



THEORETICAL APPROACHES TO INTERNATIONALIZATION OF SMES

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ABSTRACT

In the field of internationalization small and medium-sized enterprises (SMEs) are often characterized by the lack of opportunities, market power and scarcity of resources when compared to large enterprises. Hence, greater challenges are posed by such deficiencies to the internationalization of SMEs. In this light, it may be assumed that the approaches of internationalization undertaken by SMEs differ from these of large enterprises. The PURPOSE of this research paper is to explore and expose the approaches to internationalization which are most commonly undertaken by SMEs. In terms of research METHODS, the author uses a descriptive research approach with secondary sources of data. A detailed examination of the literature reduces the RESULTS in internationalization approaches to the economic approach, stage approach, network approach and born-global approach as dominant. As CONCLUSIONS, it is highlighted the evolution in the discussed approaches – from a resource-based view to unilateral, multilateral and entrepreneurial viewpoints.

Key words: small and medium-sized enterprises, resources

INTRODUCTION

As firms' business development increases most firms begin to evaluate opportunities for further development in foreign markets. There are different pull factors that may trigger the internationalization decision taken by a firm. For example, a firm may go abroad in search of suppliers of materials and parts; in order to decrease its production costs or provide new markets for its own products; due to a decrease in its local market share, intensified local competition or in order to achieve economies of scale. Sometimes (in the existence of strong pull factors) a firm may decide to establish production in some of its import countries or a decisive factor for internationalization may be a fast growing emerging foreign market (1).

As it may be inferred, foreign markets can provide a lot of opportunities for business growth to a firm. However, every internationalization decision is associated with particular risks such as common market risks, trade risks and political risks (2) that may hinder the internationalization of an SME. Therefore, before taking a decision to internationalize an SME should carefully evaluate whether the opportunities outweigh the risks associated with a foreign market entry and choose an appropriate approach to its internationalization.

Compared to a large enterprise, an SME has been often defined in terms of its lack of opportunities, resources and market power which are mostly available to a large enterprise (3). In this light, it may be assumed that internationalization approaches differ between an SME and a large enterprise. Taking this into account, the author researches the approaches used by an SME only.

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METHODS

The author uses a descriptive research approach based on secondary sources of data from the specialised literature in internationalization.

RESULTS

A thorough examination of the literature in this field narrows the dominant approaches undertaken by an SME to the economic approach, stage approach, network approach and born-global approach.

The economic approach consists in some of the earliest attempts in explaining the internationalization of a firm and its steps on prior economic research. The approach leaves an important footprint, both empirical and theoretical, in this field. Research works that stand out in this approach include the resource-based view of the firm (4, 5), theory of internalisation (6), transaction cost theory (7) and eclectic paradigm (8). Among these, the resource-based view of the firm (RBV) has been most widely discussed as to the internationalization of SMEs.

For example, Wernerfelt researches the usefulness of analysing a firm in terms of its resources rather than its produced products. As a result, the last author introduces a resource-product matrix and a resource position barrier to emphasize strategic options that result from the resource perspective (9).

Barney examines the relationship between a firm's resources and sustained competitive advantage by classifying resources into three categories: physical capital resources (10), human capital resources (11), and organizational capital resources (12). Barney argues that the potential of a firm's resource to generate sustained competitive advantage depends on its empirical indicators of value, rareness, imitability, and substitutability (13).

The resource-based view of the firm has important implications for most research topics related to business internationalization as confirmed by the bibliometric analysis on it from 1991 to 2010 (14). It deserves special attention to the examination of an SME's internationalization due to its scarcity of resources. The next approach relates to a gradual perspective of

internationalization and it is widely considered to be a pivotal starting point in examining the SME's internationalization.

The stage approach centres around the gradual expansion of a firm's activities abroad and it affirms with empirical evidence the incremental internationalization of relatively small firms. The most popular models that fall into this approach are the Uppsala model (15-17) and I-model (18-21).

