
SME Internationalization Strategies

International development is one of the main growth strategies for companies. While it may have been the case that the latter was mainly the privilege of large firms up until the end of the 1970s, we must acknowledge that the growing number of small- to medium-sized enterprises (SMEs) geared toward foreign markets calls for a revision of existing theories. Coviello and McAuley [COV 99], followed by Chetty and Campbell-Hunt [CHE 03, p. 796], noted that, despite the growing implementation of expansion strategies by SMEs, the use of “large multinationals, as the unit of analysis, dominates the international business (IB) literature”. Based primarily on the study of large companies, the theories that have unfolded are in fact only partially applicable to SMEs, urging researchers to broaden the research in international management. Consequently, we are witnessing an escalation in research related to the internationalization of SMEs [LU 06], currently making them an interesting choice as subject of analysis.

Several research studies have tried, over the past few decades, to analyze the process by which companies initiate their internationalization process. The multitude of approaches used reflects the complexity and the multidimensionality of this concept. Welch and Luostarinen [WEL 88] define internationalization as “the process by which a company begins operating abroad”. Calof and Beamish [CAL 95, p. 116] go further in stating that it is a “process of adapting company operations (strategy, structure, resources, etc.) to international environments”, including, indeed, the possibility for the company to increase or reduce its operations abroad. If Welch and Luostarinen’s research [WEL 88] drifts toward the idea that internationalization is a process of growing (unidirectional) commitment, Calof and Beamish [CAL 95] state that for them it is a multidirectional phenomenon, where companies can adjust to or withdraw from a market. Chetty and Campbell-Hunt [CHE 03] explain the apparent lack of consensus on a single

definition of internationalization by the ambiguity and great diversity of the phenomena studied. The census of the main definitions in Internationalization of SMEs undertaken by Ruzzier *et al.* [RUZ 06] affirms the evolution of the concept over the years. Adopting an approach, until the 1990s, essentially centered on the internal characteristics of organizations, scholars incorporate little by little the external elements affecting the geographical expansion of the business – dealings, networks, international environment, etc.

The first efforts of theorizing internationalization emerged at the beginning of the 1960s with the pioneering work of Hymer [HYM 60]. The main objective was to understand why and how firms were expanding into foreign markets while adopting an economic approach [RUZ 06]. In his theory of the monopolistic advantage, Hymer [HYM 60] introduces the holding of specific assets – intangible assets strongly related to the size of the company – as a condition which is essential to the internationalization of the company. These results will subsequently be expanded upon by Vernon [VER 66], who, by establishing a parallel with the concept of the life cycle, explains internationalization of innovative enterprises as the direct result of the normalization of products on the domestic market. The pursuit of new opportunities, of additional resources or of a reduction in production costs is indeed forcing companies to look to foreign markets. The obvious influence of size on the holding of specific assets and, hence, on the propensity of the organizations to go global justifies the exclusion of SMEs in any field of study. The emphasis is therefore on multinational firms that constitute the heart of analysis of the main theories of internationalization in force, such as the theory of internalization, transaction costs, the monopolistic advantage or even the eclectic paradigm [RUZ 06].

The development of the behaviorist models, at the end of the 1970s, marks a turning point in the literature on international management. The procedural approach that was initiated by the Nordic school of thought builds on the behavioral theory of Cyert and March [CYE 63] and the theory of growth of Penrose [PEN 59]. Internationalization is understood as a process of incremental nature, cumulative and linear, composed of a succession of stages through which any company wishing to develop into foreign markets must pass. In his article on “the internationalization process of firms: a critical analysis”, Andersen [AND 93] distinguishes two major avenues for the analysis of the internationalization process, namely (1) the Uppsala model developed by Johanson and Wiedersheim-Paul [JOH 75], and then Johanson and Vahlne [JOH 77], and (2) Bilkey and Tesar’s innovation model [BIL 77], where each step is perceived as an innovation for the company. According to Leonidou and Katsikeas [LEO 96], these models apply as much to the case of SMEs as of major

groups. The authors specify, however, that export remains the preferred method of expansion for small businesses.

1.1. Incremental internationalization: introduction of the original models

The analysis of firms' internationalization process is dominated by two major schools of thought:

- the Scandinavian school, or “Uppsala Model”, introduced by Johanson and Wiedersheim-Paul [WIE 75] and Johanson and Vahlne [JOH 77];
- the approaches following Bilkey and Tesar [BIL 77], namely the innovation models where each step is considered as an innovation for the company.

In this section, we intend to introduce the models and their contributions to the explanation of the dynamics of the internationalization process of SMEs.

1.1.1. The Uppsala model

The studies by the Scandinavian School of thought, primarily focused around the contributions of Johanson and Vahlne [JOH 77], are pioneers in the study of the internationalization process. These authors define internationalization as the product of a succession of incremental decisions, i.e. a process of “acquisition, integration and gradual use of market and international operations intelligence, and knowledge of continual involvement in foreign markets” [JOH 77, p. 23]. The concepts of psychological distance¹, establishment chain and experiential learning are the pillars of the analysis and give the model its incremental dimension [BIG 06]. With its focus initially on the importance of market research, the model, developed in the 1970s, has been the subject of many developments over the years. Therefore, we intend to present the Uppsala model in its original version to identify the main contributions.

The Uppsala model, developed by Johanson and Wiedersheim-Paul [WIE 75], and theorized by Johanson and Vahlne [JOH 77], finds its roots in behavioral theory [CYE 63, AHA 66] and in the theory of the growth of the firm [PEN 59]. It aims

¹ Johanson and Vahlne [JOH 77, p. 24] define the psychological distance as “the set of factors blocking the flow of information both into and out of the market. These include differences in language, training, managerial practices, culture and industrial development, etc”.

primarily to respond to two key issues for any company looking to overseas markets: where to go and how to go there [MEI 10]. The purpose of the model is to describe the process in order to gain a better understanding of the factors affecting the international development of companies. Integrating jointly the issues of market selection and expansion, taking risk minimization into consideration, the Uppsala model has the advantage of being, still today, “the only theory that describes and analyzes the internationalization process in its entirety” [MEI 10, p. 13].

