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**The Internationalization of SMEs and International Entrepreneurship: A Critique and Policy Implications**

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The Internationalization of SMEs and International Entrepreneurship: A Critique and  
Policy Implications

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ABSTRACT

Practitioners are seeking to provide a supportive environment for growing ventures. An important policy challenge is the provision of support for small and medium sized enterprises (SMEs) seeking to internationalize. To guide practitioner resource allocation decisions, recent conceptual and empirical developments relating to SME internationalization are discussed. An international entrepreneurship perspective is presented as a counter point to the established internationalization perspectives, which may have guided practitioner understanding of the aspirations and needs of SMEs. The emerging international entrepreneurship perspective relating to SME

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<sup>1</sup> The authors are listed in reverse alphabetical order.

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3 internationalization is critically reviewed with regard to the following seven themes:  
4  
5 the timing of internationalization; the intensity and sustainability of  
6  
7 internationalization; the mode of internationalization; the influence of domestic  
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9 environmental context on internationalization; the leveraging of external resources to  
10  
11 internationalize; the unit of analysis (i.e., the firm or the entrepreneur); and the effect  
12  
13 of internationalization on SME performance. Assuming an interventionist stance, a  
14  
15 case for more balanced policy support towards SME internationalization is suggested  
16  
17 that takes into account the diversity of SMEs (and entrepreneurs) that operate, or are  
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19 capable of operating in foreign markets. Implications for policy and researchers are  
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21 presented.  
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32 Key words: Internationalization, small and medium-sized enterprises, policy  
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34 implications.  
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36 JEL classifications: F23, L53; M13; L21  
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## INTRODUCTION

Some small and medium-sized enterprises (SMEs) may generate earnings in international markets. To encourage this process and to secure greater international competitiveness, governments throughout the European Union are concentrating their attention on the development of policy measures aimed at both new and established private SMEs (Department of Trade and Industry (DTI), 2004). Policy towards SME internationalization has several strands (Raines and Brown, 2001). One strand is to encourage new private SMEs to trade internationally from the outset. A second element concerns the encouragement of 'export capable' and 'inexperienced exporter' firms to sell their goods and services outside the domestic market (Philp, 1998). Finally, the promotion of additional exporting by existing exporting SMEs has become an area of critical policy interest (Julien et al., 1997).

A policy challenge relates to the inability and / or reluctance of many SMEs to internationalize. For some firms, their products or services may not be tradable on international markets and it may be more appropriate to target policy support at other firms. However, many SMEs lack the resources to meet the global challenge to internationalize (Bagchi-Sen, 1999; Organization for Economic Co-Operation and Development (OECD), 2002), with a central role of policy being to develop mechanisms to build and provide these resources.

An important issue concerns the extent to which internationalization research can guide policy design in this area. Internationalization research has focused on the process of increasing involvement in international markets (Welch and Luostarinen, 1988). Two broad theoretical streams have emerged. First, traditional internationalization theories, such as stage theory (Johanson and Vahlne, 1977) have focused on the factors influencing internationalization, especially in larger firms.

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These traditional internationalization approaches have been the subject of considerable criticism (Anderson, 1993; Oviatt and McDougall, 1994; O'Farrell et al., 1998; Peng, 2001; Jones and Coviello, 2005). Second, the inability of traditional internationalization theories to explain why some SMEs internationalize from the outset has been highlighted in the emerging international entrepreneurship theory (McDougall and Oviatt, 2000; Zahra and George, 2002; Oviatt and McDougall, 2005; Zahra, 2005). Entrepreneurship related aspects of internationalization have been developed as a counter point to the received wisdom of traditional internationalization theories. International entrepreneurship has been defined as the process of creatively discovering and exploiting opportunities that lie outside a firm's domestic market in the pursuit of competitive advantage (Zahra and George, 2002).

The novel contribution of international entrepreneurship theory to knowledge, as well as policy debates, is still not clearly positioned by its advocates who acknowledge that a unifying and clear theoretical direction has not been presented (McDougall and Oviatt, 2000; Acs et al., 2003; Young et al., 2003). Emerging attempts to address this issue are beginning to recognize the restrictive nature of the international entrepreneurship perspective. First, O'Farrell et al., (1998) focusing on the service sector recommended a flexible theoretical approach to explore internationalization by SMEs. They suggested that theory should consider the strategic choices open to entrepreneurs and that the home region context may influence foreign market decisions. Second, Jones and Coviello (2005) note that while contemporary understanding of internationalization is informed by integrating multiple theoretical perspectives, there remains a need to incorporate entrepreneurial behaviour into models of internationalization. This represents an important recognition of the need for conceptual models to be sufficiently flexible to

