

B. Study 1: SMEs' Internationalization Patterns: Descriptives, Dynamics and Determinants

1. Introduction

Since the middle of the twentieth century, the world has witnessed a rapid internationalization of markets, industries and firms. This development has been reflected by the growing number of conceptual and empirical studies on international marketing and international entrepreneurship, among other areas. Although many theoretical frameworks exist, internationalization still poses a critical challenge, particularly for SMEs (Moen 2002; Jones and Coviello 2005).

Despite the considerable research on the internationalization of SMEs, no comprehensive framework has yet emerged (Leonidou and Katsikeas 1996). Research has tended to focus either on traditional SMEs and their rather incremental internationalization patterns or on born globals and international new ventures and their rapid internationalization. Although gradual internationalization models have been criticized for being too deterministic, the field of born global research has been largely fragmented and has provided different theoretical and methodological approaches (McDougall and Oviatt 2000). Hence, scholars call for more systematic research on the internationalization process (Rialp, Rialp and Knight 2005).

We aim to contribute by providing an integrative perspective and a multivariate empirical approach to SMEs' internationalization patterns. Our study responds to Bell et al.'s (2003) and McNaughton's (2003) calls for research on this regard. Following former research, we believe that SMEs follow different internationalization patterns. Our aim is to identify these patterns empirically, to explain the variations in those internationalization patterns over time and to test the firm-specific determinants that lead a SME to choose a particular internationalization pattern. By doing so, we hope to develop a deeper understanding of SMEs' internationalization process.

The remainder of this paper is structured as follows. First, we discuss internationalization patterns according to the Uppsala model, the born global research and other empirical studies. We then expand upon the former studies and discuss the factors that might determine internationalization patterns. Second, we test these assumptions and propose a multivariate model for analyzing internationalization patterns. Third, we discuss our findings and propose the implications for future research.

2. Conceptualization and Hypotheses Development

2.1. *Literature Review on Internationalization Patterns*

In general, internationalization can be understood as firm-level activity that crosses national borders (Wright and Ricks 1994). According to Jones and Coviello (2005) internationalization can be captured as “patterns of behaviour, formed by an accumulation of evidence manifest as events at specific reference points in time” (p. 292). Hence, we define internationalization patterns in line with Jones and Coviello (2005) and Kuivalainen, Saarenketo and Puumalainen (2012) as firm-level behaviour that crosses national borders and can be evidenced at specific points in time. Prior research on SME internationalization has discussed three major internationalization patterns: gradual internationalization as proposed by the Uppsala model, radical internationalization as proposed by past research on born globals and international new ventures and radical but late internationalization as evidenced by the so-called born-again global firms.

Describing gradual internationalization patterns, the Uppsala model has been applied both in the MNE and the SME context. The Uppsala model describes internationalization as a self-reinforced and incremental learning process in which firms gradually acquire knowledge about foreign markets and increase their commitment towards those markets (Johanson and Vahlne 1977; Johanson and Vahlne 1990). The Uppsala model builds on an earlier study that observed a progressive development of firms along the so-called “establishment chain”: (1) no regular export activities, (2) export via independent representatives/agents, (3) sales subsidiary and (4) production/manufacturing (Johanson and Wiedersheim-Paul 1975). Moreover, firms are found to enter new markets with successively greater psychic distance. The Uppsala model assumes that a lack of knowledge about foreign markets is a major obstacle in international operations and that commitment decisions are made incrementally because of uncertainty. Although the gradual internationalization pattern has enjoyed much popularity, the model has also been largely criticized (Andersen 1993; Forsgren 2002). Apart from criticism regarding the lack of measurability and the limited explanatory horizon, the interplay between knowledge development and increasing market commitment has not been fully tested (Johanson and Vahlne 2009). Nevertheless, there is also empirical evidence that many firms, especially those from large economies, have internationalized gradually (Bell et al. 2003).

