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## Article

# The internationalization of SMEs: Building models for long-term development

BRQ Business Research Quarterly

## Provided in Cooperation with:

Asociación Científica de Economía y Dirección de Empresas (ACEDE), Madrid

*Suggested Citation:* Pla-Barber, José; Villar, Cristina; Ghauri, Pervez N. (2020) : The internationalization of SMEs: Building models for long-term development, BRQ Business Research Quarterly, ISSN 2340-9436, Sage Publishing, London, Vol. 23, Iss. 2, pp. 88-90, <https://doi.org/10.1177/2340944420916330>

This Version is available at:

<https://hdl.handle.net/10419/261873>

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# The internationalization of SMEs: Building models for long-term development

Business Research Quarterly  
2020, Vol. 23(2) 88–90  
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sagepub.com/journals-permissions  
DOI: 10.1177/2340944420916330  
journals.sagepub.com/home/brq



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## Background on the special issue

In this special issue, we advance our understanding of how small and medium-sized enterprises (SMEs) build international firm-specific advantages after they internationalize. With the globalization and digitalization of business, SMEs can find opportunities to create and exploit resources in multiple countries using novel business models based on their flexibility. At the same time, this new landscape gives rise to important challenges. Moreover, we lack explanations for the drivers of long-term performance among SMEs (Cavusgil & Knight, 2015). Dominant paradigms in the international entrepreneurship literature largely focus on describing SMEs' internationalization patterns, moving from the classical internationalization process (Johanson & Mattson, 1988; Johanson & Vahlne, 1977) to the phenomenon of accelerated internationalization (Oviatt & McDougall, 1994). They examine some variables such as speed and time, or subsequent entries (Casillas & Acedo, 2013; Prashantham & Young, 2011). However, in addition to the role played by size or time in internationalization, literature on the internationalization of SMEs is increasingly paying attention to other dimensions, such as market presence, product diversification, new business models, participation in global value chains (GVCs), and entry modes other than exporting.

As such, the literature on international entrepreneurship focuses on analyzing the process, but it has rarely examined the instruments that SMEs could use to handle this new reality. In most cases, studies assume that internationalization occurs on the basis of a firm-specific advantage that exists prior to internationalization (Autio, 2017). This assumption relates to the well-known ownership, location, and internalization (OLI) framework (Dunning, 1988), which explains MNEs' internationalization based on the advantages of their existing operations. However, little is known about how to systematically build such advantages, especially in the case of SMEs. This confirms the existence

of a certain misfit between theoretical approaches and the reality for contemporary SMEs competing globally. For instance, we can observe a new generation of SMEs that are developing high value-added activities abroad (Dimitratos et al., 2016), making decisions about locations, fine-slicing their value chains, and creating differentiated networks just like multinational firms (Buckley & Ghauri, 2004). Despite their resource constraints, these firms have identified the opportunities inherent in direct communication with foreign customers and incorporated such direct communication into their value propositions (Teece, 2010).

In parallel, recent studies point to a need to understand the evolution of these strategies from a dynamic perspective to create sustainable advantages over time (Autio, 2017; Reuber et al., 2017). In sum, although studies have extensively analyzed why and when SMEs become international, many research opportunities remain given our limited knowledge of how value is created and captured following the establishment of new international ventures (Zott et al., 2011).

## Contributions to the special issue

The articles presented in this special issue not only expand our understanding of the above issues but also present new ideas in this ongoing debate. The five articles are empirical studies with different theoretical perspectives, research methodologies, and units of analysis. All of them make sound, robust, and relevant contributions to the literature by analyzing how SMEs in different contexts adapt their internationalization models and strategies to the new

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conditions of the global landscape. In this sense, all of them have the potential to guide managerial practices.

Three main topics covered in these articles respond to our call and point to potential avenues for future research in the field of SMEs. The first topic deals with the complexity of the internationalization process in SMEs and accumulated learning as a catalyst for improving performance in relation to this process. Such learning is operationalized through the inclusion of several contingent variables: product and geographical diversification, age at entry, and export experience. In “The combined effects of product and geographical diversification on performance: Evidence in manufacturing SMES,” Benito-Osorio et al. explore the impact of geographical diversification on product diversification on SME performance. Their results, which are derived from dynamic panel-data models, provide statistical support for the existence of a horizontal, S-shaped relationship between geographical diversification and performance. Their findings also indicate that while related product diversification positively enhances the performance of SMEs engaged in geographical diversification (albeit not indefinitely), unrelated product diversification may significantly impair it, especially for SMEs opting for low and high levels of international diversification. Thus, the study reveals that, in the case of SMEs, product diversification and international diversification strategies are complementary or substitutive depending on the product-diversification strategy and the level of international diversification.