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2  
3 accommodate a range of conditions that might explain a firm's internationalization  
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5 decision, its actions and its dynamic processes. In turn, Jones and Coviello suggest  
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7 that broader perspectives, which appreciate the resources, choices and decisions made  
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9 by entrepreneurs, should guide practitioners seeking to facilitate more firms to  
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11 internationalize.  
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15 For theoretical insights to be converted into policy, a robust evidence base is  
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17 required (DTI, 2004). Whilst there is a considerable pool of knowledge relating to the  
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19 internationalization of large and multi-plant companies (Coviello and McAuley, 1999;  
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21 Roper and Love, 2002; Etemad, 2004), until recently there has been comparatively  
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23 limited information relating to the internationalization of new and smaller private  
24  
25 firms. Several studies have begun to explore the complex array of factors associated  
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27 with the reasons 'why' and 'how' SMEs internationalize (Hollenstein, 2005). On the  
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29 downside, many of these studies are fraught with methodological problems (Coviello  
30  
31 and Jones, 2004) relating to definitions, sampling and the mis-specification of  
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33 empirical models.  
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39 This study seeks to extend analysis by exploring the policy implications  
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41 associated with recent conceptual and empirical developments relating to SME  
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43 internationalization. Other conceptual perspectives have been subject to extensive  
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45 criticism in the policy context (O'Farrell et al., 1998). Because of its emerging  
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47 importance, we focus our critical analysis on the international entrepreneurship  
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49 perspective and compare it with traditional internationalization theories. Hitherto,  
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51 conceptual and empirical literature adopting an international entrepreneurship  
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53 perspective has tended not to develop policy insights. Recent attempts that begin to  
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55 provide a synthesis of international entrepreneurship with more traditional  
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57 internationalization perspectives also do not address the policy context. Here, we take  
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3 a broad perspective by suggesting that policy towards internationalization needs to  
4 appreciate firm heterogeneity. The spectrum of firms can range from those that do  
5 not and cannot internationalize, through to those that internationalize from their  
6 inception. Policy may need to be differentiated according to the circumstances and  
7 contexts of firms along this spectrum. Various conceptual perspectives may help shed  
8 light on the types of support appropriate for SMEs at different points on the spectrum.  
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17 A distinction can be made between inward and outward activities. Inward  
18 processes relating to internationalization (i.e., importers, licensees and franchisees)  
19 have received relatively limited attention, despite the belief that many firms begin  
20 their first international activity on the inward side (Korhonen et al., 1996). Most  
21 internationalization studies generally focus on the outward processes associated with  
22 exporting, licensing, franchising and foreign direct investment (FDI).  
23 Notwithstanding the importance of inward internationalization, consistent with the  
24 literature, this review will mainly focus on the outward processes relating to the  
25 internationalization of SMEs.  
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38 Our review of the internationalization and international entrepreneurship  
39 literatures (O'Farrell et al., 1998, especially Figure 2; Jones and Coviello, 2005),  
40 suggests seven key themes that need to be examined from a policy perspective. In the  
41 following sections, we identify and discuss the following themes with regard to the  
42 internationalization of private SMEs:  
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53 *Theme 1 The timing of internationalization.*

54 *Theme 2 The intensity and sustainability of internationalization.*

55 *Theme 3 The mode of internationalization.*  
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*Theme 4 The influence of the domestic environmental context on internationalization.*

*Theme 5 Leveraging of external resources to internationalize.*

*Theme 6 The unit of analysis (i.e., the firm or the entrepreneur).*

*Theme 7 The effect of internationalization on SME performance.*

Table 1 summarizes the conceptual insights from the key theoretical perspectives associated with SME internationalization and international entrepreneurship. A distinction is made between traditional internationalization theory (i.e., stage theory and internationalization / transaction costs theory) and international entrepreneurship theory (i.e., strategic choice theory, learning and knowledge theory relating to international new ventures or born globals, and resource-based / network theory) with regard to the above seven themes. In addition, we suggest that the industrial sector and the tradability of the goods or services should be considered. This framework is used to guide the following discussion. By highlighting these themes, we seek to create greater awareness of the implicit views that may be held by policy-makers and entrepreneurs. With reference to the theory and evidence base, alternative perspectives for consideration are highlighted. In the final section, implications for policy-makers and researchers associated with the above themes are discussed.

INSERT TABLE 1 HERE

THEMES SURROUNDING THE INTERNATIONALIZATION OF SMEs

*Theme 1 The timing of internationalization*

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3 The timing of internationalization is an important distinguishing factor between  
4 traditional internationalization studies and international entrepreneurship studies.  
5  
6 Within the latter theoretical perspective, international new venture (INV) theorists  
7  
8 guided by strategic choice theory and learning / knowledge theory question the stage  
9  
10 model theory, and suggest that many new private SMEs can internationalize from the  
11  
12 inception of business operations (Autio et al., 2000).  
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18 INVs are viewed as organizations which, from inception, seek to derive  
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20 significant competitive advantage from the use of resources and the sale of output to  
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22 multiple countries. Moreover, INV theorists assert that many firms no longer regard  
23  
24 international markets as simple adjuncts to the domestic market. SMEs with specific  
25  
26 competitive advantages linked to their technological level and product and / or service  
27  
28 characteristics may be alert to opportunities in international markets from the outset  
29  
30 (Oviatt and McDougall, 1994, 1997). These opportunity-driven firms, therefore, do  
31  
32 not follow an incremental internationalization path (Bell et al., 2001). Firms that  
33  
34 internationalize from the outset may be associated with the asset of newness. Most  
35  
36 notably, new SMEs do not have to unlearn procedures focused on developing a  
37  
38 domestic market presence (Autio et al., 2000). McDougall et al., (1994) have asserted  
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40 that international entrepreneurs try to avoid domestic path-dependence by establishing  
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42 ventures which have routines for managing multicultural workforces, for co-  
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44 ordinating resources located in different nations, and for targeting customers in  
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46 multiple geographic locations simultaneously.  
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54 Evidence from Finland suggests that the time from the establishment of a firm  
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56 to the time of the first export delivery is becoming shorter (Luostarinen and  
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58 Gabrielsson, 2004). Some technology and non-technology-based firms may ground  
59  
60 their international competitive pattern on unique resources (i.e., human capital