The emerging body of born global research has shown that firms can become international shortly after or even from their inception. Observing the phenomenon of rapid, revolutionary and dedicated internationalization, born global research chal-

lenges the assumption of gradual internationalization from both conceptual and empirical standpoints (Knight and Cavusgil 2004). In general, a born global firm is referred to as "a business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries" (Oviatt and McDougall 1994, p.49). The source of competitive advantage is often said to be related to a sophisticated knowledge base (Weerawardena et al. 2007). These knowledge-intensive small firms perceive the world as one marketplace and start internationalizing from the outset. Born globals may even enter domestic and foreign markets concurrently and expand into markets regardless of psychic distance (Bell et al. 2003). Therefore, born global research highlights a non-incremental, radical and committed internationalization pattern (e.g. Moen and Servais 2002). In analyzing born globals, most definitions employ both the time lag from the founding of the firm to its first international activities and the foreign sales ratio. According to Knight and Cavusgil (2004), born globals internationalize within three years of firm inception and reach a foreign sales ratio of more than 25%. However, Acedo and Jones (2007) stated that conceptualizations range from 20% of total turnover in 2 years to approximately 80% within 6 years. Moreover, Kuivalainen, Sundqvist and Servais (2007) showed that born globals classified according to the foreign sales ratio can include firms whose internationalization strategies differ in terms of their degree of internationalization and the markets served. This finding was supported by recent studies on the differences between international new ventures and born globals (Crick 2009) or the differences between born regionals and born globals (Lopez, Kundu and Ciravegna 2008).

Another empirical phenomenon describing a different pattern of SME internationalization is found by Bell, McNaughton and Young (2001). They showed that after becoming well established in the domestic market, certain companies suddenly embrace dedicated internationalization. The firms had no particular interest in foreign operations until a critical incident occurred. The sudden internationalization is due to significant events that provide additional resources to the firm and therefore facilitate a committed internationalization process (Bell et al. 2003). The authors named these firms born-again globals, probably because the most common critical incident that spurred rapid internationalization was a change in ownership and/or management. Therefore, one could argue that those late internationalizing firms were re-born as global firms that embrace worldwide markets. The born-again global firms differ from born globals in the following respects: born-again globals start internationalizing much later, are well-established in their home markets and have developed tangible resources that they can use for their international expansion (Tuppura et al. 2008).

	Traditional	Born Global	Born-Again Global
Typical description	- Older firms - Traditional manufacturing industries - Successive entry in and commitment to foreign markets - No global focus - Reactive - Gradual internationalization	- Young firms - Knowledge-intensive industries, global niche markets - Simultaneous entry into foreign markets - Global from inception - Proactive - Radical and committed internationalization	- Older firms - Traditional manufacturing and service-intensive industries (e.g. retailing) - Internationalization triggered by critical incident - No initial global focus - Reactive - Radical and committed internationalization
Countries (geographic scope)	- Domestic expansion first - Successive international expansion in psychically and/or geographically close markets - Single market at a time	- Concurrent domestic and international expansion - Worldwide operations focusing on lead markets - Several markets at a time	- Domestic expansion first - Worldwide operations - Several markets at the same time
FSR (performance scale)	- Not the main characteristic - Small to medium share of foreign sales	- Large share of foreign sales - Different definitions, usually more than 25% (in small economies even more than 50%)	- Large share of foreign sales
Foreign operation modes (structure scale)	- Commitment increase along establishment chain: no regular export activities, exports via agent, sales subsidiary, production/manufacturing	- Flexible choice of entry modes - No defined sequence - Varies from exports to collaborative modes and FDI	- Flexible choice of modes - No defined sequence - More committed modes because of strong resource base
Time lag (commencement)	- Late	- Early - Different definitions, from three to ten years after inception	- Late

Figure B–1: Characteristics of Traditional, Born Global and Born-again Global Internationalization Patterns
Source: Own creation based on Bell et al. (2003), pp. 346/347.

We summarize the main characteristics of the three patterns in Figure B–1. The patterns have common characteristics but differ with regard to the main dimensions of internationalization. Although both traditional and born-again global firms are assumed to be rather old SMEs that start internationalizing late, they differ mainly with regard to the foreign operation modes employed and the sequence of markets entered once the born-again global firms start to embrace foreign activities. Furthermore, we believe that their shares of foreign sales differ. Similar to born-again global firms, born global firms are assumed to have high foreign sales ratios, even though the latter internationalize early. Both born-again global firms and born globals target markets regardless of their psychic distance. However, born-again global firms accumulate more tangible resources that they can use for more committed modes.

In summary, three aspects must be highlighted: (1) three distinct patterns are discussed in the empirical literature on SME internationalization (i.e. traditional, born global and born-again global); (2) empirical studies use different variables and employ different thresholds to classify international SMEs, especially born global firms; and (3) different conceptualizations may lead to different conclusions.

