prices are already very high due to high production and labor costs and over evaluated Swiss currency. Thus, remaining price competitive in Brazil is difficult for Swiss BGs and SMEs. In the case of machines and equipment, for example, a Swiss product may be more expensive to buy, but it can be used for a longer period, have a higher functionality, or can produce faster than other products on the market. The characteristics of the Swiss product therefore justify the additional cost (quality and the additional benefits). Nonetheless, Brazilians are very price sensitive.

The unstable political and economic situation creates a second challenge for doing business in Brazil. As the representative of Swiss Business Hub notes, many Swiss companies choose not to enter into or increase their commitment in the market. However, there are exceptions – some SMEs with international experience acquire Brazilian firms or open branches and profit from the ratio between Brazilian and Swiss currency.

Vela Solaris

Founded in the end of 2006, Vela Solaris is a spin-off of the Solar Technology Institute of the Hochschule für Technik Rapperswil (SPF). The firm's main focus is the development and commercialization of software to design and optimize hybrid systems of renewable energies. The first version of the software was developed in 1992. From 2004 to 2006, SPF received financial support from the Swiss government to optimize the software and introduce it onto the market. The software targeted the B2B market, in particular producers of renewable energies (solar thermal, photovoltaics and geothermal). When the Swiss government ceased its financial support, a group of employees from the Solar Technology Institute created and became the shareholders of Vela Solaris, a new legal entity, to commercialize the software. They rapidly began to do so abroad as Switzerland is a small country and cannot generate sufficient turnover, although it remains a key market.

Vela Solaris began internationalization into countries with the most developed solar technologies such as Germany, Austria, Italy, Spain and France. In 2009, Vela Solaris entered Brazil. The software was already available in Portuguese and so this move did not require additional investment. Vela Solaris was attracted to Brazil because the country is the fastest growing solar market in the world and the biggest South American market (Figueiredo & Pascal, 2016). Following a severe drought in 2001, Brazilian authorities introduced policies to reduce the country's dependence on hydroelectric power by implementing a federal incentive program for alternative energy sources and a robust auction system for utility-scale procurement. Alternative power capacity was both strategically and economically important for Brazil to hedge against volatility in electricity prices and fluctuating natural gas prices. With around 200 local solar power producers, Brazil is not only one of the fastest growing markets in solar energies, it also has the potential to become a supply hub for neighbouring Latin American countries, which currently import from Europe or China. For Vela Solaris, Brazil was thus an experimental market.

Moreover, as Switzerland has a good image in Brazil, the fact that the software was entirely produced and developed in Switzerland without any external inputs from India or China was an advantage for Vela Solaris. Nevertheless, Vela Solaris chose to emphasize the firm's strategic advantage (FSA), such as the flexibility of its software, rather than its country specific advantage (CSA). As one of the co-founders noted: "*We market it [the CSA] in a limited way. I mean, we mention it [Swiss made] but we don't necessarily emphasize it. We place more emphasis on the features of the product and why our product is different from others.*" Indeed, Vela Solaris operated in a niche market and offered a product with unique characteristics that competitors did not possess. Vela Solaris' advantage was to offer a product combining technologies for both solar thermal and photovoltaic systems in various language options. They were the only company offering software for both systems; other solutions on the market were dedicated to one or the other. In the Brazilian market, they had no competition, especially as other software companies only offered English versions of their products. They also offered high flexibility in terms of the choice of technology, price, and data presentation.

Vela Solaris entered Brazil by exporting through a local distributor in Sao Paulo whom the founders of the company had met during an annual Intersolar South-America event. The distributor was in charge of promotion, sales and dealing with administrative issues in Brazil. The collaboration with the local partner was based on exclusivity as the Vela Solaris founding team thought that: " *…[the Brazilian partner] is devoted to our product and represents it because he believes in it, but then of course in the same sector he can do other business, like his own projects or selling other products (not software) like solar Thermal products. And it fits quite well because is not a hurdle, it is usually helpful if somebody is already in business with his own products."*