Johanson and Wiedersheim-Paul [JOH 75] compare the expansion models of four large manufacturing companies in Sweden – Sandvik, Atlas Copco, Facit and Volvo – with production units in more than one foreign country and producing more than two-thirds of their turnover from export. The identification of the key differences and similarities that exist led the authors to develop a synthetic model composed of four major steps sequentially and constitutively linked to the “establishment chain” (Figure 1.1).

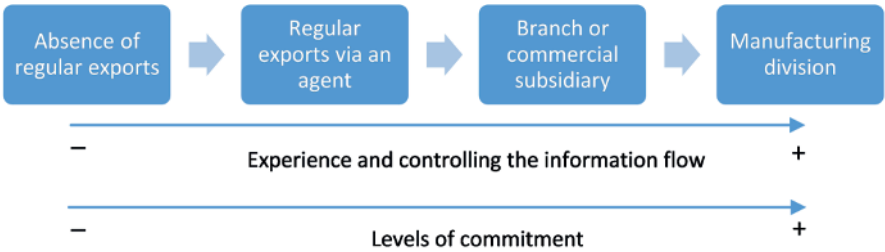


Figure 1.1. *The constituent steps in the establishment chain*
(source: adapted from [JOH 75, p. 307])

Each step is distinguished by an increase in the degree of overseas commitment: completion of irregular exports, regular exports via an agent, establishment of a sales subsidiary then manufacturing division. In the first phase, there is typically no commitment of resources, due to the lack of information to and from the target market. The beginning of involvement, in the second phase, then enables the company to access information flows on a more regular basis and to identify the main factors influencing sales. The establishment of a sales subsidiary, then a manufacturing one, abroad, while involving more commitment, finally allows the a firm to control the flow of information to and from the market. The establishment chain is thereby justified by companies’ lack of experience of the target market and

the existence of information imbalances, which complicate gauging the local environment. The lack of knowledge and resources are, indeed, the two main barriers to internationalization identified by the researchers of the Scandinavian school of thought. Therefore, companies will tend to internationalize more progressively, starting their expansion in markets geographically or culturally close before increasing their commitments and targeting psychically distant countries as they gain experience.

Psychic distance is one of the three explanatory factors in companies increasing internationalization. An evolving concept by nature, it is composed of the “differences of language, education, managerial practices, culture, industrial development” or other elements that can have a negative impact on the management of international operations. Unlike the geographical distance or any other form of metric distance, psychic distance is more subjective and perceptual, which likewise explains its changing nature. If the perception differs from company to company, however, it may influence their internationalization route. Psychic distance is, in fact, negatively correlated to the companies’ level of experiential knowledge. In other words, the less the company’s experience on the market is, the greater the psychological distance will be perceived [JEA 11]. The Uppsala model assumes therefore that in the context of high uncertainty and resource scarcity, firms tend to serve markets that are psychically close via the market entry methods that require less commitment, such as export, to minimize risks. The multiplication of operations on the target market then comes to enrich the level of international experience. These experiences are then transformed into general experiential knowledge (no matter what the market is) or specific (specific to a market) knowledge and then integrated into the company through the mechanisms of organizational training. Replication of patterns of successful expansion to various target markets then drives a sequential increase in resources devoted to overseas and an increase in the degree of local involvement.

The originality of the model lies in its ability to take advantage of the evolution process over time. For this reason, the authors distinguish static aspects from changing ones.

1.1.1.1. *Static aspects*

The static aspects include the commitment and knowledge of the company with regard to the target market. The extent of commitment is based on assessing the quantities of resources committed as well as the degree of commitment, the latter referring to the ease of redeploying resources from one market to another without losing value.

Building on the work of Penrose [PEN 59], Johanson and Vahlne [JOH 77] identify two types of knowledge are characteristically different and impact differently on the Internationalization process:

- objective knowledge, usually acquired via the traditional methods of gathering and transmitting information. It is easily accessible, transferable from one market to another and picked up by other companies. Numerous authors such as Ayal and ZIF [AYA 79], Denis and Depelteau [DEN 85] or Reid [REI 81]² all recognize the small role played by this type of knowledge in expansion success;

- experiential knowledge, specific to a market and non-transferable to another company or *business unit*. It is a source of competitive advantage and constitutes the driving force of the internationalization process [JOH 77]. Eriksson *et al.* [ERI 97] specify, however, that the accumulation of this knowledge is a long and costly process because the information gathering, transmission and interpretation relates to specific situations.

1.1.1.2. Areas of change

As for aspects of change, these refer to current company activities and to the resource commitment decisions, based on the success of past experiences. While the company is confronted with the market reality, current activities are the primary source of experiential knowledge. The pursuit of an internationalization strategy exposes the business to new types of problems and sources of uncertainties, compelling it to find new solutions and/or develop new organizational routines. The decisions taken by the CEO or the management team then determines resource commitment decisions later [ERI 97].

Figure 1.2 presents the original version of the Uppsala model. The latter, as mentioned earlier, consists of four cyclically linked stages during which the company begins by analyzing the current international development (resources deployed in the markets and degree of commitment) as well as the experiential knowledge it has before selecting a new target (market and commitment level). A retrospective analysis of the choices made then enables evaluation of the expansion success, which facilitates the development of new experiential knowledge [MEI 10]. The adoption of a step-by-step approach is particularly relevant in the case of SMEs, with accumulated experience minimizing the risks while optimizing international resources in the long term [TAP 10]. The concepts of experience and psychological distance are also particularly important in the context of emerging markets [ANG 10].

