



# INTERNATIONALIZATION, ENTREPRENEURSHIP AND THE SMALLER FIRM

EVIDENCE FROM AROUND THE WORLD

EDITED BY

MARIAN V. JONES, PAVLOS DIMITRATOS,  
MARGARET FLETCHER AND STEPHEN YOUNG

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# Internationalization, Entrepreneurship and the Smaller Firm

Evidence from Around the World

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# Internationalization, Entrepreneurship and the Smaller Firm

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# Foreword

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It is a great pleasure to introduce this volume on current research themes and modern challenges in SME (small and medium-sized enterprise) internationalization. Prepared by leading scholars from the Centre for Internationalization and Enterprise Research (CIER) at the University of Glasgow, it contains a collection of original and insightful chapters that were first presented as papers at the launch of CIER in April 2007. While the formation of CIER is a recent development, it has had a long gestation, stretching back more than two decades, as an international network of researchers on small-firm internationalization. Much of the impetus for its development can be attributed to Stephen Young, whose enthusiasm, encouragement and support have provided a catalyst for the foci of several generations of SME internationalization and international entrepreneurship researchers, including many of the present contributors. In singling him out for particular mention, I should also like to commend Marian Jones, Pavlos Dimitratos and Margaret Fletcher for all of their endeavours in putting this volume together and for their strong commitment to advancing enquiry in the field.

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May 2008*

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# 1. Introduction. SME internationalization: current themes of study and modern challenges

**Marian V. Jones, Pavlos Dimitratos,  
Margaret Fletcher and Stephen Young**

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The subjects of the internationalization of small and medium-sized enterprises (SMEs) and international entrepreneurship are very exciting and topical ones. In particular the growth of the global knowledge economy is associated with the emergence of many intellectual-capital-intensive SMEs, whose adventurous and entrepreneurial strategies may lead to early and rapid internationalization and globalization. These phenomena are not confined to developed countries as, for example, the expansion of the Indian software industry in Bangalore and the rapid growth of private sector internationalized SMEs from China have revealed. However, international entrepreneurial behaviour is not limited to early internationalizing SMEs. Thus opportunity recognition, for example, may be associated with ongoing business operations, and hence include low-technology and traditional SMEs and cautious as well as ambitious firms.

The internationalization of small firms has traditionally been capturing a major share of investigation on the international business agenda. Despite the fact that big multinationals have been increasingly engaging in the exchange of goods and services in the international business arena, significant market, resource or network opportunities appear for internationalized small firms also. It is of significant importance to their managers to find out which strategies work best in the international marketplace. In addition, policy-makers are keen to discover how they can assist their national small firms in their endeavours abroad.

This edited research-based volume has its genesis in a one-day seminar organized by the Centre for Internationalization and Enterprise Research (CIER – <http://www.gla.ac.uk/cier>) at the University of Glasgow on 23 April 2007. The editors gratefully acknowledge the support of the Department of Management at the University of Glasgow, Targeting Innovation Ltd and Scottish Enterprise in undertaking this event. The seminar was designed to

showcase the work of the newly formed CIER and its close networks and was designed specifically with publication in mind. The book presents evidence from a number of countries around the world, including Europe (the UK, Denmark and Greece), China and India in a variety of sectors (high-technology and traditional, and manufacturing and services); and from both early and rapid, and late and slow internationalizers. It also presents a number of conceptual models relating, for example, to the internationalization process, and the processes of learning and opportunity recognition respectively in the context of international trade and development. Several chapters contain critical discussion on the literature pertaining to the role of entry modes and different forms of organization such as domestic and international firms and the international new venture (INV).

Authors of chapters in the volume represent ten countries and include some of the best-known academics in the field of internationalization and international entrepreneurship, as well as emerging scholars and doctoral researchers, some of whom have the potential to be leading academics of the future.

The major contributions of the volume are to:

- Highlight the state-of-the-art in research on internationalization and international entrepreneurship in SMEs.
- Identify gaps in research evidence and potential for future research.
- Apply a range of theoretical perspectives including internationalization process and international new venture, and network and social capital frameworks; and knowledge, learning and absorptive capacity perspectives.
- Include case studies of internationalizing SMES.
- Provide important insights for international entrepreneurs and policy-makers.

