

SMEs; Localisation vs. Internationalisation: A Critical Review of Theoretical Frameworks and Business Strategy

Baiyeshea David*

Strategist, Nexttier consulting Limited, Strategy and Communication, Abuja, Nigeria

*Corresponding author: David B, Strategist, Nexttier consulting Limited, Strategy and communication, Abuja, FCT 234, Nigeria, Tel: 2348145747331; E-mail: baiyesheadavid@gmail.com

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Abstract

This paper will begin by discussing how SMEs expand. The factors, motives and strategies that drive internationalization of SMEs will be evaluated. Theoretical frameworks of SMEs internationalization will be critically reviewed and the linkages between Scholar's assertions about theoretical frameworks and the business strategy of firms will be discussed.

Keywords: SMES; Localisation; Internationalisation; Phenomenon; Framework; Strategy; Business

Introduction

Localisation according Stefaniak, et al. [1] can be described as the process of organizing businesses or industries such that their main activities happen in local areas rather than in international contexts. Internationalisation on the other hand can be defined as the process of increasing involvement in international operations across borders changing both perspectives and positions [2]. Chetty and Campbell-Hunt [3] emphasised that internationalisation has become increasingly crucial to the competitiveness of enterprises of all sizes. However Rutihinda [4] argued that most scholars have attempted to review literatures on internationalisation of large multinational firms and have placed little emphasis on small and medium sized enterprises (SMEs) despite the fact that SMEs are becoming increasingly internationalised. European commission [5] refers to SMEs as independent firms that are non-subsidiary, employs less than 250 persons and has an annual turnover not exceeding 50million Euros. Moreover Ruzzier and Konecnik [6] noted that the role played by SMEs in the economic development of countries in the world today through innovation, employment and wealth creation cannot be overemphasised.

Furthermore, Senik [7] argued that within the mainstream literature on internationalisation of SMEs there is little understanding of the roles and processes of SMEs internationalisation as well as how and why they internationalise. This literature review seeks to critically evaluate previous studies particularly on the patterns of internationalisation of SMEs including; how SMEs internationalise, triggering factors, theoretical frameworks and the key drivers influencing the internationalisation process. The literature review is aimed at providing deeper insights into how the state of SMEs internationalisation proceeds overtime as well as what propels them to pursue internationalisation. Also, the synthetic study format which involves crucial review of various arguments from different researchers will be employed. This paper will begin by discussing how SMEs expand. The factors, motives and strategies that drive internationalisation of SMEs will be evaluated. Theoretical frameworks of SMEs internationalisation will be critically reviewed and the

linkages between Scholar's assertions about theoretical frameworks and the business strategy of firms will be discussed.

This literature review attempts to answer the research question highlighted below.

How does the State of SMEs Internationalisation Proceed Overtime in Comparison with Localisation?

Purposes and processes of SMEs internationalisation

According to Knapp and Kronenberg [8] it is important to understand the different stimuli that lay behind the internationalisation process of SMEs. This is because these driving forces influence the decisions of SMEs to pursue international expansions. In agreement with Knapp and Kronenberg [8], Fletcher and Prashantham [9] emphasised that to comprehend the internationalisation process, it is imperative to explore the causative elements that initiate the decision of SMEs to internationalise as well as how the process is implemented and maintained. Ovaiaatt and McDougall [10] argued that the proliferations in technology, recent changes in economic and social conditions are the main influential factors that encourage the worldwide trend of accelerated internationalisation of SME's. Additionally Chetty and Campbell-Hunt [3] found that changes in mediating variables such as resources, environment and organisational strategies influence SME's internationalisation process. Contrary to Ovaiaatt and McDougall [11] and Chetty and Campbell-Hunt [3], Wilson [12] posit that the main purpose of SMEs' international expansion can be categorised based on two perspectives which are primary motivators and secondary motivators. According to Wilson [12] the primary motivators for SMEs' pursuit of international expansions are closely linked to maximising returns, minimising costs in production, purchase and sales. The secondary motivators on the other hand, include strategic developments of the company which can be achieved through gaining access to international competencies, technology, labour and capital.