Despite the many opportunities present in Brazil, Vela Solaris also faced many challenges there. First, the development of the business suffered from high protectionism. Brazilian B2B customers prefer national products and state-owned and public clients often are requested to purchase from Brazilian suppliers only, as testified by one co-founder: *"Brazilian state-owned companies and Brazilian universities often cannot buy from foreign companies. So, they have to buy from a Brazilian company."* Vela Solaris founders realized that Brazilian clients would like to have a product that looked more Brazilian, e.g., with more Brazilian components in the software. In such a context, the support of a local partner would be crucial for linking a company like Vela Solaris to key Brazilian stakeholders such as public authorities and associations. Networking in Brazil is essential and more important than in Switzerland, a point which Vela Solaris underestimated when entering the Brazilian market. Indeed, without a network, it is impossible to do business in Brazil. As stated by one of the co-founders: *"Of course it is necessary to have contacts, absolutely. You have to have contacts with the Brazilian authorities, you have to have contacts with Brazilian associations, you have to know the main players in the market. And networking is essential for sure. At one point we did not do it as extensively as we should have but we cannot expect any success without a network."* Second, cultural differences were apparent in interactions with clients. For example, when Vela Solaris management presented the software, potential clients appeared highly enthusiastic about purchasing the software, claiming that they wanted to buy it; however, they did not necessary proceed with a purchase. Another challenge was associated with payment methods; Vela Solaris could not guarantee the price in BRL due to currency instability. The price of the product therefore changed frequently, and it was consequently difficult to remain an attractive partner for Brazilians. Vela Solaris preferred to do business in Western currency, but often had to accept BRL. Moreover, as Brazilian clients preferred to pay in several instalments, Vela Solaris delivered the software before receiving the payment. In the case of long-term contracts, there was a risk that Vela Solaris would not receive the same amount of money that was expected when the contract was signed. This was an important risk due to the accelerated depreciation of the Brazilian currency. Thus, without a Brazilian partner, it would have been impossible for Vela Solaris to do business in the host market. The company started to collaborate with Swiss intermediary networks, i.e., non-profit organizations built on private-public partnerships seeking to facilitate the establishment of network relationships between firms. For example, it participated in several events organized by swissnex to develop its network and knowledge of the Brazilian market. At the same time, however, Vela Solaris decided to limit its expansion in the Brazilian market and target other markets that the founders considered to be easier to penetrate: *"We are a small company and at a certain time we have to prioritize and focus on certain countries rather than others, for example. These are the decisions we have made based on the ratio between investment and success."*

Gamaya

Gamaya is an AgTech spin-off of Ecole Polytechnique Fédérale de Lausanne (EPFL), and was founded in 2015. It commercializes technologies for sugarcane (CANEFIT) and soybean (SOYFIT) crops. The technology is composed of a drone capable of detecting planting errors, classifying weeds, monitoring crop biomass and subsequently transmitting the data to a software tool. The latter provides useful information and statistics for industrial producers to improve and optimize crops. Gamaya targets the B2B market and in particular big industrial agricultural producers. Even though Gamaya's head office is located in Lausanne, it does not commercialize its drones in its home Swiss market, considered to be too small by the firm's founders.

Gamaya entered Brazil in 2015 for several reasons. First, the European market is very fragmented with many small farmers. Average farm size in Europe is 12 ha. Additionally, there is a greater variety of crops, which increases product development costs. The acquisition of several small clients is viewed as less profitable than working with fewer but larger ones: *"In a start-up* *environment you always think about the costs to acquire customers. So, if you acquire a big one in terms of potential, it is much better than if you spend all or your resources on acquiring a small one."* The founding team targeted the business on the global scale from its inception. Two of the three founders had extensive international business experience that facilitated Gamaya's entrance into the Brazilian market. The second reason was that Brazil offers a combination of favourable climate conditions and developed agricultural infrastructure, as the economy has been based on the agricultural sector for decades. The largest industrial agricultural producers are located in Brazil and the country has the highest market potential. The unique advantage of Brazil's tropical climate is that crops can be grown and harvested several times a year. As one co-founder stated: "*For us, we are still in the developing product stage, but this means that we can learn much faster in Brazil; 2 or 3 times faster that we could do elsewhere.*" Another factor was the large size of Brazilian farms. "*As we address industrial agriculture, Brazil appeared on our radar immediately.*" The company wanted to work on a large scale to reach a profit margin. "*In Brazil you can find a farm the size of Canton de Vaud – just one farm.*" A third reason to enter Brazil was to use a perceived CSA advantage. Brazilians usually perceive Swiss technology products to be more trustworthy than a Brazilian one. The Swiss made/Swiss quality feature could be used to foster confidence in the early stages of contact with clients. The "Swiss made" label thus could help to overcome the hurdle presented by the price of the software, which is expensive due to the high wages in Switzerland. "*The price is high because we are much more valuable. We don't need to compete to provide products at the same price."* Gamaya's competition on the Brazilian market, numbering only 3-4 companies, is smaller than in other countries on the South American continent. However, American companies are starting to penetrate the market. Gamaya also emphasizes its FSA advantage: unique value proposition based on innovative technology which delivers customized products. "*In terms of technology we are ten times more valuable because our technology is simply much easier to use.*" The technology is, furthermore, more efficient than its competitors, providing more accurate and reliable information. In 2015, it was awarded the W.A. Vigier Award as the world's most advanced solution for large-scale diagnostics of farmland using hyperspectral imaging and artificial intelligence.