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3 resources such as entrepreneurial capabilities relating to entrepreneurial orientation,  
4 alertness, information search and processing, cognitive mindset, etc.) (Obrecht, 2004).  
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8 INVs or born globals (BGs) (Oviatt and McDougall, 1994, 1997; Preece et al., 1999)  
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10 generally offer products and / or services that involve substantial value added based  
11  
12 on a breakthrough in process or technology (Knight and Cavusgil, 1996). Given the  
13  
14 relatively short life cycle of such products / services, these firms may seek to  
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16 maximize sales by serving multiple markets.  
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20 INV theorists may have encouraged a growing policy belief that more new  
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22 private firms can internationalize and that they can do so from the outset (EIM, 2005).  
23  
24 The development of policy based on these notions may apply only to a distinct sub-  
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26 group of SMEs. If policy-makers only contextualize support toward knowledge and  
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28 technology-based firms, this support may not be appropriate for the vast majority of  
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30 SMEs that do not offer products and / or services that involve substantial value added  
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32 based on a breakthrough in process or technology. Insights from other perspectives  
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34 need to be considered by policy-makers seeking to encourage more of the latter types  
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36 of firms to internationalize. Findings and relationships detected with regard to INVs  
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38 may not be universally applicable to other 'types' of SMEs for the following reasons.  
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44 First, some SMEs may produce goods and services that are not tradable.  
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46 Some firms' markets may be restricted to the local domestic environment because of  
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48 local tastes, distribution costs or because they are unable to offer competitive  
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50 advantage over domestic suppliers in foreign markets. It is necessary to understand  
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52 the distinction between those cases where the goods and services are not tradable and  
53  
54 those where they are tradable in principle, yet the firm does not engage in  
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56 internationalization. This may be attributable to the attitudes, resources and  
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58 behaviour of the entrepreneurs and firms involved. The majority of non-exporting  
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3 SMEs may not have the inclination and / or ability to export. Many non-exporting  
4 private firms do not export because they are focusing on their domestic market  
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6 (Westhead et al., 2002). Further, firms (and entrepreneurs) may not internationalize  
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8 because they are reluctant to commit their (limited) resources to enter foreign markets  
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10 (Westhead et al., 2001a). Most SMEs 'stay at home' (Acs et al., 1997). Westhead et  
11  
12 al., (2002, 2004a) find from representative studies across the entire SME sector that  
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14 only a minority of all SMEs are exporters and among those that do export, the  
15  
16 proportion of their sales derived from foreign markets was rather small. This pattern  
17  
18 is not confined to the UK. Empirical evidence suggests a similar pattern in the  
19  
20 European Union where only 18% of SMEs were found to be exporters (EIM, 2005).  
21  
22 Consequently, while policy-makers may hold the belief that internationalization is  
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24 desirable, they need to acknowledge that attitudinal barriers need to be addressed if  
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26 the pool of internationalizing private SMEs is to be increased.  
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34 Second, the findings from several empirical studies may be associated with  
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36 low external validity. Some studies are restricted to small countries where high  
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38 technology firms may have to internationalize if they are to identify sufficient  
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40 customers.  
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43 Third, the nature of the industrial sector selected by the SME to operate in  
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45 may be important. With reference to a random sample of 377 independent companies  
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47 in the UK, Westhead et al., (2004a) detected that younger and manufacturing firms  
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49 were more likely to be exporters and they reported higher internationalization  
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51 intensities. Further, Bell et al.'s (2004) case study evidence relating to 15  
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53 'knowledge-intensive' and 15 'traditional' manufacturing firms located in three  
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55 regions in the UK suggests that whilst 'traditional' firms generally followed an  
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57 incremental approach both domestically and internationally, 'knowledge intensive'  
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3 manufacturing firms were more likely to have reported an international orientation  
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5 from inception, and they internationalized rapidly.  
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8 Fourth, there is a need to consider the nature of the support system which may  
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10 be an important source of knowledge leveraged by the new venture to circumvent  
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12 attitudinal, resource, operational and strategic obstacles to internationalization. With  
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14 reference to the development of high-technology spin-out firms from universities  
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16 located across Europe, Clarysse et al., (2005) concluded that an incubator model  
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18 involving heavily resourced and intensive activities over a considerable period of time  
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20 and based on world class science was needed to promote firms that have the potential  
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22 to internationalize. Studies have tended to ignore this potentially important influence  
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24 on the timing and extent of internationalization (Autio et al., 2000).  
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29 Fifth, the notion of SMEs internationalizing from the outset ignores the  
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31 potential impact of the changing international competitive landscape and the  
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33 associated corporate restructuring. The reassessment of the scope of larger  
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35 corporations in response to these changing market pressures is leading to the  
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37 outsourcing of activities, and the divestment of often modest sized subsidiaries and  
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39 divisions to management and leveraged buy-outs that have greater discretion to select  
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41 their markets and customers (Wright et al., 1990). These developments raise  
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43 opportunities for SMEs that may have been domestic-market oriented (or heavily  
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45 dependent on trading with their former parent) to become niche players with a  
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47 specialized set of customers on a global scale.  
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53 It becomes apparent from the above discussion that there is a need to  
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55 recognize that the internationalization decision, as well as its timing may vary greatly  
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57 by 'type' of SME. The theme that follows explores this aspect further by focusing on  
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59 the intensity and sustainability of internationalization by SMEs.  
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*Theme 2 The intensity and sustainability of internationalization*

International entrepreneurship scholars have highlighted the importance of more dynamic aspects associated with the acquisition and assimilation of new knowledge (Zahra et al., 2000; De Clerq et al., 2005). Autio et al., (2000), for example, found that the growth in international sales reported by SMEs was associated with earlier initiation of internationalization, and greater knowledge intensity related to learning behaviour. A development of stage model theory is exhibited by the latter theorists who appreciate the role of knowledge and learning as well as entrepreneurial strategic choice. The implicit implication from the latter studies is that more knowledgeable firms and firms that have learnt from their successes (i.e., intelligent learning from mistakes) will increase their commitment to internationalization. This argument is, however, problematical for the following reasons.

First, many entrepreneurs (and firms) discover barriers / hurdles to internationalization only after experiencing the internationalization process (EIM, 2005). Some exporting SMEs may withdraw from exporting and possibly re-enter the exporting arena at a later point in time. Others perhaps should exit but do not.

Second, it may be the case that at least some of these SMEs only export when there is limited demand in the domestic market, and then stop exporting when domestic market conditions improve. Crick (2004), for example, distinguishes between 'disappointed firms' (i.e., firm has exported in the past but the firm is not currently engaged in exporting and does not plan to export in the future) and 'disinterested firms' (i.e., firm has exported in the past but the firm is not currently engaged in exporting but it plans to export in the future).