The article “How does internationalization begin? The role of age at entry and export experience in the early stages of the process” by Casillas, Acedo, and Rodriguez-Serrano analyzes how age at entry and export experience simultaneously influence international behavior in the early stages of the internationalization process. The authors find that these two variables exert not only a direct effect but also a moderating influence on initial export development, and they observe a decline in that influence as experience grows. These results highlight the importance of the market-entry momentum and its short-term effect. Age at entry is considered to be significant for explaining both export volume and intensity. However, after an initial phase, these firms appear to implement a gradual development process in which learning (experience) becomes more important than the characteristics of the initial internationalization strategy. The article shows a change in the capabilities required for export activities—while early exporters seem to have some advantages over late exporters, the evolution of both groups of firms converges as firms acquire direct export experience.

The second topic combines the literature on new international ventures, known as “born globals,” with elements related to firms’ strategies to achieve higher performance. In so doing, the research models incorporate such variables as competitive strategies, internationalization duration,

internationalization preparation, network ties, and the position of the firm in GVCs.

The article by Crespo, Corado, and Fontes entitled “Competitive strategies and international new ventures’ performance: Exploring the moderating effects of internationalization duration and preparation” discusses the importance of strategy for the performance of international new ventures (INVs). These authors assess the relevance of two organizational contingency factors—internationalization duration and internationalization preparation—in moderating the strategy-performance relationship. Based on a sample of 319 INVs from Portugal, the findings show that marketing, quality, and service-differentiation strategies are associated with better international performance. In addition, internationalization duration moderates the competitive strategy-performance link, such that the recent-entry group is better served by implementing marketing differentiation, quality, and service differentiation strategies, while the post-entry group achieves better performance by implementing quality, service, and cost-leadership strategies. With regard to the influence of internationalization preparation, only those INVs that compete through quality and service differentiation can achieve high international performance when preparation is low. When such preparation is high, INVs can successfully compete through marketing, quality, and service differentiation.

Following a similar approach but using a qualitative analysis of nine Chinese firms inserted in GVCs, Su et al.’s article “Internationalization of Chinese SMEs: The influence of networks and global value chain position” investigates the role of network ties and positioning within the GVC as elements of enhanced performance. The findings indicate that networks facilitate the internationalization of emerging-economy SMEs but restrict their future global development, as their low position in GVCs impedes knowledge acquisition and capability building. The GVC context also weakens the influence of networks on market selection and entry modes. The authors identify several enabling and restraining factors that play important roles in firms’ internationalization, including entrepreneurial factors, firms’ attitudes, channel conflicts with extant customers, and foreign-market maturity.

The third topic is related to business models and the identification of archetypes of high-performance strategies to deal with changing conditions in the global environment. In this sense, the article by Villar, Pla-Barber, and Ghauri entitled “Learning from foreign operations modes: The virtuous path for innovation” analyzes the impact of learning from internationalization on SMEs’ performance along different development paths. Drawing on the exploitation versus exploration logic and using an alternative view of foreign operation modes (the learning perspective), the article provides insights into the impact of such learning on technological and organizational innovation as well as general performance. The results, which are derived from a

sample of 132 SMEs active in traditional manufacturing industries, stress the importance of utilizing more sophisticated operation modes and organizational innovations to enhance a firm's knowledge base and to foster new models relevant for competing at the international level. In this regard, the article illustrates how resource-augmenting operation modes and non-technological innovation arise as the hallmarks of superior performance.

We hope that the articles in this issue on *The internationalization of SMEs: Building models for long-term development* will be attractive to International Business (IB) readers and inspire deeper research in the field.

### Acknowledgements

We express our gratitude to all of the authors who submitted papers for this volume and to the many reviewers whose diligent efforts have contributed to substantially improving the papers selected for publication.

### Declaration of conflicting interests

The author(s) declared no potential conflicts of interest with respect to the research, authorship, and/or publication of this article.

### Funding

The author(s) received no financial support for the research, authorship, and/or publication of this article.

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