2 A detailed list is provided in the article by [ERI 97].

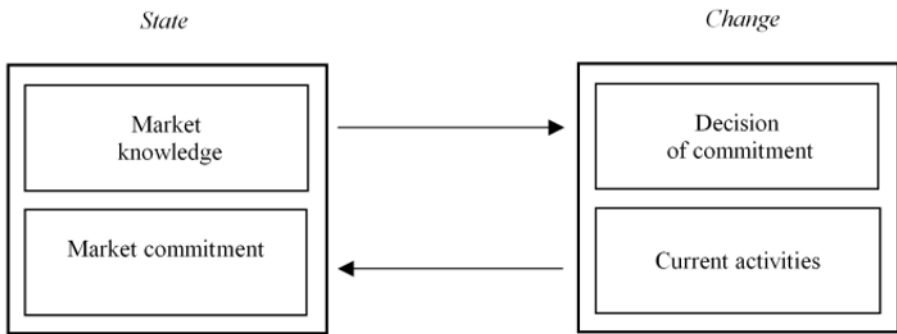


Figure 1.2. *The internationalization process of the firm*
(source: adapted from [JOH 77, p. 26])

In summary, the virtuous circle effect created by the sequence of static and dynamic components allows the company to increase its international commitment, borne by the positive impact of accumulated experience in foreign markets. While the Uppsala model may remain the dominant channel in literature for analyzing the companies' internationalization process, other approaches coexist, however. Innovation models are part of this lineage.

1.1.2. Innovation: internationalization as innovation for the company

Like the Uppsala model, innovation models perceive internationalization as a long, sequential and incremental process in which each new step is an organizational innovation for the company [GAN 00, VER 10]. Building on Rogers' [ROG 62] theory of diffusion of innovation, the advocates of this approach compare internationalization to different sequences for the adoption of a new product or a new technology [LI 04, JEA 11]. Progression through the different stages is again provided by the mechanisms of organizational learning allowing the firm to integrate new knowledge coming from innovation.

Among the array of existing work, the models established by Bilkey and Tesar [BIL 77], Cavusgil [CAV 80], Reid [REI 81] and Czinkota [CZI 82] are among the most well-known and deployed in international management literature [AND 93]. Despite the apparent differences between the models, both in terms of the description of the stages and the mechanism behind the company export performance, we must

note that these differences are essentially more semantic differences than real differences in the nature of the internationalization process [AND 93, p. 212]. As a result, we are limiting our analysis to these four models.

While analyzing the export performance of North American manufacturing SMEs, Bilkey and Tesar [BIL 77], and then Czinkota [CZI 82], established a dynamic model composed of six steps: no interest in export at all, response to an unsolicited order, active exploration of export opportunities, experimental exports, confirmed exporter status and targeting of psychologically remote markets. The managerial approach, learning by experience and the psychological distance steer the process. Export activity development is carried out in response to an external stimulus (push mechanism) and is strongly linked to the receptivity of the management team to opportunities offered by the foreign markets. Bilkey and Tesar [BIL 77] demonstrate that the initiation and operation of international operations explained by the emerging interest of managers in export more so than by considerations of an economic nature. The passage of stages 2 (unsolicited order) to 3 (exploration of opportunities), then 4 (experimental exports) is thus the product of three cumulative conditions:

- the planning of the export;
- the perception that managers have of the company's competitive advantages;
- the quality and drive of the management team.

The experience accumulated during the experiential phase strengthens the managers' confidence with regard to the company's capacity to export and succeed in foreign markets. The assessment of the objectives and expectations becomes sharper, giving the decision-making process a more rational dimension. Progress toward the most advanced stages is, however, accompanied with an increase in perceived barriers to export (understanding business practices, adaptation of products to local standards, etc.). Progress thus depends on the ability and willingness of the manager to make a judgment between expectations and perceived risks abroad.

Czinkota [CZI 82] demonstrates that there are significant differences between companies positioned at the different stages, as much in terms of organizational characteristics as managerial or other internal features. These results form part of the extension of Bilkey and Tesar's [BIL 77] points, stating that the determinants of export performance vary according to the different stages of the process.

Reid [REI 81] develops a theoretical model composed of five phases, granting a special place to the individual and organizational dimensions. The author highlights

the importance of the interactions between the characteristics of the company and those of the individuals that it is made up of, to explain the choice of target markets and the implementation of the export process. Just like Cavusgil [CAV 80], Reid [REI 81] asserts that progression through the steps arises from the pressure of pull factors (internal mechanisms or changes): the recognition of opportunities – and their influence on export development – is determined by managers' international orientation, that is to say, by their track record (previous international experience and existing knowledge), their attitudes and motivations. Access to information plays a key role here because it helps to improve the level of market-specific knowledge as well as to reduce ambiguity and the perceived complexity of foreign markets. In this sense, relations and networks previously developed by the company and individuals are one of the main sources of information and contacts abroad. They facilitate progression through the different stages of the process in that they enable individuals to improve the quality of their evaluations and choices on the opportunities available to them. In summary, the model developed by Reid [REI 81] emphasizes the effects of interaction resulting from the clash between the experiences and characteristics at individual and organizational levels to explain the company's progress through the various stages. Table 1.1 summarizes the main innovation models that exist in the literature.

In their article "The Export Development Process: An Integrative Review of Empirical Models", Leonidou and Katsikeas [LEO 96] identified that there are 11 procedural models relating to internationalization by export. According to these authors and as previously discussed, while these models differ both in the number of steps, their nature and content, it is still possible to identify three key phases in the internationalization process of SMEs: the precommitment, the initial commitment and the advanced commitment (Table 1.2). Each of these phases appears in conflict with the one before and constitutes an organizational innovation for the company [JEA 11].