Accordingly, recent research called for a cohesive conceptual framework (Rialp, Rialp and Knight 2005; Kuivalainen, Sundqvist and Servais 2007), as comprehensive integrative approaches have only been provided by Bell et al. (2003) and Jones and Coviello (2005) to date. In particular, we want to emphasize Bell et al.'s (2003) study, as it outlines a normative and integrative model of SME internationalization that seeks to accommodate the diverse pathways that SMEs may take. The authors considered the traditional, the born global and the born-again global patterns. Expressed in simple terms, the manager, who is mainly influenced by the external and internal environments, has to decide on the firm's internationalization. This decision results in one of the three aforementioned patterns. With the progression of time and other relevant decisions, the state of internationalization increases, giving room to de-internationalize or change pathways through increased commitment. This process results in a growing knowledge base.

2.2. *Identifying Internationalization Patterns*

In the literature review, we discussed the three main internationalization patterns proposed by the Uppsala model, born global research and the empirical research on born-again globals. To capture the complexity of internationalization, we propose enriching the conceptualization of patterns by integrating the three perspectives.

The two variables emphasized by the Uppsala model are the foreign operation modes and the countries based on the concept of psychic distance. According to the Uppsala model, firms lack knowledge on foreign markets and associate those markets with uncertainty, which causes traditional firms to start expanding into psychically and/or geographically close markets that are similar to the home market. Because of these firms' aversion to risk and lack of knowledge on foreign markets, the firms also start internationalizing by using low-risk and low-commitment entry modes, such as exporting via agents. Although this reasoning is reasonable for the traditional firms, who adopt a slower path because they want to avoid excessive risks and investments, born global and born-again global firms must also decide on where and how to enter. Whereas the operation modes have been discussed as a structural scale measure of internationalization in the literature, the countries dimension has been addressed as a geographical or market scope measure (Kuivalainen et al., 2007). We propose that both dimensions enrich the understanding of born globals' and born-again globals' internationalization patterns. This finding is consistent with Jones and Coviello (2005) and Andersen (1993), who claimed that the mode and place of transference are the main evidence for internationalization. This measure provides support for the usefulness of the named dimensions in objectively capturing SMEs' internationalization patterns.

With respect to the research on born globals and born-again globals, the following two variables are emphasized: time lag and foreign sales ratio. To account for the time dimension of internationalization, scholars must include the time lag in a conceptualization of internationalization patterns (2007). The time dimension is one key element that has been used to differentiate born globals from traditional SMEs. This dimension is also important for identifying born-again globals, which differ from born globals by beginning the internationalization process much later (Bell, McNaughton and Young 2001). A second important characteristic is the foreign sales ratio. The foreign sales ratio has often been used as performance-related scale indicator of the degree of internationalization (Kuivalainen, Sundqvist and Servais 2007). Obviously, firms with similar foreign sales ratios can employ different operation modes in different countries or follow different internationalization paths (Kuivalainen, Sundqvist and Servais 2007). Thus, it seems necessary to integrate and combine the indicators to achieve a multi-faceted view of internationalization patterns.

By considering different possible combinations of the four major dimensions of internationalization, as proposed previously, we expect there to be early and late internationalizing firms that have a certain level of commitment (in terms of scale and scope) towards foreign markets. That is, we expect to find early committed internationalizers, late committed internationalizers and non-committed internationalizers. According to the literature review, these types resemble the born global, the born-again global and the traditional internationalization pattern. Coming to a similar conclusion, Madsen and Servais (1997) claimed that the three main categories of internationalization patterns are the traditional exporting SMEs, the late internationalizing firms and the born globals. However, research on early internationalizing firms also discussed several sub-patterns (Kuivalainen, Saarenketo and Puumalainen 2012) as well as variations of patterns. For example, Crick (2009) highlighted that the main difference between born globals and international new ventures is their country scope. Other studies differentiated between born globals and born regionals based on the geographical expansion of the firms (Lopez, Kundu and Ciravegna 2008). Since country scope is a dimension of internationalization patterns in our study and former research tended to use different variables and employ different thresholds to classify international SMEs, we need to test, whether there are three internationalization patterns as expected.

- H1.** Three distinct internationalization patterns based on the foreign operation mode, countries, time lag and foreign sales ratio best represent the empirical data on SME internationalization.