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Third, O'Farrell et al. (1998) make an important distinction between business service and manufacturing firms, arguing that the former may be more likely than the latter to enter into a 'suspended state' of internationalization as projects are completed, and firms seek repeat business or new clients. There may, therefore, be a need to focus on internationalization 'epochs' (Oesterle, 1997) and 'states' rather than 'stages' (Bell et al., 2003). O'Farrell et al., (1998) have presented a strategic decision framework that can be utilized to evaluate an exit decision.

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Fourth, the decision to continue exporting may be influenced by the firm's (perception of) sunk costs. These costs relate to the establishment of production and distribution networks, as well as the costs of acquiring information on overseas customers, suppliers and regulatory environments, etc. A firm may continue exporting not because of knowledge accumulation and learning but because exporting is seen as an irreversible investment (Requena-Silvente, 2005). Nonetheless, existing approaches to the sunk cost issue may benefit from considering learning effects. For example, the sunk costs of acquiring overseas information and building distribution networks in one market may be reduced by the learning benefits associated with such activity. Further, the sunk costs of establishing overseas production and distribution facilities can be reduced where these can be divested to another firm, which may be more feasible with the development internationally of corporate asset markets that include increased sell-offs between company groups (Haynes et al., 2002). The latter behaviour is feasible if there are open markets in corporate assets.

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The extent and rationale for exit from internationalization is not well-understood, yet it holds important policy implications relating to the following issues: the provision of support for assessing international market opportunities prior to entry, the appropriate mode of entry to support, and the extent to which support is provided

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3 for internationalization post-entry. The international entrepreneurship perspective  
4 relating to learning / knowledge theory does not explicitly analyze the conditions  
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6 under which learning might lead to exit. This perspective rests on the assumption that  
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8 firms can learn from their international experiences. Learning from experience may  
9  
10 not, however, be automatic. Indeed, Sitkin (1992) asserts that learning from success  
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12 may be particularly problematic because the firm is not forced to understand and  
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14 question what led to that success.  
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### 22 *Theme 3 The mode of internationalization*

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24 The mode of internationalization selected by a firm is an important strategic choice  
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26 that can influence its position in the selected markets, and its ability to gain access to  
27  
28 vital information and acquire resources (Holmlund and Kock, 1998). Firms can  
29  
30 internationalize through a variety of modes (O'Farrell et al., 1998), and each mode is  
31  
32 associated with risk, control and cost issues that need to be considered by the SME.  
33  
34 The most frequently cited modes by private SMEs relate to direct exporting without  
35  
36 an overseas base, or establishing an overseas base through some form of foreign direct  
37  
38 investment (FDI) associated with a greenfield site, an acquisition or a joint venture.  
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40 Stage model theorists who suggest a unilinear evolutionary internationalization  
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42 process, with incremental stages and a well-defined mode of internationalization at  
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44 each stage have attracted extensive criticism (Bell et al., 2004).  
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51 Studies focusing on new technology-based firms suggest that they are able to  
52  
53 develop networks that raise the probability of selecting a joint venture to enter the  
54  
55 foreign market (Dana and Wright, 2004). Growing enthusiasm for  
56  
57 internationalization by new technology-based firms has led to a general perception  
58  
59 that all SMEs, irrespective of industrial activity, can enter foreign markets through  
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3 FDI (EIM, 2005). However, this mode may only be applicable to the  
4  
5 internationalization of a small sub-sample of private SMEs engaged in knowledge and  
6  
7 technology-based activities.  
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10 O'Farrell et al., (1998) suggests that the internalization / transaction cost  
11  
12 framework of internationalization is inappropriate when exploring business services  
13  
14 SMEs. This is because business services firms require an understanding of what is  
15  
16 required to best support collaboration with clients. Moreover, they suggest that the  
17  
18 transaction cost framework is unable to handle complex choices among alternative  
19  
20 modes, and it is difficult to differentiate between experienced and inexperienced  
21  
22 business service firms.  
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27 The modes of entry into foreign markets are likely to differ on key dimensions  
28  
29 such as the amount of resource commitment, the extent of risk, the potential for  
30  
31 returns and the degree of managerial control. Some modes of entry involve higher  
32  
33 levels of commitment and higher transaction costs and costs relating to acquiring  
34  
35 resources. Zahra et al., (2000) found important relationships between the  
36  
37 international mode of entry and learning in new high-technology ventures. Most  
38  
39 notably, they detected that foreign acquisitions and other higher control modes of  
40  
41 entry facilitated greater breadth and speed of technological learning than low control  
42  
43 modes such as international export and licensing agreements. However, these modes  
44  
45 may not be appropriate for all SMEs that internationalize.  
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50 First, Westhead et al., (2002) found that the most important mode of entry  
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52 cited by owners of a representative sample of SMEs was direct exporting. Joint  
53  
54 ventures and partnerships were rarely cited by owners of firms generally engaged in  
55  
56 traditional manufacturing and service activities. The reported preferences regarding  
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3 mode of entry reflected their limited social and business networks, as well as their  
4  
5 desire to have greater control over their resources (O'Farrell et al., 1996).  
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8 Second, a broader resource-based perspective would suggest that the  
9  
10 appropriate mode of entry depends on the nature of foreign market resource access  
11  
12 that is required. Firms that internationalize may be exploiting their existing resources  
13  
14 or may seek to enhance their resources. If a firm has resources that are geographically  
15  
16 fungible, low resource access modes of entry, such as exporting, may be selected to  
17  
18 utilize existing resource pools. Some SMEs are, therefore, able to internationalize  
19  
20 through low resource access modes if they build links with larger companies, and are  
21  
22 drawn to internationalize on the back of these linkages (Le Galès et al., 2004). If a  
23  
24 firm's resources are location-specific, high resource access modes (i.e., FDI,  
25  
26 acquisition and greenfield entry) may be necessary.  
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#### 34 *Theme 4 The influence of domestic environmental context on internationalization*