As previously discussed, the Uppsala model and innovation model both take a view of internationalization as sequential and cumulative. The company progresses slowly through the different steps, increasing its level of commitment gradually as market awareness develops. If one describes expansion as driven by the conquest of new markets, the other understands each step of internationalization as an innovation for the company. Although very useful to the understanding of expansion strategies, these models are no less without their limits.

Type of model	Bilkey and Tesar [BIL 77]	Cavusgil [CAV 80]	Reid [REI 81]	Czinkota [CZI 82]
Initiator mechanisms	Experiential	Experiential	Theoretical	Experiential
	<i>Push</i> – External factors	<i>Pull</i> – Internal factors	<i>Pull</i> – Internal factors	<i>Push</i> – External factors
Steps	1) Management is not interested by export and does not respond to an unsolicited order 2) The managers are ready to respond to an unsolicited order but make no effort to explore the feasibility of export 3) Managers are actively exploring the possibility of developing export business 4) The company exports on an experimental basis to physically close markets 5) The company is a seasoned exporter and adjusts its exports, optimally, depending on exchange rate changes, customs duties, etc. 6) The company explores the feasibility of exporting to other physically more remote countries	1) Domestic marketing: The company is happy to sell in the domestic market 2) Preexport: The company is researching information and is evaluating the possibility to develop export activities 3) Experimental commitment: The company begins to export on a limited basis to a few countries that are psychologically close 4) Active commitment: it now exports directly to new markets and is considerably increasing its volume of sales 5) Intense commitment: it is systematically sharing its resources between its domestic and foreign markets	1) Knowledge of export: The company is considering export as a solution to a problem on its domestic market or opportunity of expansion and growth 2) Intention to export: Initiation of managers motivation, attitudes and expectations with regard to export 3) Attempt to export: The company responds to foreign orders (first stage of commitment to Export) 4) Evaluation: The company evaluates initial results 5) Acknowledgment: In light of results obtained, the company accepts or rejects export. In the case of profit gains and sales stability, it will be motivated to maintain and strengthen these activities	1) The company is entirely disinterested in export 2) The company is partially interested in export, perceiving it as an uncertain business 3) The company is interested in export and is actively exploring export (beginning of planning for export) 4) The company experiments with export and adopts a favorable attitude toward export (it is not taking advantage of all the possibilities that international business has to offer) 5) It becomes a “small experienced exporter” having an attitude and a marked commitment to the international business 6) It is a “large experienced exporter” having a very proactive and positive attitude toward export (planning future commitments, etc.)

Table 1.1. Summary of the main characteristics of the innovation model

Stage	Export development	Types of businesses
Precommitment	Total absence of export activity	Companies focusing only on the domestic market and not showing any interest in export
		Companies focusing only on the domestic market but seriously considering developing into export
		Businesses that previously exported but are not any more
Initial commitment	Sporadic exports, the various options available to the business considered	Companies with the potential to increase their level of commitment abroad but unable to cope with export demand
Advanced commitment	Regular and intense exports	Companies with accumulated experience on foreign markets and considering more commitment to international development

Table 1.2. *Summary of the innovation models: the three stages of SMEs' commitment to export (source: adapted from [LEO 96, p. 534])*

1.2. Contributions and limitations of processual models

Despite their contribution to the understanding of internationalization dynamics, the processual models have their own limitations. With a view to enriching the behavioral analysis and building on the work of Andersen [AND 93] and Leonidou and Katsikeas [LEO 96], Ageron and Huault [AGE 02] identify four main limitations to the approaches previously described: the scope of activities observed, the operations process and process of engagement on foreign markets, the dynamics of the process, and the methodology used.

1.2.1. The scope of observed activities

The original models analyze the internationalization process by focusing only on export activities, ignoring the consequences “of other strategic operations such as domestic expansion, supply agreements, new product development or diversification into other areas of activity” [LEO 96, p. 525]. This “single activity” approach constitutes the main limitation of these models because it does not allow export to be considered as one of the company’s strategic portfolio activities as it is characteristically different, and has implications in terms of the commitment of resources and growth patterns. Dalli [DAL 94] demonstrates that when there are

limited resources, companies – including SMEs [AGE 02] – are forced to proceed to a trade-off between their domestic and international markets, with export not being sufficient to ensure an optimum level of performance.

1.2.2. Operations and overseas commitment methods

The Uppsala and innovation models propose that the companies' commitment on foreign markets is done sequentially, following a linear and incremental path. The criteria for segmentation of the steps are not however clarified. Therefore, the models appear to ignore the impact of the level of company maturity and its possibilities to act voluntarily on the pace of internationalization (from one step to the next) or to withdraw from foreign markets [GAN 00]. The existence of rapid growth phases, stagnation or deinternationalization calls into question the process linearity as described by the advocates of the behavioral approach.

1.2.3. Process dynamics

If scholars agree to recognize the deeply dynamic and time-dependent nature of the process of expansion, the first models developed seem more static and decontextualized. In addition, the models do not consider the internal, environmental – type of country/market, local demand, entry methods, etc. – or sectoral factors – technological intensity, product life cycle, R&D costs, etc. – and their evolution, which impact the flow of the process and the speed of moving between stages. Consequently, exclusion of the time factor, without explanations as to the mechanisms governing the passing of each stage, makes it impossible to understand the dynamics of the process.

1.2.4. The methodology used

The models developed have been subject to controversy due to their methodological weaknesses. The selected criteria, static and qualitative in nature, appear insufficient, barely measurable and unsuitable for the study of dynamic phenomena [DAL 94, LEO 96]. Moon and Lee [LEE 90], as well as Andersen [AND 93], also indicate the lack of reliability tests and the inconsistencies between the theoretical and operational stages, calling into question the reliability of the models.