Gamaya entered the Brazilian market in a partnership with a local investor. The minority shareholder delivers knowledge about the Brazilian market and provides access to networks, and the Swiss founders deal with administrative and business issues. Gamaya's minority shareholder is the head of a large innovative agricultural firm founded by a Swiss family that moved to Brazil 15 years ago. The investor acquired Gamaya's shares for the following reasons: "*He [the investor] was particularly confident about [Gamaya's] financial returns, because we work in sustainable agriculture, e.g., to minimize the usage of chemical fertilizers. Thus, his interest [in Gamaya] is not only strictly related to the financial aspects but also to sustainability."* The investor offers strong support to Gamaya, providing office space, business support and institutional knowledge. When the company searched for employees, the founders conducted the interviews themselves; however, they frequently consulted the investor for cultural and institutional insight. Furthermore, although Gamaya's founders deal with administrative issues themselves, none speak Portuguese, so they frequently turn to the investor for help when they face difficulties. Gamaya's founders also have effectively built a network in Brazil through regular collaboration with the Brazilian investor and regular travel to Brazil. The latter connected Gamaya with other local business partners, enabling them to diversify their local network. Last but not least, the firm's involvement with its investor roots Gamaya in the Brazilian market, which allows the development of cultural understanding and helps to overcome legal barriers. Developing trust can be a challenge and the founders appreciate having a bi-cultural, Swiss-Brazilian investor. As revealed by one founder: *"... to open a legal entity in Brazil, you need to have Brazilian residence. In our case we are lucky because the Brazilian investor is a Brazilian resident [Swiss-Brazilian passport holder]. But it would be harder for us to find a [pure] Brazilian person because initially he needs to become an investor and it is not easy to find a person that you can trust*." Moreover, Gamaya targeted the most innovative agricultural companies in Brazil by working through its network in Switzerland. This strategy was more successful than trying to develop relationships by participating in conferences. *"Actually, we participated in a number of conferences and we learned in our way that it wasn't very appealing for us because the audience wasn't those we were for looking for."* Brazilian companies require relationships to be cultivated. Brazilian people need time to really trust a new partner, as the co-founder of Gamaya stated: *"There is no real strategy to penetrate Brazil, you just need to find local contacts in Brazil and usually we rely on own network, focusing on a very niche market in the country. (...) In Brazil, we aim to meet most innovative and respectful companies in Brazil. Once you do business with these guys, which are one or two companies in that segment, then this is the best marketing that you can have in Brazil because the circle of industrial players is very limited. They all know each other because they are very big. If you work* *with the best ones, your company will succeed. Our strategy in Brazil is to work with the champions."*

Although Gamaya earned 100% of the firm's income in Brazil, the founding team considers the market to be challenging. First, a lack of political stability is a key challenge as it impedes the company from strengthening its position in Brazil because customers are less interested in investing in technology. Second, products offered by BGs are premium products, therefore if there is a downturn in the economic situation, customers will cease to buy them. As Gamaya's co-founder revealed: *"It is really hard to address the market in Brazil from Switzerland without understanding the Brazilian market."* Third, building trust and developing relationships are both critical and challenging tasks. Indeed, Brazilians value trust highly: "*they are very nice at the beginning but you need to be a bit cautious not to overpromise, etc.*" Moreover, Brazilians seem to be less rule driven and more flexible than Swiss. Another challenge is the necessity to speak Portuguese, even in large cities. After early success in the Brazilian market, Gamaya's future development aims at reducing operational costs and overcoming the high tax system. They also would like to grow their Brazilian micro-subsidiary.