Overall this research-based volume is designed to be state-of-the art and forward-looking, theoretical and empirical, and provide practitioner as well as academic contributions – with a global focus.

## CHAPTER COMMENTARY

The book comprises 14 chapters, beginning with this Introduction, and followed by Chapter 2 by Jones and Young entitled ‘Does entry mode matter? Reviewing current themes and perspectives’. The topic of methods of entering foreign markets is an appropriate one to lead with since there are questions as to whether many SMEs engage in higher-commitment entry

modes such as foreign direct investment. The authors argue that insufficient attention is paid to mode variety in the literature on small firm internationalization and that motivation for internationalization is an important but under-researched topic in mode choice. Similarly the interrelationships between informal networks and formal modes of international business activity require further investigation.

Chapters 3–8 contain both empirical and conceptual papers, but have a broad common theme around the notions of opportunities, knowledge, learning, and resources and capabilities. The contributions begin with Chapter 3 by Casulli, ‘Exploring opportunity creation in internationalizing SMEs: evidence from Scottish firms’, focusing upon the role of experience and networks in the process of opportunity recognition. The author defines international opportunity as an activity that creates ‘value in organizations through a combination of innovative, proactive and risk-seeking behaviour that crosses national borders’. Major dimensions of international opportunity investigated concern: the opportunity creation process versus instant eureka experience; solo versus network opportunity creation; and active versus passive, serendipitous opportunity creation.

Chapters 4, 5 and 6 are all concerned with a topic of major and exciting research significance for the future, namely, that of the interrelationships between domestic and international operations of firms, especially concerning learning and knowledge transfers. Based on two Greek in-depth cases, Chapter 4 by Plakoyiannaki and Deligianni, ‘Growth and learning spillovers from international markets: empirical evidence from Greek firms’ suggests that knowledge and skills transfers between domestic and international markets are two-way and perhaps two-stage, indicating a need for a holistic examination of firm growth. A similar conclusion is reached in the review undertaken in Chapter 5 by Karafyllia, ‘Perspectives on the interrelationships between domestic and international markets for the smaller firm’, which draws upon four strands of literature, namely: firm growth and development; economics; internationalization process; and international entrepreneurship. The theme of Chapter 6 by Fletcher, ‘Learning processes in the development of absorptive capacity of internationalizing SMEs’, is more specifically that of types of knowledge and learning processes in internationalization. This longitudinal case study research concludes that firms acquire and combine market, product or technological, and internationalization knowledge from both internal and external sources. However, of particular significance is the distinction made between two forms of internationalization knowledge: first, that which is specific to the internationalization process; and second, generic knowledge which is applicable to both domestic and international markets (thus contributing further to the topic of domestic–international market interrelationships).

The absorptive capacity process suggests a sequence of knowledge acquisition, assimilation and exploitation leading to the generation of resources and capabilities and performance enhancement. Chapters 7 and 8 consider two dimensions of resource creation – clients as a resource and networks as a resource. In Chapter 7, ‘Clients as a “hidden” resource in rapid internationalization’, Loane and Bell highlight some interesting and largely unexplored mechanisms by which clients can act as a conduit for knowledge that will enhance the firm’s resources and capabilities, and not simply as a source of revenue generation. There is also ample evidence available concerning the significance of networks as an important resource or capability in successful internationalization. The thesis presented in Chapter 8 by Tang, ‘Networks and the internationalization of firms: what we believe and what we might have missed’, is that networks are not universally beneficial to the business development of firms. According to the author, the emphasis must, therefore, be on deliberate networking efforts, and on constant adaptation and adjustment of the firm’s networking activities as part of a dynamic process.