Despite all the criticisms and weaknesses raised, the behavioral approach remains particularly relevant for analyzing and understanding the internationalization process of SMEs [AND 93, AGE 02, TAP 10]. Therefore, several changes have been made to these two models since the end of the 1970s.

1.3. Processual models revisited

In light of the criticism over the years and the different environmental changes, authors are focused on revisiting their models with the aim of improving their explanatory and predictive ability. Having analyzed, in the first section, the changes made to the Uppsala model, we are interested, in the second phase, in the Innovation model.

1.3.1. *The Uppsala model revisited: the importance of business networks*

Growing market harmonization and the development of information and communication technology (ICT) contribute to reducing the effects of distance on companies as well as the salience of expansion by the market. In its new version, the Uppsala model [UPP 09] stipulates that firms' internationalization is not motivated by the conquest of new markets anymore but is rather driven by the desire to integrate new business networks³. Although the minimization of uncertainty and learning remains at the heart of the analysis, the question is no longer knowing what market to penetrate but rather what network to integrate. Indeed, the latter promotes expansion success and reduces the negative effects of lack of knowledge and psychical distance [KOG 00, MÉT 10]. Therefore, the influence of psychic distance and the establishment chain – key concepts of the original model on the internationalization process – is being weakened by the growing importance of external factors coming from business networks

Although it presents some risks – a lack of transparency in relations, opportunism, reliance on certain key members, etc. – business networks are a major source of reliable and relevant information, enabling the company to identify and seize new opportunities as well as develop long-term relationships of mutual trust with foreign partners. In this context, non-membership of a network is a handicap for the firm who seeks to develop overseas, echoing what Johanson and Vahlne [JOH 09] qualify as the “liability of not belonging to the network”. The 2009 Uppsala model is characterized by the transition from a logic of liability of foreignness to a logic of liability of outsidership. This transition comes from the fact that “the problems and opportunities of the firm abroad spring from the specific nature of relations and networks more than from the particular nature of the target market. The problems associated with foreign market entry are the same as those associated with entry into any other market” [JOH 09, p. 1426]. The similarities that exist between certain markets and the emergence of regional cultural blocks enable the company to transfer the experiential

³ Authors define the business network as being “the array of the company’s close and enduring relations, with important suppliers and customers” [JOH 09, p. 1414].

knowledge previously acquired to penetrate a new market, decreasing the impact of psychic distance on market selection entry modes. Therefore, as Coviello [COV 06] demonstrated in his study on the evolution of new international company's networks, membership and positioning within networks, developed even before penetrating new markets, strongly influence the management of the internationalization process. In fact, the company "does not know who the players are or how they are related, except if it already benefits from relations with one or more players in this market" [JOH 09, p. 1426]. The success of expansion is therefore no longer linked to the ability of the firm to minimize uncertainty through the accumulation of market intelligence but appears to be strongly dependent on its position within the network: a central position provides, in fact, privileged access to information, opportunities, markets, etc. Johanson and Vahlne [JOH 09, p. 1424] state that "the levels of knowledge, confidence and commitment can be unevenly distributed between the parts of the network, and therefore may have a differential impact on the success of the internationalization".

Just like the original version, the network approach of the Uppsala model involves four distinct stages of gradual engagement (Figure 1.3): (1) position in the network; (2) the opportunities for network knowledge; (3) commitment in the relationship; and (4) learning and trust building. In this new version, the company wishing to internationalize begins by evaluating the relationships established within various business networks (Sequence 1): Does it belong to a network? What is its position in the network (central or not)?, Who are the key players? The analysis of its affiliation and the current positioning, as well as the level of useful experiential knowledge – arising from the network – provide the company with an initial indication of the opportunities to be seized. If the company is dissatisfied with the current contributions from its network, or is feeling the effects of a lack of experience, it will be urged to establish new connections with members known to have a central position in the overseas network (Sequence 2) (embrace, [MUN 95]). These members are indeed a key resource, access to whom determines the success of international expansion [MEI 10]. The resulting accumulation of experience (Sequence 3) then contributes to confidence building and the development of new knowledge (Sequence 4) [NAH 98, JOH 09].

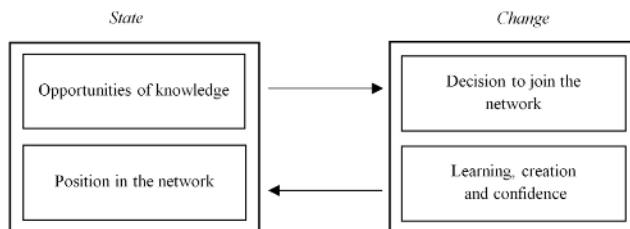


Figure 1.3. Steps in the internationalization process through business networks
(source: adapted from [JOH 09, p. 1424], in [MAY 11, p. 149])

This new version falls within the extension of the original model. It reflects the evolution of the factors influencing the management of the expansion strategy, from a logic of the market dominated by the triad learning–establishment chain–psychological distance to a logic of business networks dominated by the company’s positioning and its relations with key members abroad. As the authors of the model state, “while the original model focuses on the involvement in the markets, the new version focuses on engagement in business relations. Second, the 2009 version involves a commitment and a development of bilateral – or even multilateral – knowledge between the network partners while the first model only undertook a learning and unilateral involvement in the markets. Finally, the original version assumed that the liability of foreignness constituted the main obstacle to market entry and expansion on the foreign market while the new version assumes that the liability of outsidership is the main obstacle to the entry in a new business network” [JOH 11, p. 489].

A recent theoretical extension of the Uppsala model by Vahlne and Johanson [VAH 13] incorporates the strategic dimension to the analysis. The combination of the theory of networks and strategic changes leads to the development of a sequential and incremental process of learning – from the evolution of relations abroad – which has long-term effects on the results, relationships and structure of the company. This new extension remains only theoretical, currently, and calls for further investigations to prove the impact of policy changes on the management of the internationalization process [JOH 13].