Concluding discussion

Our multiple case study investigation provides insights into how BGs from developed countries which are entering emerging markets may effectively bridge the institutional distance between home and host markets. The research questions investigated were: 1) how do different institutional arrangements in Brazil impact Swiss BGs' implementation; and 2) how do Swiss BGs engage in isomorphic processes to bridge the institutional distance? The two BGs viewed Brazil as a country offering important business opportunities and they faced similar institutional challenges; however, they tackled these in different ways and with different outcomes. Comparing these two cases highlights key factors which might shed light on the successful internationalization of BGs from developed economies in emerging markets. We will first describe the institutional isomorphic pressures on the two Swiss BGs. We then will reveal how they engaged in isomorphic processes to bridge the institutional distance between home and host markets, i.e., niche strategy, market entry mode and a strong local network.

Institutional isomorphic pressures on Swiss BGs in Brazil

The two Swiss BGs in Brazil were subject to mimetic and coercive isomorphism. In terms of the mimetic isomorphism, our investigations reveal that in the Brazilian market, customers are more price sensitive than in developed markets. High taxes and the unstable currency make products offered by Swiss BGs even more expensive for Brazilian customers. The latter are resistant to making swift purchasing decisions and prefer to first test a product; they consequently often postpone purchase decisions. Brazilian clients would also like to see more Brazilian components in the final Swiss product offered. Moreover, distributors may have a preference for products with larger margin profits to the detriment of expensive Swiss products. Finally, Brazilian companies require relationships to be cultivated. Brazilians need time to develop trust in a new partner, and developing relationships is consequently both a critical and challenging task. Another challenge is the necessity to speak Portuguese, even in large cities.

In terms of the coercive isomorphism, Brazilian authorities and state-owned clients show a preference for local companies and there is protectionism of indigenous firms. Payment terms and contracts also may be less favourable for foreign BGs. The bureaucracy risks slowing down the business development of a foreign firm. It is also necessary to know key Brazilian stakeholders such as public authorities and associations, especially in light of the political and economic volatility. The price of the product therefore changes frequently, and consequently it is difficult to remain an attractive partner for Brazilians. These findings provide important insights into existing literature on international management, which stresses the importance of perceived country and company image in a foreign market. For example, drawing from a survey of 55 small businesses in northwest England, Daryanto et al. (2013) found that a good image of an English firm in China leads Chinese customers to have a positive perception of the English firms' business website. However, our qualitative findings are complementary and reveal that a good image might not be enough when faced with protectionism of indigenous firms.

BGs attempts to bridge institutional distance

A brief comparison of the two cases studied is presented in Table 3, where we indicate that a niche strategy, a high commitment entry mode and a strong local network facilitate the bridging of the institutional distance of Swiss firms in Brazil.

Insert table 3 about here

Niche strategy. The two BGs followed a niche strategy, defined as a special combination of product, consumers and market, the keys of which lie in product quality, distribution and service (Porter, 1980). In the case of the two Swiss BGs, they had no or very few competitors in the Brazilian market, and they were particularly interested in the market niche potential. The definition of market niche with respect to Brazil is the same as that used in developed countries (Knight, Madsen, & Servais, 2004). Firms following a niche strategy need to pursue internationalization swiftly as the home market is usually too small to generate enough profits (Simon, 1996). The majority of BGs follow a niche strategy to swiftly reach scalability (Bell, 1995; Chetty & Campbell-Hunt, 2004; Gabrielsson & Kirpalani, 2004; Knight et al., 2004; Madsen & Servais, 1997; Rennie, 1993; Rialp et al., 2005). Furthermore, while existing research in developed countries indicate that BGs need to maintain a high innovation capacity to be successful in the host market (Madsen & Servais, 1997), our findings reveal that in emerging markets, innovation capacity might be less important. Instead, marketing capability might be particularly important, i.e., the communication of company and product credibility, the adjustment of product price to local characteristics, and appropriate distribution options. Daryanto et al. (2013) quantitative study confirms that the localization of foreign website content impacts perceived usefulness of the foreign firms' business in China.