Regardless of the motivating factors expressed by Wilson [12], Pinho [13] in agreement with Freeman and Cavusgil [14] noted that the decisions and purpose of internationalisation of SMEs is solely

dependent on the owners or managers of the business. Pinho [13] found that SMEs unlike large scale enterprises (LSEs) have limited management hierarchies and internationalisation is dependent on the characteristic features or experiences exhibited by the managers of the business. These experiences include demographics (age, education), international exposure, knowledge of international business (familiarity with culture and international business practices) and international transaction experiences [3,13]. Moreover Fletcher and Prashantham [11] argued that most studies conclude that factors such as strategic developments, profit maximisation and foreign awareness are the general drivers underpinning SMEs internationalisation. However Rammer and Schmieie [15] stated that there is no static driver for internationalisation of SMEs because SMEs have different resources, operate in different industries and have different niche markets.

Another imperative aspect of SMEs and internationalisation is the strategies employed by SMEs for internationalisation. Rammer and Schmieie [15] assert that SMEs use strategies such as exporting and importing activity, strategic alliances, mergers and acquisition, inter-firm networking and collaboration for international expansions. Conversely, Fletcher and Prashantham [9] stated that SMEs internationalisation is facilitated by knowledge and for SMEs to internationalise rapidly; learning is a vital strategy that must precede the decisions to internationalise. According to Chetty and Campbell-Hunt [3] most SMEs do not have adequate knowledge of foreign markets which inhibits their growth internationally. Autio, et al. [16] believes that Knowledge accumulation, learning and formation of business networks play a vital role in the international growth of SMEs.

Critical review of the theoretical frameworks of SMEs internationalisation

Many of the early literatures on internationalisation assert that the process involves a series of incremental stages in which SMEs gradually become involved in exporting and other forms of international business [17,18]. Levie and Lichtenstein [19] in their study consider internationalisation to be a gradual sequential process involving different stages with SMEs increasing their commitment to foreign markets as they advance through each stage. Similarly, Bell, Carrick and Young [20] in their notion of the extant stage theory argued that the underlying assumptions of the internationalisation of SMEs is that they must be fully established in the domestic markets within which they operate before considerations of developing internationally. Furthermore Chetty and Campbell-Hunt [3] in their study found that there are a lot of scholastic enthusiasms about stage models of internationalisation. They found that the Uppsala process model is the most frequently used form to explain the internationalisation process of SMEs. The Uppsala process model emphasises that for firms to minimize risk and overcome uncertainty, internationalisation should be a step by step process in which SMEs learn and gain adequate market knowledge before committing resources to the foreign market [21]. However despite continuous enthusiasms for the notion of incremental internationalisation, there are varying studies with conceptual criticisms. Chadee and Mattson [22] argued that there is lack of congruence between theory and practice in the stage models. They further emphasised that most SMEs instead of internationalising gradually through an incremental stage, enter foreign markets rapidly. On the contrary, Andersen and Kheam [23] noted that the ability of SMEs to internationalise is crucially linked to organisation's resources. In the resource based view firms can sustain and improve their

competitiveness as well as grow internationally if they acquire resources that are unique, inimitable and difficult to substitute Andersen and Kheam [23].

A contrasting argument by Efrat and Shoham [24] posit that the advancements in technology, increasing role of niche markets and the growth of global markets has facilitated the mutual beneficial relationships between domestic and foreign partners and has triggered the 'born global' phenomenon. According to Evers [25] 'born global' are firms that are international from inception and their influence on SMEs' internationalisation cannot be overemphasised. Moreover, Aspelund, Madsen and Moen [26] stated that the 'born global' prodigy poses a substantive challenge to the internationalisation stage theories and the notion of incremental internationalisation. This is because many SMEs no longer develop in incremental stages with respect to their international activities; they start international activities right from birth entering into foreign markets without experience [26]. Cuervo-Cazurra [27] conversely described 'born global' as an internationalisation model that is associated with high risk and proposed that SMEs strategically select a non-sequential internationalisation. The non-sequential internationalisation involves SMEs acquiring adequate knowledge in their domestic markets before growing internationally. The main argument from Cuervo-Cazurra's empirical study is that heterogeneity in the knowledge base enhances SMEs internationalisation strategy. He further argued that through acquisition of extensive knowledge in the domestic market, SMEs can choose countries that are completely different from their home operations for international expansion, build a reputation and grow substantially.