2.3. *Discussing the Determinants of Internationalization Patterns*

In the born global literature, scholars addressed how and why the born global firm actually differs from a traditional SME. In the following section, we will draw upon the reasoning of those studies to discuss the factors that may influence the firms' belonging to one of the three internationalization patterns. Therefore, we assume that the factors that are intended to differentiate born globals, born-again globals and traditionals should be capable of discriminating empirically found patterns. We specifically focus on internal firm factors, as prior research has mainly highlighted the external factors leading to the emergence of born global firms (Knight and Cavusgil 1996) and born-again global firms (Bell, McNaughton and Young 2001). Following Vermeulen and Barkema (2002), we suggest that the extent to which firms can realize rapid internationalization is constrained by their capabilities.

Research has shown that international orientation is extremely important to born global firms. We define international orientation as a managerial capability that describes the positive attitude of managers towards exporting, international activities and stays abroad (Dichtl, Koeglmayr and Mueller 1990; Acedo and Jones 2007). International orientation includes the international outlook, which is connected to the perceived psychic distance and also the manager's global mindset (Nummela, Saarenketo and Puumalainen 2004). Scholars assumed that the global mindset is characteristic of born global firms (Oviatt and McDougall 1994). The distinguishing feature of born globals has been suggested to be their international origin, which is demonstrated by the global focus of the management (Knight and Cavusgil 2004). Knight and Cavusgil (1996) further showed that born global firms perceive the world as one marketplace from their inception. The authors added, "Unlike traditional companies, they do not see foreign markets as simple adjuncts to the domestic market" (p. 18). Traditional SMEs do not focus on international markets from firm inception; rather, these firms exploit the domestic market and start international activities because of a decreasing demand in the home market, unsolicited orders or other external factors. Similar to born-again global firms, traditional internationalizing SMEs are reactive in their internationalization efforts (Bell et al. 2003). Although born-again globals do not develop a global mindset from the outset, they differ from traditionals with regard to their international orientation. The firms embrace sudden and dedicated internationalization that is often led by new management with international experience or a global perspective (Bell et al. 2003).

- H2.** SME that have a higher international orientation are more likely to follow (a) a born global rather than a traditional and (b) a born-again global rather than a traditional internationalization pattern.

Similarly, we propose that the growth orientation influences the internationalization pattern of SMEs. Although SMEs are generally not assumed to be very growth oriented, growth orientation is a precondition for growth and was found to influence international growth (Yli-Renko, Autio and Tontti 2002; Nummela, Puumalainen and Saarenketo 2005). Growth orientation is a “construct meant to differentiate companies according to their motivation to seek growth in international markets” (Tuppura et al. 2008). If management seeks growth – especially abroad – this growth should also be manifested in the scale and scope of the firm’s internationalization. We expect growth orientation to lead firms to seek country market expansion and to penetrate foreign markets to reach higher foreign sales ratios. However, Tuppura et al. (2008) found that international growth orientation could not distinguish between born globals, born-again globals and traditional, though it significantly affected the country scope of foreign market operations, which is one of the conceptualized dimensions that reflect internationalization patterns. Born globals and born-again globals seek growth by entering worldwide markets simultaneously. Therefore, we contend that growth orientation is connected to the born global and the born-again global patterns but not to the traditional pattern. This is supported by Nummela, Puumalainen and Saarenketo (2005) who found that Finnish knowledge-intensive SMEs that are growth oriented were more internationalized (in terms of having international activities in general and having a larger customer base, larger turnover and more target countries) than firms that are not growth oriented. Emphasizing the difference between born global and traditional firms, Bell, McNaughton and Young (2001) stated that “‘traditional’ firms tended to adopt a more ad hoc, reactive and opportunistic approach to internationalization” (p. 178). In contrast, Oviatt and McDougal (1994) showed that a proactive strategy is important for born global firms. We view growth orientation as a precursor to the implementation of a proactive strategy and assume that firms internationalizing proactively are driven by their growth orientation. Hence, we expect growth-oriented firms to follow a born global or a born-again global pattern over a traditional path.

- H3.** SME that have a higher growth orientation are more likely to follow (a) a born global rather than a traditional and (b) a born-again global rather than a traditional internationalization pattern.