Market entry mode. The two Swiss BGs began their internationalization in Brazil with different modes of entry. Vela Solaris opted for a low commitment mode of market entry to test the market. However, it did not work well, as the founders had insufficient control over their operations in Brazil, and did not have an appropriate business network with local stakeholders. Our research reveals that the strength of the relationship between a BG and a distributor tends to be weaker than in high commitment modes (e.g., involving a shareholder). This may lead to difficulties in establishing adequate relationships and might hinder the learning process of the foreign market while the knowledge remains with the local partners (Huber, 1991). As the Brazilian distributor was responsible for direct contacts with customers and Brazilian authorities, the founders of Vela Solaris had fewer opportunities to learn about Brazilian institutional characteristics. This is in line with existing literature, which reveals that low commitment modes at the initial stage of internationalization make it more difficult for companies to develop experiential knowledge about foreign customers (Melen & Nordman, 2009). Our data reveals that low commitment modes of entry might be even less suitable in emerging markets as they might not allow the institutional distance between home and host countries to be effectively bridged. This may also have been due to the Swiss founders' difficulties in monitoring the local distributor and leveraging the firm's competitive advantage to overcome the barriers related to the high price of Swiss products. The distributor may have preferred to invest more effort on products with larger margin profits to the detriment of expensive Swiss products. In contrast, Gamaya relied on their minority shareholders in Brazil, which allowed them to acquire tacit market knowledge. First, Gamaya profited from grafting their investors' knowledge to their organization (Huber, 1991), as the investors brought valuable insights about Brazilian institutions and facilitated the leveraging of their FSA in the Brazilian market. Second, in the case of Gamaya, the investor provided additional knowledge by mentoring the company's founders and providing the Swiss entrepreneurs with valuable insight into the complexities of the Brazilian market in terms of the political environment, the legal and fiscal framework, and cultural features. This is in line with existing literature which reveals the importance of networks for global firms that attempt to acquire host market knowledge (Gassmann & Keupp, 2007; Jolly, Alahutha, & Jeannet, 1992; Madsen & Servais, 1997; Mathews & Zander, 2007; Oviatt & McDougall, 1994; Sharma & Blomstermo, 2003). Our research shows that when developing a network in the context of emerging markets, it is crucial for the firm to know the foreign market, and to have established trust and understanding with a key partner in the host market, as was the case of Gamaya. BGs thus might need to invest time in network development from the conceptualization stage. After entry into a market, the network should be further extended, and in this way the company increases its social capital (Coviello, 2006). According to Chetty & Campbell-Hunt (2004), the networks of BGs develop much faster in terms of size and scope than those of SMEs. As demonstrated by our research, the founders developing a good network in Brazil can allow an outsider to become an insider and overcome institutional protectionism, which points to the importance of entrepreneurial skills in the internationalization of small businesses (Ruzzier et al., 2006).

Liability of outsidership

Brazilians usually perceive Swiss technology products to be more trustworthy than Brazilian ones. The Swiss-made/Swiss-quality feature could be used to foster confidence in the early stages of contact with clients. The "Swiss made" label thus could help to overcome the hurdle presented by the price of the software, which is expensive due to high wages in Switzerland. To this end, Gamaya strove to retain the CSA value, i.e., the "Made in Switzerland" label. Vela Solaris chiefly focused on leveraging their FSA, as the CSA was of less of importance to them. This focus on the FSA extends the work of Edman (2016), who found that maintaining foreignness may, under certain conditions, help to overcome the liability of outsidership in host markets. Following their initial success on the Brazilian market, Gamaya's founders decided to increase their market commitment and to further expand their business in Brazil by setting up a start-up accelerator, because they understood that without a legal entity it is difficult to develop business in the Brazilian market. As Rialp et al. (2005) indicated, BGs are flexible in their internationalization modes. They adapt internationalization modes to the needs of individual markets (Sharma & Blomstermo, 2003). On the other hand, Vela Solaris in particular faced the liability of outsidership in terms of low revenue; thus, the founders decided against further market commitment.

