Internationalization of SMEs: Finding A Way Ahead
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Abstract: The emergence of multinational firms has been a distinct feature of globalization in the developing countries. Many of the emerging multinational firms are small and medium enterprises (SME), seeking to capitalize on their unique skills and capabilities and achieve rapid growth and diversify the sources of their revenue streams. SMEs have used their social capital to penetrate into foreign markets and acquire market share. However they are unable to observe the strategies behind internationalization processes of SMEs. As more and more firms enter the international business environment, there is increased competition. Technological advancements, declining trade barriers etc. are driving the world economy to become more and more integrated and this rapid globalization is enabling SMEs to become international in a quicker yet effective manner. Advancements in information technology and improvements in communication infrastructure have resulted in opportunities for SMEs to participate in global markets in both developing and developed countries. Since, governmental reform in 1991, SMEs in India have been faced with new competitive intensity. Improvements in resource utilization make it possible to sell a variety of products and services from anywhere in the world, around the clock. This paper will help to gain a better understanding of strategies behind the internationalization process of SMEs.

Keywords: SME, India, Internationalisation, Strategies, Models.

I. Introduction

Internationalization is the process of increasing involvement in international operations (Welch and Luostarinen, 1988). Internationalization is a synonym for the geographical expansion of economic activities by firms over a national country’s border (Ruzzier, et al, 2006). Geographic expansion is one of the most important paths for firm growth. It is a particularly important growth strategy for SMEs whose business scope has been geographically confined (Barringer and Greening, 1998). Internationalization is the extent to which a firm is involved in international business. It includes exporting, the presence of foreign subsidiaries, share ownership by foreigners and the appointment of foreigners in the organizational structure (Chelliah, et al, 2010).

Small and Medium Enterprises (SMEs) are increasingly operating in international markets. Trade liberalization and the concomitant international competition exert twin pressures on firms. They need to maintain a sustainable competitive advantage owing to the complexities of international trade. New ways are required to compete, as the earlier competitive strategy of differentiation based on price, product or technology, is losing value (Lloyd-Reason, 2003). According to Hessels (2008) SMEs in general can adopt internationalization as a strategy to access or build up resources because European SMEs use internationalization as a means of overcoming resource constraints. But Baldegger and Schueffel (2010) contend that the most prominent factors influencing the internationalization of SMEs are resources, the environment, the industry type the firm is engaged in and the firm’s personnel. SMEs tend to move into foreign markets as exporters and/or as foreign investors (Reynolds, 1997). In general, SMEs can use one or more of the four modes for internationalization: exports, contractual agreements, production investments and strategic alliances (Codotto, 2008). But exporting has been traditionally regarded as the first step to enter international markets serving as a platform for future international expansions (Kogut and Chang, 1996). This strategy is particularly applicable to the internationalization of SMEs because SMEs frequently lack the resources, financial or otherwise, for FDI (Zahra, et al, 1997).

Indian markets have opened to foreign companies since 1991. Small and medium enterprises face the competitive pressure of both domestic and overseas rivals. SMEs respond by entering foreign markets, motivated by both push and pull factors (Lloyd-Reason, 2003). As the reduction in the barriers for global commerce continues and the world economy becomes more integrated, there is an increase in the attention being placed on the internationalization of small and medium-sized enterprises (SMEs) (Lu and Beamish, 2001; Knight, 2001). As more and more firms enter the international business environment, there is increased competition. Increasing competition results in a reduction in the ability of SMEs to control their own developmental paths (Etemad et al., 2001). In a very competitive environment, there is a need to identify and understand factors that impact...
international performance (Kuivalainen et al., 2004). SMEs represent a sector of growing importance and play an important role in the growth of emerging nations especially with regards to providing employment and driving economic development (Kula and Tatoglu, 2003).

Modern empirical findings worldwide show that SME internationalization modes are not path-dependent, emergent, or incremental (Schulz, 2006). Internationalization theories are effected by the research on large-scale enterprises, although it has already been clear for some time that "a small business is not a little big business" (Welsh and White, 1980). In the SME research, it apparently has become clear that "size does matter" (Wincenc, 2005). Nevertheless, the initial theoretical approaches that attempt to explain the full range of SME internationalization processes have widely failed (Smolarski and Wilner, 2005). But current SME research still uses stage models and learning-based stage models or network approaches to explain internationalisation patterns of SMEs. However, even discontinuous stage models cannot cover the range of phenomena, such as "born globals" or "instant internationals" (traditional SMEs which enter the international field or are successfully operating in foreign countries), "backsource" (who re-concentrate their international activities back to the home base), "born regionals" (who gain their force out of a local embeddedness and never shift capacity beyond export activities).

The study of SMEs in general has received the attention of academicians but their role in emerging economies has yet to be actively explored. Moreover, the internationalization process of SMEs demands more research as they continue to expand overseas since the commencement of transformation process. This paper focuses on internalization process, theoretical aspects and the practical aspects of the internationalization process of the SMEs.