Apart from managerial capabilities, such as international growth orientation, we propose that organizational capabilities differentiate the internationalization patterns (Kuivalainen et al. 2010). One organizational capability refers to communication at the organizational level. We understand communication capability as an organization’s capacity to encourage its members to communicate effectively, to be creative

and to share and develop ideas. This definition is in line with the understanding of social capital provided by Yli-Renko, Autio and Tontti (2002). The authors argued that firm-internal communication increases learning and facilitates the build-up of organizational knowledge. Yli-Renko, Autio and Tontti (2002), moreover, showed that international social capital is positively related to knowledge-intensity and ultimately to international sales growth. Since born global firms are knowledge-intensive firms, one could argue that organizational capabilities such as internal communication are important to these entrepreneurial firms. On the one hand, born globals may use the organization's potential to communicate and develop ideas to enlarge their knowledge base, learn effectively and serve customers on a global level. On the other hand, born globals have a solid knowledge base that facilitates faster organizational learning through communication and idea development (Chetty and Campbell-Hunt 2004). Forms of internal communication within the organization promote creativity and innovation (Amabile et al. 1996). Therefore, we assume that the communication capability differentiates born global firms from traditional and born-again global firms.

- H4.** SME that have a higher communication capability are more likely to follow (a) a born global rather than a traditional and (b) a born global rather than a born-again global internationalization pattern.

Another organizational capability is the intelligence generation capability, which refers to the collection and evaluation of data on foreign activities, customers and markets (Cadogan, Cui and Li 2003). It helps the firm to better understand the international activities and to translate its experiential knowledge into figures and numbers. Therefore, intelligence generation provides the firm with information about its international situation (Cadogan, Cui and Li 2003). By using reports and figures, the firm obtains room to plan further steps and to create and implement inter-national strategies. We further assume that intelligence generation reduces uncertainty. Born-again globals are re-active firms that have a structured approach towards internationalization (Bell et al. 2003). These firms are well-established in their home markets and have clear routines and goals. The firms initiate dedicated internationalization to exploit new resources. Because of the solid tangible resource base, the firms can commit more resources, but they cannot waste the resources on ineffective operations or unprofitable markets. The born global firm differs considerably in this regard. Born globals try to stay sufficiently flexible and agile to discover and pursue unforeseen opportunities (Knight and Cavusgil 1996). Born globals have fewer financial resources to invest into intelligence generation activities and are more entrepreneurial and risk-taking than born-again globals (Knight and Cavusgil 2004; Knight, Madsen and Servais 2004). Similarly, Crick and Spence (2005) highlighted the un-

planned and serendipitous nature of high-performing, innovative high-tech SMEs. Therefore, the capability to collect information and control international activities should distinguish between born-again globals and born globals. Furthermore, traditional internationalizing firms acquire knowledge on foreign markets with experience. Hence, intelligence generation capabilities should assist the firms in learning.

- H5.** SME that have a higher intelligence generation capability are more likely to follow (a) a born-again global rather than a born global and (b) a traditional rather than a born global internationalization pattern.

We further assume that marketing capabilities refer to the organization's understanding of the customers' needs which are important to position the marketing program appropriately. We view the standardization of the marketing mix as the extent to which the marketing programs are identical across countries (as opposed to an adaptation of the marketing mix to the single country markets). Although Rennie (1993) proposed that born globals are highly flexible firms that adapt to customer preferences, Jolly, Alahuhta and Jeannet (1992) concluded that high-tech start-ups choose homogenous customer segments that require less adaptation of the marketing mix. The global small firm introduces and sells its product in global niches in lead markets. Because born global firms are knowledge-intensive, they can better identify global niches and similarities across countries (Solberg 2002). The firms learn quickly about foreign markets and make adjustments only if they are necessary. This description is consistent with the findings of Cavusgil, Zou and Naidu (1993), who found that the firms from technology-intensive industries adapt their marketing instruments to a lesser extent. Applying a standardized marketing mix facilitates the transfer of offers from the home market to foreign markets (Samiee and Roth 1992). Conversely, the traditional SME lacks those intangible knowledge resources needed to identify similarities across markets and also lacks knowledge on the particularities and needs of those markets. Given that traditional firms must build up experiential knowledge, we assume that they also standardize their marketing programs in foreign markets. However, they may adapt certain marketing-mix elements post-entry as they learn and increase their knowledge. This assumption is supported by the results of Cavusgil, Zou and Naidu (1993), who showed that firms' international experiences have positive effects on the adaptation of products post-entry. Prior research has also found evidence that the level of marketing-mix standardization depends on the operation mode. Whereas exporting modes relate to standardization, direct modes of entry tend to favour adaptation (Griffith, Chandra and Ryans Jr 2003). As born-again globals are more flexible regarding the use of direct forms of foreign entry, we as-

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