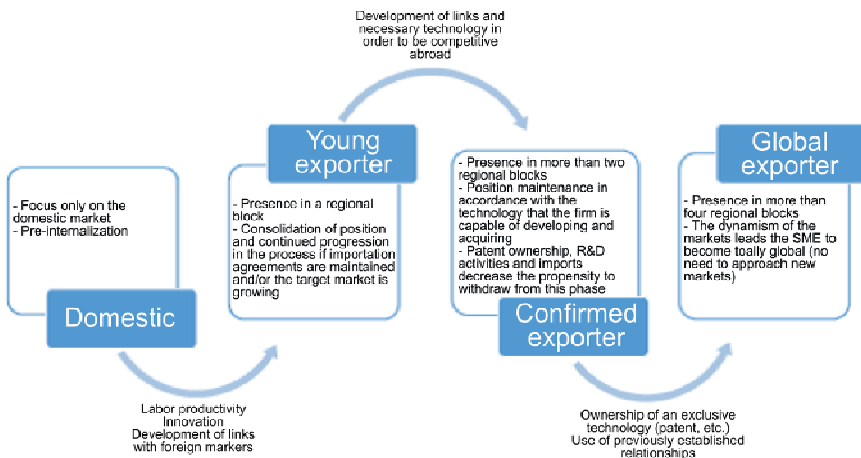


Figure 1.4. *The internationalization process of exporting SMEs*
(source: adapted from [KAM 12])

1.3.2. Innovation models revisited: the driving force of technologies

Although neglected from the 1980s onwards [LEO 96], innovation models are currently experiencing a resurgence of interest in literature as exemplified in the recent contribution of Kamakura *et al.* [KAM 12] (Figure 1.4). Building on the study of 1,116 Spanish manufacturing SMEs, the authors model the internationalization process in four stages of increasing commitment: the domestic stage, young exporter, advanced exporter and global company. Originally focused on the domestic market, the SME begins its export operations to markets geographically close (EU countries and OECD neighbors) following the acquisition of resources and minimum skills required. The company moves from stage 1 to 2 encouraged by the productivity of the workforce, the company's innovation capacity as well as by the relations developed with the foreign markets. As a young exporter, the company may choose to consolidate its position if the growth prospects in the target market and the import agreements are maintained, or may abandon export. The SME then develops the technologies required to be competitive on foreign markets and, with the help of previously established relations, reaches the status of advanced exporter (exporting in more than two regional blocks), a status that it will maintain depending on the technologies it has been able to develop and acquire. If it holds exclusive technology (benefits which are awarded by patents, etc.) and has relations solidly established throughout the world, then the SMEs can achieve global exporter status.

The human and technological capital as well as the company's relations and networks abroad are the key factors here in contributing to the success of SMEs in export. So, according to the terms of Kamakura *et al.* [KAM 12, p. 249], "company globalization is a slow and complex process, where several factors interact to explain the firm's evolution through the stages of internationalization, with human capital, technology and company relations playing a leading role".

Although the processual approach, following its different evolutions, remains commonly accepted in literature, it is not least challenged by companies who approach internationalization rapidly and from inception.

1.4. The challenge of international entrepreneurship

The end of the 1980s was marked by the emergence of a new school of thought, international entrepreneurship, in response to the emergence of new attitudes toward foreign markets. In line with Rennie [REN 93] and Oviatt and McDougall [OVI 94], a rising number of researchers analyzed the rapid expansion of young companies, challenging existing theories that prevail in the literature. After having presented the different concepts related to rapid internationalization, we will compare gradualistic

and rapid expansion to show the main differences existing between these two approaches.

1.4.1. International entrepreneurship and fast and early internationalization

Upon entering the field of international entrepreneurship, early and rapid internationalization companies (ERIPs) shed new light on SMEs' expansion strategies, challenging the processual approach [AND 03]. The emergence of this type of company illustrates the complexity of internationalization strategies since the establishment of the first processual models.

A significant proportion of the research relating to the internationalization of SMEs shows, since the end of 1980s, the presence of organizations internationalizing rapidly from their inception. Rialp *et al.* [RIA 05] as well as Madsen [MAD 13] emphasize the multitude of terminologies used to characterize this type of business – *born global*, *international new ventures (INVs)*, *high technology start-ups*, *global start-ups*, *instant exporters*, *instant internationals*, *born internationals*, *micro-multinationals*, *early internationalizing firms*, *rapidly internationalizing venture*, etc. – witnesses also to the keen interest aroused with researchers in international entrepreneurship. This research aims to address the theoretical gaps that have been identified and explain the emergence of early internationalizing firms. Despite the great diversity and the vagueness that exists about the definitions of the concept [LIN 13], *born global* and *INVs* are among the terms most commonly used in the literature [RIA 05]. Therefore, we will limit ourselves to the study of these two types of entities.

1.4.1.1. Companies born global: the concept that is most widely used in the literature

Emerging for the first time in the work of Rennie [REN 93], the term *born global* refers to enterprises having started to export, on average, only 2 years after their creation and gaining 76% of their turnover from export [REN 93, p. 46]. While relatively precise and restrictive, this definition poses a first base for company classification and selection. Many authors subsequently complement these research studies by proposing definitions, which removes the limitations posed by Rennie [REN 93]. The identification of companies *born global* in a very wide variety of sectors advocates, indeed, a broadening of the definition of the phenomenon. In line with Rennie [REN 93], Knight and Cavusgil [KNI 04, p. 124] describe *born global* companies as “enterprises which, right from their inception or almost, seek to achieve a superior international performance, from the use of knowledge-based resources to product sales in several countries”. Authors propose here a more

general approach regarding the time and the internationalization level, while insisting on the importance of knowledge as part of the company's resources [SER 07].