II. Internationalisation Of SMEs

Study on Small and medium enterprises are critical for a country’s economic welfare and social development. The plethora of government policies and programmes for the encouragement of SMEs underline their significance for national development. SMEs also play a major role in sustaining home country businesses in the face of pressure from the foreign firms entering the home market (Pollard, 2001). In the Indian context, small and medium enterprise sector has made a phenomenal contribution to the Indian economy. It comprises around 13million units, employing about 41million people, having an approximate share of 45% of manufacturing output and 40% of exports and contributing almost 8-9% of GDP (MSME Overview, 2007).

This definition outlines that internationalization has both economic and behavioural component and it is a process and not an event (Pollard, 2001). Gibb (1993) define internationalization as ‘the process of increasing involvement in international operations’. It is ‘the change in the level of international orientation and/or activity over time’. “The process of internationalization is strategic, gradual, and incremental” (Lloyd-Reason, 2003). Internationalization can be termed as a process of adaptation (cf. Calof and Beamish, 1995).

There is insufficient knowledge on the internationalization of small firms (Bilkey & Tesar, 1977) since the typical unit of analysis has been large multinational firms. The majority of prior research examining SMEs has been non-random case studies with a focus on exporting of manufacturing firms (Coviello & McAuley, 1999).

SMEs face not only the same challenges as larger firms, but also potential deficiencies in resources not present in larger firms. Barriers to SME internationalization are well documented. Barriers to SME internationalization include:

i. lack of strategic resources, such as an experienced manager to oversee the international expansion process,
ii. operational deficiencies, such as the ability to use the marketing mix to meet foreign market requirements,
iii. informational related barriers, which entail limited intelligence generating capabilities, and
iv. Process-based restrictions or problems in the communication process needed to create and deliver the product (Shuman & Seeger, 1986).

Yet SMEs exhibit successful internationalization and at speeds greater than resource rich MNEs. Furthermore, the process of SME international is not systematic and is in direct contrast to the traditional stage process of internationalization. Factors found to be the driving forces of SME internationalization that overcome barriers include:

i. prior international experience,
ii. foreign travel,
iii. The number of foreign languages spoken (Hutchinson, Quinn, & Alexander, 2006).

A body of export literature exists upon which to gain knowledge of factors contributing to small firm internationalization. Several authors conclude that management significantly influences international activities (Johanson & Vahlne, 1977) by affecting the speed, mode, and direction of internationalization. A review of export literature by Leonidou Katsikeas, and Piercy (1998) finds that both objective and subjective managerial factors influence SME internationalization. Objective factors, such as education, experience, and foreign exposure, positively influence international expansion, with experience having a strong effect. Subjective perceptions of opportunities and barriers, and managers’ attitudes toward risk were also found to affect SME internationalization.
III. Theoretical Framework Of Internationalization

The existing papers study the theories and the practical aspects of SME internationalization. Among the theories, the resource based view and the knowledge based view are the most significant to explain international entry of SMEs.

Research on SMEs increased in the early 1990s in an effort to understand the challenges and behavior of small firms. Several literature reviews of smaller firm internationalization have been conducted (Fillis, 2001). A review of SME literature by Calofo and Beamish (1995) finds consistent reporting of SME leapfrogging through internationalization stages, multiple strategies being pursued simultaneously, and evidence of both supporting and contradictory findings of SME internationalization via incremental stages.

As per Resource Based View (RBV), the firm is considered as a bundle of linked resources (Rumelt, 1984). Various resources like technological, financial, human, physical and organizational are acknowledged in the literature. The RBV is applicable for the growth of small firms and also for their internationalization activities. Wernerfelt (1984) observes that a firm’s growth emerges from the balance between exploitation of existing resources and development of new resources. Wernerfelt (1984) opined that international market diversification had a role in new resource building. Outward FDI in subsidiaries and offices is a way of diversifying markets internationally. The RBV considers firm’s resources as determinants of internationalization activity. This view has been widely studied. However internationalization can itself emerge as a firm resource for superior performance. The present study is an attempt to study the latter aspect which deserves more attention in the context of emerging economies.

The Knowledge Based View (KBV) of the firm has emerged as an extension to RBV. According to Kuivalainen (2003), KBV accepts much of the contention of RBV and also emphasizes the process of evolution of specific capabilities. The idea of the evolution of resources, capabilities and knowledge emerges from evolutionary economics (Foss and Eriksen, 1995), in which learning is central to superior performance (Teece et al., 1997).

Kuivalainen (2003) views firms as repositories of knowledge, and Miller and Shamsie (1996) observe that, in increasingly unstable environment, knowledge-based resources contribute most to firms’ performance. Kuivalainen and Bell (2004) also view that the entrepreneur(s) is the catalyst for new resources, capabilities and knowledge. KBV does not focus on resources per se but on the evolving internationally acquired routines and capabilities (Kuivalainen and Bell, 2004). However, as this approach is relatively new, and there is little empirical support in existence, the present study seeks to further investigate these issues by focusing on capabilities of SME management/CEO and their impact on firm performance.