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36 Theme 4 arises from the notion that firms accumulate resources in domestic markets  
37  
38 and they can leverage these resources (and learning) to internationalize their firm's  
39  
40 activities (Wiedersheim-Paul et al., 1978). Resource-based theorists suggest that  
41  
42 some firms gain a competitive advantage based on the quality and distinctiveness of  
43  
44 their products and / or services rather than low price alone. These advantages can  
45  
46 accrue to individual SMEs when many firms specializing in the various levels of the  
47  
48 production chain are clustered together in a particular geographical locality (Le Galès  
49  
50 et al., 2001; Taymaz and Kiliçaslan, 2005). Certain localities may, therefore, acquire  
51  
52 a global strength that enables individual SMEs located in the cluster to leverage a  
53  
54 broad range of resources (i.e., legitimacy, technological and marketing knowledge,  
55  
56 brand name, etc.) that can be used to circumvent obstacles to internationalization. Le  
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3 Galès et al., (2001) suggest that local government or local business associations have  
4  
5 an important role in supporting specialized clusters by facilitating the accumulation  
6  
7 and spread of local collective competition goods, particularly knowledge, between  
8  
9 various actors in the cluster.  
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12  
13 Resource scarcity in 'rural' peripheral domestic markets may stimulate owners  
14  
15 of rural SMEs to exhibit greater pro-active entrepreneurial behaviour (Moen, 1999;  
16  
17 Vaessen and Keeble, 1995). However, there is scant empirical evidence to suggest  
18  
19 that domestic environmental conditions provide the basis for learning and knowledge  
20  
21 accumulation, which can provide a *positive* platform for internationalization  
22  
23 (Préfontaine and Bourgault, 2002; Etemad and Wright, 2003). Westhead et al.,  
24  
25 (2004b) found no statistically significant differences between 'urban' and 'rural' firms  
26  
27 in the UK with regard to their propensity to export, the proportion of total sales  
28  
29 exported, reported obstacles impeding export activity, or reasons cited for exporting.  
30  
31 Westhead et al., (2004a) also noted that SMEs' perceptions of environmental  
32  
33 turbulence were not significantly associated with the propensity to export, or the  
34  
35 intensity of internationalization.  
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42 However, there may be important spillover effects from the domestic market  
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44 (Cantwell and Piscitello, 2005; Hewitt-Dundas et al., 2005). Dimitratos et al., (2004)  
45  
46 assert that firms in Greece internationalize primarily to reduce the perceived  
47  
48 uncertainty associated with domestic environmental conditions. As earlier intimated,  
49  
50 some SMEs may be located near other (larger) organizations in order to borrow size  
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52 and resources (i.e., legitimacy, finance, technology, marketing capabilities, etc.))  
53  
54 (Phelps et al., 2001), and to leverage local demand through input-output multipliers  
55  
56 (McNaughton and Brown, 2004). Local customers and other organizations can act as  
57  
58 conduits to increase the pool of SMEs reporting the propensity to internationalize.  
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3 The importance of the domestic environment may be sector and country  
4 specific. O'Farrell et al., (1998) suggest important regional influences impact on the  
5 internationalization of business service SMEs in the UK. The volume and quality of  
6 internationalization of business service SMEs in the UK. The volume and quality of  
7 home region demand and supply conditions may enable responsive business services  
8 firms to develop tradable skills, notably where international comparative advantage  
9 can be developed for multinational companies. Requena-Silvente (2005) also found  
10 regional spillover effects on exporting with regard to a measure of region-industry  
11 concentration of employment. With reference to a longitudinal study conducted in  
12 Finland, Luostarinen and Gabrielsson (2004) concluded that Born Globals (BGs) (or  
13 INVs) drawn from large countries globalize mainly because of the demand-based pull  
14 forces in global markets for their products. Conversely, BGs drawn from small and  
15 open economies do so due to the push and pressure forces related to the smallness and  
16 openness of domestic markets, and the fear of expected future competition coming  
17 from BGs located in large countries.  
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39 *Theme 5 Leveraging external resources to internationalize*

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41 Rather than focusing solely on the role of internal resources on a firm's ability to  
42 enter foreign markets (Bloodgood et al., 1996; Autio et al., 2000), there may be  
43 benefits associated with viewing the firm as part of a network(s). From a resource-  
44 based perspective, being part of a network can provide external tangible and  
45 intangible resources that aid internationalization (Dana, 2001). These inter-firm  
46 relationships impact on both market selection and the internationalization mode  
47 utilized by SMEs. Networks may involve large and small firms in a symbiotic  
48 relationship that facilitates internationalization (Dana and Wright, 2004). Evidence  
49 suggests that some SMEs find it difficult to market their activities to the global  
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3 economy, even when local support agencies and associations try to develop their  
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5 competencies. Barriers to internationalization can be circumvented when one or more  
6  
7 large firms move into an area and make the connections from local to global with  
8  
9 smaller firms becoming the suppliers of the corporate prime-movers (Le Galès et al.,  
10  
11 2004). Similarly, Acs et al. (1997) suggest that barriers to internationalization by  
12  
13 SMEs can be circumvented by using larger multinational firms as international  
14  
15 conduits for international expansion. SME internationalization can be facilitated  
16  
17 when large firms provide designs, technology support, quality control mechanisms  
18  
19 and established brand names. SMEs with smaller resource pools may, therefore, be  
20  
21 able to borrow size (Phelps et al., 2001) and resources from (larger) organizations  
22  
23 located elsewhere.  
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29 To retain existing customers in domestic markets, SMEs with limited  
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31 resources may be 'pulled' into foreign markets by the internationalization activities of  
32  
33 larger network partners, such as domestic clients who have established relationships  
34  
35 with organizations in foreign markets. In order to defend or maintain a position in a  
36  
37 business network, a firm may be 'pushed' into becoming an exporter, particularly, if  
38  
39 the major customers have entered foreign business networks. This is consistent with  
40  
41 the 'piggy-back' mode of entry. Some SMEs internationalize because they are  
42  
43 reactive exporters with a larger partner organization obtaining the contract to service  
44  
45 foreign customers (O'Farrell et al., 1996). By joining networks and forming alliances  
46  
47 particularly with larger organizations SMEs can expand their social capital. SMEs  
48  
49 can subsequently utilize knowledge (Yli-Renko et al., 2002) and value-creating  
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51 resources that cannot be created independently. However, there may be major  
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53 constraints on the ability of some SMEs to develop broader social and business  
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55 networks.  
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3 First, the evidence base generally fails to explore ‘why’ and ‘how’ smaller  
4 firms located in different domestic and industrial contexts build their networks  
5 (Nijkamp, 2003). The study by Le Galès et al., (2004) is a notable exception. Firms  
6 that are inexperienced at internationalization may not have the human capital or  
7 financial resources to identify potential partners and build networks with larger  
8 organizations.  
9