The multitude of existing definitions is not so much the result of fundamental differences between organizations or sectors as the need to establish precise company selection criteria for the purposes of more practical ends [SER 07]. To put this into context, Madsen *et al.* [MAD 00, p. 247] describe the *born global* company as “a manufacturing company with an export rate higher than 25%, which has begun to export in the three years following its foundation”. The authors thus add a sectoral dimension to the phenomenon (manufacturing), limiting the concept of internationalization to the analysis of the export sales level. Andersson and Wictor [AND 03] insist on the importance of resources and international sales as a source of competitive advantage, expanding Rennie's definition [REN 93] of the entire value chain. The authors are confined in this way to study the company which performs at least 25% of its turnover abroad in its first 3 years and which seeks to develop a significant competitive advantage in the use of resources and product sales in several countries.

In other words, the concept of *born global* refers to enterprises that are internationalizing in the first 3 years after their creation through their resources, by their strategies or by their sales volumes in foreign markets⁴. At this stage, we should clarify that, according to the words of Servantie [SER 07, p. 9], “the continuing evolution of the concept definition lets us think it is still under construction and that authors have not reached a consensus position on the subject”. Furthermore, Madsen [MAD 13] notes that if there seems to be a certain consensus in terms of the conceptualization of the phenomenon, the operationalization results in a real fragmentation of definitions in the empirical work.

1.4.1.2. *INVs: a theoretical reference framework*

Oviatt and McDougall [OVI 94] were the first authors to introduce the term *international new venture*. Referring to companies that, “from their creation, tend to obtain a significant competitive advantage in the use of resources and the sale of products in several countries”, the authors provide a precise definition of the concept with emphasis on the strategic aspect of internationalization. They demonstrate that an early expansion into many markets is possible because of the mobilization of assets – both tangible and intangible – and/or the trade of goods and services [SER 07]. These results challenge the incremental nature and impact of psychic distance on the level of commitment abroad. The existence of strong international experience, the

⁴ A table identifying the main criteria for the definition of *born global* companies is available in [SER 07].

mobility of human capital, the development and democratization of ICT, the harmonization of markets or the flexibility of young businesses are all factors explaining the emergence of this type of behavior [OVI 94]. Gaining a strong competitive advantage using internal resources and value creation are the two main engines of cluster expansion of these structures.

Although it has been used as a theoretical reference framework for a lot of work relating to early internationalization [MAD 13], this definition remains relatively vague regarding the criteria of differentiation of businesses for practical purposes. The new definition proposed by Oviatt and McDougall [OVI 97] includes a timing limit that bridges these shortcomings: it can be considered as INV if any business has established links with foreign countries in the 6 years following its creation [OVI 97]. Note, at this stage, that the term INV is used only by its founders [SER 07]. Svensson [SVE 06] notes that the existing differences between the INV and *born global* are a matter of semantics, the two terminologies referring to the same phenomenon, in fact.

1.4.2. Early expansion versus processual expansion

International entrepreneurship researchers agree that the emergence of rapid internationalization companies calls into question how relevant the incremental models are. Rialp *et al.* [RIA 05] have identified 10 factors explaining the companies' rapid internationalization: the overall vision of the director and his team, the experience of the leader, managerial commitment, belonging to a network, in-depth knowledge of the market, the presence of intangible resources, differentiated products, a niche strategy, a strong customer orientation and a certain flexibility [CAB 11]. Bals *et al.* [BAL 11] specify that internationalization of young enterprises is catalyzed by the founder's personality – their networks, knowledge and experience in international markets – pressure exerted by investors and venture capital companies, the industry rivalry on a global scale and increasing failures in the domestic market.

The ERIPs, whose functions and economic model are international from the outset [KNI 04], generally belong to a knowledge intensive sector in which efforts should be made to implement international strategies to achieve a competitive advantage and obtain a satisfactory level of profitability in the short or very short term. Changes in the era of knowledge and telecommunications quicken the flow of information and reduce the life cycle of products, forcing companies to adopt behaviors that are more proactive than reactive [DES 06].

In addition to the speed and trajectory of internationalization, these structures will illustrate, among other things, their intrinsic characteristics, orientation and

market segment. International expansion occurs from the moment of its creation, unlike traditional businesses for which internationalization is considered only after expansion on the domestic market. Companies who undertake early internationalization therefore differ in their possession and exploitation of specific assets (human, technological, etc.), the penetration of niche markets, strong customer orientation and the international orientation of the leader [ZUC 02]. Emphasis is on differentiation in innovation and quality, involving substantial marketing efforts [MCD 03].

Unlike the internationalization models of the Scandinavian school of thought, the notions of distance and perceived risk no longer play a decisive role in the choice of location or input mode. The latter are more influenced by the demands of increased shareholder profitability, decrease in product life cycle or type of activity [OVI 94, TAP 10]. ERIPs do not generally hold assets abroad on account of the nature of their activities and the intangible nature of their strategic resources. Indeed, investment abroad is not seen to be a relevant solution for these companies, which tend to favor low commitment entry modes such as exports, licenses or strategic alliances. Their internationalization course and their choice of entry mode are both affected. The choice of location depends on the country's potential to add value to the company's products. In other words, although it is primarily dictated by the need to minimize uncertainty and access the network in the case of the Uppsala model, the location choice seems to relate more to value maximization in the case of *born globals* [MEI 10]. Table 1.3 summarizes the main differences between the *born global* and companies that internationalize gradually.