The third group of contributions in this volume, Chapters 9–13, contains some similar themes to earlier chapters especially in respect of resource and capability development, but is distinguished by the focus upon the type of internationalizing and internationalized firm, an area where additional research is much needed. Based upon a large survey of established SMEs, Chapter 9 by Morgan-Thomas, ‘The development of e-commerce and the international growth of established SMEs: a capability perspective’, shows how complementary capabilities in internationalization and e-commerce, together with external knowledge sources and proactive efforts of the firm, affect online growth. While Morgan-Thomas focuses upon dynamic capabilities, in Chapter 10, ‘Core rigidities of micromultinationals: the Scottish experience’, Dimitratos, Johnson, Ibeh and Slow show that core competencies may be transformed into core rigidities, thereby reducing the competitive advantage of the firm and leading to ‘incumbent inertia’. The Dimitratos et al. study extends the limited literature on one particular category of internationalized SMEs, that is, micromultinationals (mMNES). The final three chapters in this section deal with international new ventures (INVs), unsurprisingly the most researched topic in SME internationalization in the recent past. In Chapter 11, ‘The international entrepreneur: entrepreneurial orientation of local and global firms’, Rasmussen, Madsen and Servais compare domestic new ventures (DNVs) and INVs. Their empirical results from Denmark show that on most measures of entrepreneurial orientation (including, for example, their focus upon innovation and bold orientation towards competitors), the INVs score significantly higher than the DNVs.

The research of Prashantham and Balachandran in Chapter 12, 'Local bridging ties and new venture internationalization: exploratory studies in Bangalore and Cambridge', considers the influence of the environmental context for new venture internationalization. Specifically, the chapter compares the spatially dispersed Bangalore (India) software cluster with the spatially concentrated Cambridge electronics cluster in terms of their relative effects upon network relationships and the internationalization of new ventures. According to the authors, a clear prescription for new ventures is to consider the local milieu as an active source of network relationships to facilitate internationalization.

Traditional internationalization process theory, international new venture theory and network models underpin much of the research in the SME internationalization field as a whole. While these approaches are evident in a number of the chapters in this volume, it is interesting that the resource- and knowledge-based views of the firm and learning models are also in evidence, reflecting a holistic approach to firm operations and the requirement for management capabilities and competencies for success, whether in domestic or international markets. In a stimulating contribution in Chapter 13, however, 'International new ventures: a new organizational form?', McNaughton considers INVs as part of a broader phenomenon addressed by organizational science, that is, the emergence of new organizational forms. Topics included in organizational form research include decision rights, organization members, channels for information and control, governance and agency. As the author notes, the extant literature does not typically characterize INVs in this way. Potentially a new research stream may be opened up based on these ideas.

The final chapter in the volume is by Marian Jones (Chapter 14, 'Conclusion. SME internationalization: where do we go from here?'), who deftly synthesizes the preceding chapters (Table 14.1) and presents an interesting model (Figure 14.1) linking a range of issues which have been developed in this volume, namely, motivations, modes, organizational processes (networking behaviour, entry modes and absorptive capacity), new value creation (represented by new modes, new products/services and new country markets) and performance outcomes. An important proviso which is highlighted (and which should signal a cautionary note for all internationalization researchers) is that there are significant contingencies moderating the relationships proposed in the model, relating *inter alia* to country, industry and firm-level effects. The chapter ends with a series of research questions on 'Where do we go from here?' a fitting end to a volume which we hope will stimulate new and existing researchers in this exciting field of SME internationalization.



## 2. Does entry mode matter? Reviewing current themes and perspectives

**Marian V. Jones and Stephen Young**

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### SUMMARY

The mode of doing business across national borders was considered a pioneering topic in the late 1970s when concern was with the mode as a means of foreign market entry. Today, barriers to international trade and investment are significantly eroded and internationalization eased by improvements in technology, infrastructure and deregulation, and it is pertinent to ask: 'Does entry mode matter?' The question is addressed through a discussion of literature explicitly focused on entry modes, and that examining internationalization and international entrepreneurship more widely. Concluding that insufficient attention is paid to mode variety and motivations in both bodies of research, a series of models positioning modes within the internationalization process are advanced. The models demonstrate the confluence of influences from dynamic processes, and decision criteria on entry mode selection, motivations and internationalization path. While the role of the entry mode in current internationalization processes has evolved with changes in the world economy, it remains an important topic for research. Specifically, the authors call for research on the influence of technological change on entry modes; and deeper investigation of specific modes such as exporting, and of the role of social capital in the formation of formal modes of international business activity.

### INTRODUCTION

The mode of foreign market entry was considered a pioneering topic for research in the late 1970s, but much of the literature related to multinational enterprises (MNEs), and the question is whether the subject is still worthy of research today. The last decade of the twentieth century was one in which small firms for the first time were seen to internationalize early, quickly and using a variety of modes of business activity; a trend that was