10  
11 Second, evidence suggests that many SMEs want to remain independent and  
12 in control of their operations. Not surprisingly, the latter firms are reluctant to co-  
13 operate with international partners (EIM, 2005), particularly large organizations who  
14 they fear will ‘acquire’ their intellectual property and then dump them. This may  
15 pose particular issues in some fast-moving sectors where long term survival of an  
16 SME depends on full or partial acquisition by a larger firm that can provide specialists  
17 resources but where the owners are reluctant to give up control. Additional evidence  
18 is warranted that provides a richer understanding of the search processes engaged in  
19 by SMEs to identify appropriate partners.  
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39 A third concern is that the network links with larger firms may not be as  
40 symbiotic as some might suggest. Rather, the resource dependence perspective  
41 suggests that there may be an asymmetry of inter-dependence (Pfeffer and Salancik,  
42 1978). The individual SME may be dependent on resources controlled by other  
43 (larger) firms (O’Farrell et al., 1998) and an SME may be at a disadvantage. Acs et  
44 al., (1997) add that there is a risk that the larger firm may hijack the innovation.  
45 Further, SMEs typically need to meet strict quality, delivery and cost requirements  
46 when dealing with larger customers, these requirements may be exacerbated in an  
47 international context. Additional research is warranted to provide further insights into  
48 the nature of these small and large firm relationships and how the international  
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3 context presents additional issues, which are different from those, exhibited when  
4  
5 exploring relations between small and large firms in domestic contexts alone.  
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8 Finally, network linkages between a smaller firm and a large organization may  
9  
10 only be facilitated in receptive environments which may need to be created (Clarysse  
11  
12 et al., 2005). In addition, mechanisms for learning may need to be introduced for the  
13  
14 members of the network to learn from one another and internalize what has been  
15  
16 learned within the firm (Etemad, 2004). There is, therefore, growing appreciation that  
17  
18 SMEs can be 'pushed' as well as 'pulled' into foreign markets, and the activities and  
19  
20 resources of (larger) organizations can impact their internationalization behaviour.  
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27 *Theme 6 The unit of analysis (i.e., the firm or the entrepreneur)*  
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29 Traditional internationalization theories exclusively focus on the firm as the unit of  
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31 analysis. This literature may direct policy-maker attention toward firm issues to the  
32  
33 detriment of entrepreneur issues who actually create and / or discover opportunities in  
34  
35 foreign markets. Similarly, international entrepreneurship scholars purporting the  
36  
37 INV perspective focus on the accumulation of knowledge by the firm rather the  
38  
39 individual entrepreneur. Indeed, most international entrepreneurship studies generally  
40  
41 fail to consider entrepreneur-specific variables. Although Autio et al., (2000)  
42  
43 considered owner-managed firms, they did not consider the internationalization  
44  
45 experience of the entrepreneur. Zahra et al., (2000) considered internationalization  
46  
47 experience but only at the firm level. However, during the early stages of private firm  
48  
49 development, owner(s), not organization, characteristics play a pivotal role in shaping  
50  
51 export performance (Kunda and Katz, 2003). In many SMEs, the owner(s) is the key  
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53 resource. They can accumulate human capital and social capital leading to industry  
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55 and management know-how; physical and financial capital needed to develop a  
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3 venture; and the organizational capital that enables the competitive production of  
4 goods and services offered by a firm (Brush et al., 2002) in both domestic and  
5 international markets. It is reasonable to assume that entrepreneurs (and  
6 entrepreneurial teams) can acquire and leverage foreign business knowledge, foreign  
7 institutional knowledge and internationalization knowledge (Eriksson et al., 1997).  
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15 Storey (1994) has asserted that an entrepreneur's resource profile can impact  
16 on firm performance. Firm level analyzes may, therefore, ignore important  
17 dimensions that impact on the internationalization process and the performance of  
18 internationalizing SMEs. Previous experiences (Reuber and Fischer, 1997), resources  
19 (Bloodgood et al., 1996), capabilities, knowledge and learning mobilized by an  
20 entrepreneur (or entrepreneurial team) may lead to the creation, discovery and  
21 exploitation of opportunities in foreign markets (Madhok, 1997). The entrepreneur's  
22 expertise and cognitive processes may be highly influential in international  
23 opportunity identification and evaluation. Jones and Coviello (2005), in their model  
24 of entrepreneurial internationalization, incorporated three constructs relating to the  
25 entrepreneur, which comprise their philosophical view as well as their social and  
26 human capital.  
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44 Some entrepreneurs who have been exposed to foreign markets may, as a  
45 result of this personal experience, develop an international orientation whereby they  
46 are positively pre-disposed to internationalization (Manolova et al., 2002). Owners of  
47 firms may have started previous firms where they gained experience of  
48 internationalization. This experience as an owner-manager may be qualitatively  
49 different from that gained as a manager in a larger firm. Also, this experience may or  
50 may not have been associated with firm success. Nevertheless, entrepreneurial  
51 experience adds to individuals' specific human capital by providing valuable episodic  
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3 knowledge. This experience can offer entrepreneurs an opportunity to learn and  
4  
5 assess their ability in the entrepreneurial domain, in turn influencing subsequent  
6  
7 activities and outcomes (Minniti and Bygrave, 2001). Episodic knowledge acquired  
8  
9 through business ownership experience such as managerial experience, enhanced  
10  
11 reputation, better access to finance institutions and broader social and business  
12  
13 networks (Wright et al., 1997; Shane and Khurana 2003) can be leveraged to identify  
14  
15 and exploit international business opportunities. It can also be suggested that this  
16  
17 knowledge may include the identification of opportunities to internationalize products  
18  
19 and services that may not previously have been regarded as tradable. For example,  
20  
21 the growth of UK residents acquiring property abroad may provide scope for local  
22  
23 craftsmen in the UK to provide these services overseas.  
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29  
30 Some recent SME internationalization studies have focused on the  
31  
32 entrepreneur as the unit of analysis. Human resources were found to be the most  
33  
34 important resources associated with internationalized firms compared to their non-  
35  
36 internationalized counterparts (Brush et al., 2002). Evidence shows that independent  
37  
38 businesses with older principal founders, with more resources, denser information and  
39  
40 contact networks and considerable management know-how were significantly more  
41  
42 likely to be exporters (Westhead et al., 2001b). Moreover, businesses with principal  
43  
44 founders that had considerable industry specific knowledge, as reflected in starting  
45  
46 their businesses in the same industry as their last employers and had previous  
47  
48 experience of selling goods or services abroad were markedly more likely to be  
49  
50 exporters. There is, therefore, a need to consider the role of the owner / entrepreneur /  
51  
52 entrepreneurial team in the internationalization process. There may be important  
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54 behavioural and learning differences between experienced (habitual) and novice  
55  
56 entrepreneurs (Westhead et al., 2003, 2005). Previous research has not, however,  
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3 examined explicitly the internationalization behaviour of novice and habitual  
4 entrepreneurs with a view to identifying insights into the internationalization process  
5 that come from prior business ownership and internationalization experience. As  
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7  
8 earlier intimated, learning from experience may not be automatic. Consequently,  
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11 learning from this experience may depend on the particular cognitive attributes of the  
12  
13 entrepreneur (Alvarez and Busenitz, 2001).  
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20 *Theme 7 The effect of internationalization on SME performance*