The wide acceptance of the Uppsala model has been supported by empirical evidence for the internationalization process of the Swedish firms „Sandvik”, „Atlas Copco”, „Facit”, and „Volvo” in the 1970s. Uppsala is a classic example of the successful incremental international expansion of comparatively small firms that manage to overcome the lacks of knowledge of foreign markets and resources by sequentially taking decisions and learning about foreign markets and operations (22).

Regarding the aforementioned I-models, the author states that although there are some differences between the models, as a whole they are characterised by the gradual research in stages about opportunities of exports of goods initially in close countries followed by more distant countries when the firm accumulates enough experience. This experiential principle is accompanied by the increasing experience and knowledge of exports in foreign markets as well as the consequential allocation of more resources for export activities.

The transition towards the business network approach of internationalization (also known as a network model) occurs slowly. Despite the periodic publication of positive results of research studies supporting the network approach, until 2009 to a great extent the views on internationalization encompass a focus firm that explores foreign markets by itself (23). The last perspective has been contested by supporters of the network approach which starts to dominate over the unilateral standpoint of internationalization in 2009 leading to the notion that firms are members in networks of business relationships, that markets comprise of networks of business relationships, and that industries are networks of business relationships (24, 25).

The network approach postulates that a firm's internationalization is a process which depends on relationships and the interconnectedness in networks of multilateral participants in the international business (26, 27). Such business relationships and networks are decisive for the internationalization of an SME as they allow it to overcome some of the challenges during its internationalization, e.g., limited resources (28-29). By interacting and cooperating with other firms, the interconnected firms become interdependent in different ways (30). It is often mentioned of intertwining actors such as participants, resources and activities in the connected firms, e.g., the ARA model (31).

The changes in views of a firm's internationalisation from unilateral to multilateral and entrepreneurial are reflected in the applied changes to the Uppsala model. In 2009 the model has been reformulated to incorporate the theories of business networks and entrepreneurship (32). The entrepreneurship theory stands in contradiction to the stage theory of internationalization as it advances a rapid form of internationalization, namely born global firms.

Lately most contemporary research studies examine the SME's internationalization focusing on the phenomenon of born global firms. It is considered that the term has been initially introduced as a field of research in the early 1990s (33, 34). A research study conducted by McKinsey & Company of Australian exporting firms notes the emergence of multiple SMEs which from their inception successfully compete with large, well-established companies in international markets. Such SMEs do not internationalize gradually but are born global (35).

The conceptualization of the born global approach highlights new firms that derive a significant part of their incomes from international sales (i.e., high export share). These firms show a high level of international entrepreneurial orientation. Although born global firms are relatively small in size and limited in terms of tangible resources, normally such firms are endowed with distinctive intangible resources and capabilities. It becomes evident that a born global firm is especially adept at the allocation of resources in conditions of assets' scarcity (36).

It is stated that business networks act as critical assets for the foundation and development of a born global firm (37-39). However, the stage models of internationalization are often juxtaposed in contradiction to the rapid internationalization followed by a born global firm. Despite the everlasting scientific debates between these two schools, there is research in this field that points to the view that the rapid and gradual internationalization approaches do not have to be opposed but rather seen as complimentary approaches. The reason is that a born global firm can grow internationally incrementally even though its first steps abroad are made at an early stage of its overall development (40).

On the other hand, the various views on a born global firm stepping on theories and structures from different fields along with the inconsistency in definitions and the number of criteria that are taken into account make research studies in this field more long-range, mixed and undefined (41).

CONCLUSION

The author summarizes that the listed theoretical approaches to internationalization show the evolution in conceptions about the SME's internationalization. It is noticeable that the views evolve from a resource-based view of the firm (when resources can provide competitive advantages in the internationalization of a firm) to unilateral (a focus firm explores foreign markets gradually without cooperating with other firms) and move towards multilateral (networking) and entrepreneurial views. The debates around the excelling approach of the SME's internationalization continue. A research problem that remains unresolved until today is the possible integration of these perspectives into a superior complementary approach or model of the SME's internationalization.

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