	ERIP	Processual approach
Founder: - Vision - International experience - Networks	International from the outset Strong previous experience Maximum exploitation of an entire group of network partners across the world	Domestic then international no data Used in the early stages and then replaced by company resources (better control of foreign operations)
Markets: - Segments - Orientation	Niche Customers	Mass/Multi-segment Markets
Learning	Rapid (previous knowledge of International business)	Slow, gradual and experiential

	ERIP	Processual approach
Psychological Distance	Not relevant	Central element
Localization choice	Value maximization	Risk minimization and networks access
Means of market entry	Weak commitment and moderate risks	Establishment chain
Level of commitment (evolution)	Priority given to indirect ways promoting the protection and conservation of know-how in the country of origin	Gradual increase in subsequent commitment to amassing experience, knowledge and the improving the positioning in the network

Table 1.3. *Main differences between the ERIP and processual approaches (source: adapted from [CHE 03] and [ASP 07])*

1.4.3. Born-again global: at the crossroads of incremental approaches and born global

Bell *et al.* [BEL 01, BEL 03] shed additional light on internationalization of SMEs, enhancing the debate between rapid and incremental internationalization. The analysis of the expansion strategies of 60 SMEs from England, Australia and New Zealand enables them to recognize the existence of a new type of business, referred to as *born-again global*. These firms, which “become internationalized quickly after a long period during which they concentrated more on the domestic market” [BEL 03, p. 340], demonstrated, apparently, no motivation to develop in foreign markets. They internationalize suddenly in response to a critical event such as the acquisition of unique resources (including human and financial), access to a new network on foreign markets, the development of a new product, company take-over by the senior management, etc. [BEL 03]. Therefore, internationalization of traditional SMEs doesn’t necessarily follow a linear trajectory as described in the Uppsala model but is made up of intervals, as a direct consequence of the alternation of the opening phase, of consolidation and segmentation on foreign markets. The arrival of a new CEO and the take-over in *management buy-out* (MBO) are two major examples of factors precipitating traditional SMEs openness to foreign markets [BEL 01, BEL 03]. Table 1.4, drawn from the work of Bell *et al.* [BEL 03], summarizes the main differences observed between traditional *born global* businesses and *born-again globals*.

	Traditional	Born global	Born-again global
Motivations	Reactive Domestic market unfavorable Orders/unsolicited requests New production costs Managerial reluctance Export regarded as the way to begin	Proactive Global niche markets Strong commitment on the part of management International from the outset Active research	Reactive Response to a crucial incident (MBO, acquisition, etc.)
Objectives	Survival or growth of the company Increase in the volume of sales Gaining of market shares Extension of the product life cycle	Competitive advantage Rapid penetration of global niche market Protection and exploitation of intellectual property	Exploitation of new networks and resources from the critical incident
Expansion models	Incremental Begins with domestic expansion Concentration on technologically unsophisticated markets Limited evidence of networks	Simultaneous Domestic expansion and international expansion almost simultaneous Strong evidence of networks Limited evidence of customer follow-up	Domestic orientation and then rapid internationalization Concentration on foreign markets Strong evidence of customer follow-up
Pace	Gradual Slow internationalization One market at a time Adaptation of existing supply	Fast Rapid internationalization Several markets at the same time Global production	Fast but late No internationalization and then rapid internationalization
Distribution method, entry method	Conventional Use of agents, distributors or wholesalers Direct to customers	Flexible and networks Use of Agents or distributors Integration of customer channels, use of licenses, joint ventures, etc.	The networks Use of new partner or client's existing channels
Strategies for international business	Ad hoc and opportunistic Evidence of continuing reaction to new opportunities Atomistic expansion, without links to new clients/markets	Structured Evidence of a planned approach to expansion Expansion of global networks	Reactive – in response to a crucial incident – then following on with more structure Expansion of newly integrated networks
Financing	Must begin in the new markets	Self-financed by growth capital, risk capital, stock exchange introduction	Capital injection by the parent company, recapitalization after MBO

Table 1.4. Looking toward global business by business type (source: adapted from [BEL 03, pp. 346–347])

1.5. Conclusion

This chapter, dedicated to presenting *born global* and processual approaches, has first enabled us to highlight the contributions of incremental models most frequently cited in the literature, namely the Uppsala and Innovation models. Building upon the behavioral theory [CYE 63] and the growth of the firm theory [PEN 59], advocates of the behavioral school of thought understand internationalization as a sequential process of an incremental nature, cumulative and linear, composed of a succession of steps through which any company wishing to develop abroad must pass. Each step leads to an increase in commitment abroad, as much on the resource plan – both tangible and intangible – as on the distance of the target markets. Whereas the members of the Nordic school of thought study internationalization through the prism of markets, the partisans of the school of innovation consider that each new step in the process is an organizational innovation for the company.

We have demonstrated that, while using theoretical reference frameworks and despite their contributions in understanding the mechanisms of internationalization, these models do have considerable limitations. Ageron and Huault [AGE 02] identify four major limitations to the processual approaches mentioned as well. These relate to the extent of the activities observed, to the method of operation and of commitment on foreign markets, and to the dynamics of the process, as well as to the methodology used. The harmonization of markets, the evolution of the IB environment, the increasing efforts in trade globalization, increased mobility of resources, technological advances, etc. are all elements that question the relevance of the original established models to the analysis of the current context. The emergence of *born global* and the growing role of the networks in the development of international activities confirm the need to complement and update these models, paying specific attention to the case of SMEs. Jones and Coviello [JON 05] highlight, by the heterogeneity and the singularity of these structures, that internationalization of SMEs may not be correctly understood using a single theoretical framework.

Far from invalidating the incremental models, Andersen [AND 93] argues more for the inclusion of the eclectic paradigm with a view to enriching the procedural approach. The Ownership-Location-Internalisation (OLI) paradigm developed by Dunning [DUN 81] is indeed important for understanding the kind of determinants which steer the choice of entry methods, offering a contemporary version of the paradigm; Dunning [DUN 09] also emphasizes the growing attention paid to location in internationalization strategies, which can be a vector of notable competitive advantage. Therefore, it seems justified to focus, in Chapter 2, on the role played by location in SMEs' internationalization processes.