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22 The view that internationalizing firms report superior performance is a widely  
23 received wisdom and can be regarded as theme 7. We acknowledge that this view is  
24 widely assumed although not directly stated (or validated) by many academics and  
25 practitioners (EIM, 2005). A review of the evidence, however, indicates no clear and  
26 consistent relationship between an SME's propensity to export and ability to report  
27 superior firm performance. There is no consensus surrounding how to measure  
28 internationalization performance (Katsikeas et al., 2000). The variety of performance  
29 indicators used makes comparison across studies difficult. Moreover, results may be  
30 affected by the sectors analyzed and the time frames of analysis. Indeed, many  
31 studies have failed to consider inter-industry differences between non-exporters and  
32 exporters.  
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48 McDougall and Oviatt (1996) noted that firms that had increased international  
49 sales exhibited superior performance in terms of both relative market share and return  
50 on investment (ROI). Further, Bloodgood et al., (1996) found that  
51 internationalization was marginally significantly associated with ventures that  
52 reported higher profits. Burgel et al., (2001) detected that exporters reported higher  
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3 levels of productivity and sales growth but not employment growth. These three  
4  
5 studies focused on internationalizing firms engaged in new technology-based sectors.  
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8 In contrast, Lu and Beamish (2001) found with reference to a sample of listed  
9  
10 Japanese SMEs covering 19 industries that the proportion of sales exported had a  
11  
12 negative relationship with return on assets. With regard to a sample of private SMEs  
13  
14 located in the UK engaged in a variety of manufacturing, construction and service  
15  
16 activities, Westhead et al., (2001b) detected that the propensity to export was only  
17  
18 significantly associated with superior operating performance relative to competitors.  
19  
20 The propensity to export was not found to significantly encourage subsequent sales  
21  
22 and employment growth, or firm survival. Similarly, Westhead et al., (2004a)  
23  
24 utilizing a weighted average firm performance score (Naman and Slevin, 1993) to  
25  
26 control for industry differences found that the propensity to export variable was not  
27  
28 significantly associated with superior weighted performance of UK firms. A weak  
29  
30 positive relationship was, however, detected in relation to the exporting intensity  
31  
32 variable.  
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38 The studies reviewed above suggest that the relationship between the  
39  
40 propensity to export and firm performance may be context (i.e. country, region and  
41  
42 industry) specific. It should be noted that studying the relationship between  
43  
44 internationalization and firm performance could be fraught with a number of other  
45  
46 methodological problems. For example, it may be difficult to establish a causal  
47  
48 relationship between internationalization and firm performance if studies rely on  
49  
50 cross-sectional evidence. Even when longitudinal evidence is analyzed (Bloodgood et  
51  
52 al., 1996; McDougall and Oviatt, 1996; Lu and Beamish, 2001; Westhead et al.,  
53  
54 2001b), the results are still inconsistent. This may be partly due to the role of context  
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56 discussed above and / or differences in the time lag used to explore the impact of  
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3 internationalization on firm performance. Lu and Beamish (2001) highlight the  
4 importance of time by demonstrating that FDI activity was initially associated with a  
5 decline in profitability, but later greater levels of FDI was associated with superior  
6 performance.  
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12 Another important consideration relates to the possibility that the relationship  
13 between internationalization and performance is moderated by other strategic  
14 variables. This may be particularly relevant to SMEs in small open economies,  
15 whereby SMEs pursuing a growth strategy may be more likely to expand by entering  
16 foreign markets. With reference to the United States context, McDougall and Oviatt  
17 (1996) detected that increased international sales in technology-based new ventures  
18 required simultaneous strategic changes in order to enhance firm performance.  
19 Further, Lu and Beamish (2001) found that exporting moderated the relationship FDI  
20 had with firm performance. They detected that pursuing a strategy of high exporting  
21 concurrent with high FDI was less profitable than one that involved lower levels of  
22 exporting when FDI levels were high.  
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39 Finally, studies exploring internationalization intensity that exclude non-  
40 internationalizing firms in their analysis may suffer from selection bias. Appropriate  
41 econometric models that correct for such bias need to be used.  
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46 Reviewed evidence fails to suggest that internationalization consistently  
47 enhances the performance of SMEs with regard to several performance indicators.  
48 The studies discussed highlight the need to consider geographic and industry context,  
49 timing issues, firm-specific strategic issues and selection bias issues within  
50 econometric models.  
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## DISCUSSION