The transaction cost model is another paradigm that has received a lot of attention in the internationalisation field with substantial empirical support [28]. Rugman and Chang Hoon [29] argued that there are two pragmatic questions in the transaction cost theory. According to Rugman and Chang Hoon [29], upon deciding to enter a foreign market, SMEs need to decide if it should be done through internalisation within its own boundaries (a subsidiary) or through some form of collaboration with an external partner (externalisation). Hence, the transaction cost model proposes that SMEs should begin development internationally in regions where transaction costs are minimal. Nonetheless, Fernhaber and Li [30] articulated the network model which emphasises social exchange, inter-organisational and interpersonal relationships. In justifying their perspective, they argued that network relationships are crucial to acquisition of resources and knowledge needed for international development. Additionally the relationship of SMEs in the domestic market can be used as bridges to other networks in the foreign market [31].

In view of all the postulations and contrasting findings from various researchers from the preceding, it can be argued that SMEs do not necessarily follow any consistent model for internationalisation. However, it is worthy of note to mention that the most likely foundation for accelerated internationalisation of SMEs is the 'born global' phenomenon. Anderson, et al. [32] believes that the nature and pace of internationalisation of SMEs is conditioned by product, industry and environmental factors, all of which are influenced by the recent significant breakthroughs in globalisation and increased liberation of markets. In the last decade, the 'born global' phenomenon exerts a strong influence on internationalisation of small firms principally because of three factors [11]. Firstly, advancing technology is important to the social development of all countries. Secondly, small emerging SMEs play a vital role in the discovery of technological

innovations that are used worldwide. Finally, the 'born global' SMEs' pattern and pace of internationalisation is rapid with a global strategy that allows them to quickly engage in cross-border activities [11]. This helps drive job creation and economic growth through acceleration of innovation as well as promotion of the full use of human, financial and other resources [12].

Business strategy and SMEs' internationalisation

Melin [33] found that little attention is paid to the inter-relationship between internationalisation theories and strategy issues of small firms at both conceptual and practical levels. However, a more recent study by Malhotra and Hinnings [34] highlight the fact that the absence of linkages is particularly relevant to SMEs and can be explained due to a number of factors. Initially, Malhotra and Hinnings [34] in their evocative work on internationalisation characterised the international behaviour of SMEs as essentially unplanned and reactive, whereby the motivation to think or act strategically may only be brought about by a critical incident or a combination of several incidents occurring simultaneously within the organisation. Furthermore, Bell, Carrick and Young [20] emphasised that most firms perceive strategy as a behaviour that emerges over time rather than having a strategic intent for internationalisation in their stated formal plans. Subsequently, Knapp and Kronenberg [8] elucidated that local and international developments of SMEs are often viewed as diverse strategic solitudes rather than complimentary strategies for growth. They assert that many of the early literatures such as Bilkey and Tesar [35] and Mintzberg [36] regard international involvement to be of secondary importance to small firms which is only considered once they have developed a strong footing in the domestic market.