Practical implications

The Brazilian market is challenging for Western firms due to institutional barriers such as complexity, instability and protectionism. The most important takeaway from the Swiss BGs' experience in Brazil relates to a higher importance of marketing capacity, as is the case in host, developed markets. In Brazil, it is important to localize the business in terms of technical specifications and communication with local customers. Second, our findings reveal that a high commitment market mode of entry, i.e., one requiring considerable financial resources, might sharply decrease the liability of outsidership. However, the company should start to cooperate with a local investor (as this is required by Brazilian law) from the outset and acquire knowledge about the market. When the company's management has direct contact with customers and local institutions, it learns swiftly through experiences in Brazil. Feedback loops are shorter and allow behaviour to be modified more quickly. The total costs of launching a micro-subsidiary also may be smaller than those associated with choosing a product distributor. Moreover, the proper selection of a distributor from a distant country is difficult and risky, as illustrated by the case of Vela Solaris. Additionally, the low commitment mode of entry hinders the swift acquisition of market knowledge.

Summing up, networks are crucial when entering emerging markets because they are the source of market knowledge and can help overcome the negative effect of institutional barriers. A

BG entering Brazil has several possibilities to develop a local network. First, the company can profit from the international experience of their founders and their links with Brazil. However, such instances are rare. Therefore, the management can try to use its existing European network of contacts to search for relationships with Brazilian partners. Second, the company can profit from using a network of Brazilian investors or executives. Therefore, when making the decision to cooperate with local citizens, the founders should analyse the local partners' networking potential. Third, the location of the company's headquarters in Brazil is an important factor for network development. Brazil is a large country and most businesses associated with innovation and technology are in Sao Paulo. Therefore, it might be an easier location to gain access to investors, partners, etc. Finally, although conferences are the easiest method of making new contacts, they are not efficient in network building because they do not ensure relationship intensity.

We propose to further investigate how western BGs may overcome disadvantages of foreignness and effectively gain acceptance in emerging markets such as in Brazil, China or India. This could be done by looking at micro processes e.g., multiple identities wherein BGs strive to simultaneously fit in and stand out in the host market.

Table 1. Conceptualization of BGs

Authors	**Definition**
Oviatt & McDougall (1994)	Firm which from its inception seeks to derive significant competitive advantage from the use of resources (e.g., material, people, financing, time) and the sale of outputs in global markets.
Chetty & Campbell-Hunt (2004)	Firm that begins to internationalize within two years after its inception and at least 80% of total sales are in global markets.
Luostarinen & Gabrielsson (2006)	Firm that enters global markets at the outset with at least 50% of total sales in global markets and which is 21 years old maximum.
Gabrielsson, Sasi & Darling (2004)	Firm that internationalizes between 2-3 years, and up to 15 years after inception. They generate over half of total sales from global markets.
Knight et al. (2004)	Firm that internationalizes within 3 years after its inception and generates at least 25% of total sales from global markets and which is 20 years old maximum.
Gabrielsson, Kirpalani, Dimitratos, Solberg & Zucchella (2008)	Firm which develops products with global potential, based on unique technology and design. The founder needs to have a global vision from inception. It generates at least 50% of total sales from global markets.

Table 2. Summary information on the two Swiss BGs		
	Vela Solaris	**Gamaya**
Established in	2006	2015
Origins	Spin-off: Hochschule für Technik Rapperswil	Spin-off : Ecole Polytechnique Fédérale de Lausanne
Products	Software to design and optimize hybrid systems of renewable energies. The first version of the software was developed in 1992 but it remained non-marketable until 2007	Drone capable of detecting planting errors, classifying weeds, monitoring crop biomass and subsequently transmitting data to an IT tool
Internationalization	2007	2015
First foreign market	European Union	Brazil
Entrance in Brazil	2009	2015

Table 3. Factors in the internationalization of Swiss BGs in Brazil		
	Vela Solaris	**Gamaya**
Niche strategy	Brazil: window to other Latin American markets No competition FSA: customization Low marketing capacity	Brazil: target market in Latin America Few competitors FSA: simplicity High marketing capacity
Mode of entry	Low commitment mode Export: Distributor	High commitment mode Micro-subsidiary: minority shareholder
Liability of outsidership	High: limited local network	Low: local network

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