Two distinct streams have emerged in literature to address SME internationalization (McDougall & Oviatt, 2000).

i. One stream focuses on international new ventures that are international from inception, where researchers examine both the antecedents and consequences of internationalization (Zahra & Garvis, 2000).

ii. The second stream examines internationalization of established SMEs, where researchers focus on SME export antecedents, and the process of exporting, export performance, and the patterns of internationalization (Bell, 1995).

A review of SME literature (Rialp, Rialp, & Knight, 2005) reveals that early internationalization of small firms is evidenced across the globe and is not country or industry specific, an observation also noted by Coviello and McAuley (1999). This view is echoed by Fillis (2001) in a review of SME literature. These authors note that early internationalization may be similar to the knowledge-based view. Several researchers perceive —born-global firms and international new ventures as entrepreneurial firms whose managers perceive the world as their marketplace from inception. In comparison to exporters, —born-global firms and INVs generally are niche marketers.

IV. Practical Aspects Of Internationalisation

The authors concluded that one theoretical framework does not capture the complex SME internationalization process. Evidence of accelerated internationalization infers that prior theories do not explain the internationalization of small, knowledge-intensive, and service-intensive firms (Rialp, Rialp, & Knight, 2005). The concentration on an independent theoretical concept of SME and internationalization is therefore essential and indispensable. The practical aspects include the concept and the process of internationalization, its approaches, motives, barriers, and it’s various dimensions. These issues are discussed as follows:

For SMEs, with their limited financial resources, home country focus and small geographic base, international activity is a significant step. Most of them lack the resources required for engaging in overseas activity (Kirby and Kaiser, 2003). However globalization, technology, information availability and changed organizational structure have enabled SMEs to venture overseas. SMEs have been engaged in export/import, alliances, mergers and acquisitions (OECD 2005). Traditionally, internationalization was understood as a sequential process moving in four discrete stages of
i. intermittent exports;
ii. exports via agents;
iii. overseas sales via knowledge agreements (licensing or franchising);
iv. foreign direct investment (Johnson and Widersheim-Paul, 1975).

However, new research indicates that firms do not necessarily follow this sequential pattern (Benito’ and Welch, 1993). As per the “New Venture Internationalization Theory”, entrepreneurial vision and the initial resource endowment, influence early internationalization decisions (Autio and Sapienza, 2000). This is particularly true for knowledge-intensive industries (McDougall and Oviatt, 1996) like in case of software SMEs.

Beamish (1990) defines internationalization as 'a process by which firms both increase their awareness of the direct and indirect influence of international transactions on their future, and establish and conduct transactions with other countries. SMEs are actively involved in international markets, but they face problems in entering these markets (Reynolds, 1997). These problems are due to lack of knowledge about exports, marketing etc. SMEs internationalize through different ways which include networking with foreign firms, accessing foreign countries through trade fairs, exporters and publications. Other mechanisms for internationalization include entering into joint ventures, licensing arrangements and subcontracting (Pollard, 2001).

However, size may not be an impediment to internationalization. Small firms are able to overcome their small size (Baird, Lyles, & Orris, 1994). According to Wolf and Pett (2000, 2007), there is no significant difference between small and large firm export intensity. In fact, prior studies indicate that small firms are:

i. less affected by adverse external changes than large firms,
ii. able to adapt prices to currency fluctuations more quickly,
iii. more flexible, and
iv. willing to take on greater risk.

A study of SMEs by Calof and Beamish (1995) concluded that size was not a barrier to internationalization and that SMEs find unique ways to overcome smallness. Cavusgil (1984) found no significant relationship between firm size and the propensity to export. Westhead, et.al (2001) argue that the ability to export is not a function of firm size and age but more importantly, entrepreneurial human capital and the internal resources of the firm. A review of small firm internationalization literature spanning several decades by Lu and Beamish (2001) notes that innovative thinking; creativity, opportunity recognition, and risk-taking positively influence firm internationalization. As evidence of this observation, a study of 105 small U.S. manufacturing firms found that an entrepreneurial orientation focused the firm’s efforts and significantly increased international growth in the number of customers, sales, and market share (Fillis, 2001). Wolf and Pett (2007) state that an entrepreneurial orientation aids in overcoming size barriers for international growth.

V. Conclusion

Globalization has offered new opportunities to SME sector much more than before and there were clear indications that the sector in fact has been taking advantage of it, particularly in the global market. SME sector has grown more towards the international market than towards the domestic market in the globalization era. Therefore contrary to expectations, example the Indian SSI has been registering an impressive growth of exports since 1990/91. However this trend is not India specific. In the last few decades, many Small and Medium Enterprises (SMEs) have successfully set up activities beyond their home markets and their role is increasingly crucial in contributing to future growth (Gjellerup, 2000). A significant development within the broad internationalization trend has been the increasingly active role played by SMEs in international markets. The internationalization of SMEs can be expected to gain further momentum because the world economy is becoming increasingly integrated with continued declines in government-imposed barriers and continued advances in technology.
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