On the other hand, Chetty and Stangl [37] argued that strategy making is about changing perspectives and positions, while internationalisation involves increasing operations across borders which comprises of both changed perspectives and changed positions. Consequently, Chetty and Stangl [37] explained that the role of internationalisation theories in the overall business strategy of firms cannot be overstated. They stressed that strategic foundations (knowledge, skills, experience and network) are imperative to small and medium enterprises whether they have identified planned or unplanned frameworks for internationalisation. Furthermore Kalinic and Forza [38] emphasised that the absence of explicit and formal strategy within a firm does not equate to lack of strategic vision whether or not it involves international expansion. This is because strategic planning activity will become more formal and refined over the life cycle of a business [20]. This assertion can be attributed to the non-sequential internalisation theory which emphasises that the enthusiasm to think and act internationally can occur progressively after SMEs have gained adequate knowledge of the domestic market [27]. Besides, Tupputa, et al. [39] used the resources based framework to analyse the international growth strategies of SMEs. They proposed that to understand resource use, and strategic management practices, greater understanding is needed by entrepreneurs on the interrelationships between domestic and export activities within the context of the firms' overall business strategies.

Furthermore, the 'born global' phenomenon is another notion that has been receiving increasing attention from various scholars and is important in this context too. Bell, McNaughton and Young [40] argued that the 'born global' phenomenon is not an internationalisation form per se; rather it should be regarded as a strategy that increases SMEs' value through accelerated and dedicated

internationalisation. According to Freeman, et al. [41] the phenomenon suggests that many firms no longer regard international expansion as simple appendages to the domestic market, but as business strategies with an international focus from outset. Nevertheless, Hashai [42] argued that the 'born global' phenomenon makes more sense in the context of a large and developed economy. 'Born global' firms begin international activities within 3 years of their establishment and building sizable domestic markets is not part of the firm's strategy, instead all resources are devoted to the international market place. Additionally, Dib, Da Rocha and Da Silva [43,44] assert that new firm creation is a complex phenomenon; information may be available as quickly in emerging economies as it is in the developed economy. However, the paths to exploiting the available information differ widely. But, Kontinen and Ojala [45] in their study accentuated that at the rate with which globalisation is proliferating; the opportunities for 'born global' firms will grow in the next 10 to 15 years for all countries, particularly for emerging markets.

Delving from the preceding, knowledge accumulation about domestic and international markets appeared to exert a significant influence on the initial business strategies, international orientation and overall growth objectives of firms. The extant stage theory suggests that in-depth understanding of the domestic and international behaviour of firms is required in all circumstances [46]. Similarly the 'born global' phenomenon expresses knowledge base as one key characteristic that Enhances competitive advantage and enables SMEs offer value-added products and services. Also, it is noteworthy that internationalisation theories are models that strongly influence firms' business strategies, internationalisation pattern and international focus [47]. Hashai [42] argued that in terms of patterns and pace of internationalization 'innovation oriented' and 'traditional' firms responds differently, with the latter being less aggressive in their growth strategies and more cautious in internationalising. While the introduction of new process technologies often forced the 'innovation oriented' or 'born global' to revise their strategic direction.

Conclusion

To conclude, the paper identified and reviewed the purposes and processes of SMEs internationalisation. Furthermore a number of key issues were empirically explored. These issues include evaluation of driving forces that influence the decision of SMEs to pursue internationalisation. A critical review of theoretical frameworks in addition to scholar's underlying assumptions on the internationalisation process of SMEs. The motives which influence the choice of strategies and the role of internationalisation in the overall business strategy of SMEs were discussed.

Based on the critical review of literatures from different researchers, there are some important differences in the approaches to internationalisation, internationalisation pace and overall business strategies of SMEs. The findings from the examination of different literatures provided further insights into the fact that the internationalisation of SMEs is a process influenced by varying factors because SMEs have different resources, operate in different industries and have different niche markets. In addition, it is important to mention that the 'born global' phenomenon has also been seen as an amalgamation in preceding theories suggesting that internationalisation literature is moving towards a unified theoretical framework.

Notwithstanding, most of the scholarship on SMEs internationalisation and business strategy provides an understanding based on theoretical perspectives from an academic point of view. There is an opportunity for further research evaluating the critical interrelationships between firm and industry specific influences to address the lacuna of the role internationalisation plays in the early growth of small firms. As well as in what ways other strategic decisions interact with and impact upon the internationalisation decision of these firms in the context of their overall business strategies and internationalisation approaches.

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