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3 The above review suggests that there is a need for awareness that knowledge relating  
4 to the SME internationalization process is emerging, and not well established.  
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6 Further, there is a need to consider carefully the context of the evidence base, which  
7  
8 can be used to guide policy options and decisions. Failure to do so could lead to the  
9  
10 formulation of inappropriate policies towards firms, entrepreneurs (or entrepreneurial  
11  
12 teams) and networks seeking to internationalize their activities. In this section, the  
13  
14 implications of the themes explored above for policy-makers and researchers are  
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16 discussed.  
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#### 25 *Implications for policy-makers*

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27 Policy is increasingly aimed at encouraging more new and established private SMEs  
28 to internationalize, particularly from the outset (EIM, 2005). The evidence base  
29 reviewed suggests there are barriers preventing this desired policy outcome.  
30  
31 However, there is considerable debate surrounding whether policy intervention is  
32 warranted to alleviate barriers to internationalization and international expansion (Acs  
33 et al., 1997; Holtz-Eakin, 2000). To justify intervention in a market economy it is  
34 necessary to identify precisely where the market failure exists, and whether it is  
35 possible to rectify that market failure through intervention. The costs of the  
36 intervention have to be carefully assessed and the benefits estimated (Storey, 1994).  
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38 A decision widely perceived as 'correct' in the current time period may lead to an  
39 undesirable outcome in the future (Ferguson and Ferguson, 1994).  
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53 Advocates of a free enterprises economy system caution against interference  
54 with market forces. Yet, perfectly competitive markets are something of a myth  
55 (Bridge et al., 2003), with neo-classical economic theory being an inappropriate basis  
56 for public policy prescriptions (Ferguson and Ferguson, 1994). Barriers that  
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3 discriminate and prevent a level playing field create market imperfections or market  
4 failure (Storey, 1994; Bridge et al., 2003). Market failures relating to imperfect and  
5 asymmetric information, externalities and incomplete property rights, imperfect  
6 market structures and poor regulation can constrain SME development (DTI, 2004).  
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8 As a result, SMEs may make the wrong choice with regard to the decision of whether  
9 and to what extent they should internationalize (Acs et al., 1997).  
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17 This review has highlighted a number of barriers to SME internationalization.  
18 Many young and small private SMEs need to address liabilities relating to 'newness',  
19 'smallness' and 'inexperience'. SMEs (and entrepreneurs) may, for example, have to  
20 invest in networking activities to ensure that the appropriate resources, knowledge and  
21 learning are accumulated to provide a positive platform for internationalization.  
22 Inevitably, owners of smaller private firms concerned with uncertainty and risk will  
23 face attitudinal, resource (i.e., information, technology, finance, legitimacy,  
24 marketing, etc.) operational and strategic barriers to the internationalization of their  
25 ventures. Further, large organizations that have the power to dominate markets and  
26 exploit this power place many private SMEs at a disadvantage.  
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41 Policy-makers appreciating the benefits associated with more  
42 internationalizing SMEs support initiatives that reduce barriers to SME development  
43 (OECD, 1998; Bridge et al., 2003, DTI, 2004). In the following discussion, we also  
44 assume an interventionist stance. We encourage policy-makers to provide more  
45 balanced and refined policy support if they are seeking to facilitate private SME  
46 internationalization. The cross-cutting themes relating to the scope for early  
47 internationalization, internationalization as a dynamic activity, mode of entry options,  
48 domestic and international resources, and attention to the entrepreneur are discussed,  
49 in turn, below.  
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### *The scope for early internationalization*

The popularity of INV studies has led some to suggest that all SMEs can internationalize from the onset. Policy-makers may benefit from acknowledging the variable propensity of SMEs to internationalize from the onset (e.g., by product / service, experience, resources and domestic market location). In particular, the following issues should be considered:

- For many SMEs, their products and services are non-tradable in overseas markets. Policy initiatives seeking to encourage internationalization from the onset may, in general, be more effective if they focused on SMEs that offer products that are tradable, in particular innovative high technology products. Given the relatively shorter life-cycle of high technology based products, SMEs may be able to maximize their revenues by delivering their products in multiple international markets. The methods of best business internationalization practice reported by successful INVs could be more widely disseminated to aid other potential INVs.
- Policy-makers should also encourage entrepreneurs to consider the real scope of their market opportunity when framing their product or service. Attitudinal and / or informational barriers need to be circumvented. The opportunity alertness skills of entrepreneurs may also need to be honed to spot opportunities with regard to industrial sectors that are traditionally viewed as non-tradable

### *Internationalization as a dynamic activity*

Firms might experience 'epochs' of internationalization. There appears to be a need to develop policy support that aids SMEs to consider the dynamics of

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3 internationalization over time rather than seeing it as a one-off activity. The  
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5 following issues need to be considered:  
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8 • Policy has tended to focus on encouraging the entry of SMEs into international  
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10 markets. At times it may be more beneficial for a firm to withdraw from or reduce its  
11  
12 international activities to focus on the domestic market. Firms viewing  
13  
14 internationalization as being associated with sunk costs may be reluctant to do this.  
15  
16 Policy-makers can play a role in emphasizing that exit from internationalization does  
17  
18 not necessarily mean that it can not be recommenced at a later date. Further, to  
19  
20 counteract the emphasis placed on sunk costs, policy-makers may seek to emphasize  
21  
22 the potential learning benefits from internationalization experience, irrespective of  
23  
24 whether the experience is perceived as a failure or success.  
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28 • SMEs that internationalize may also need to consider the skills and resources they  
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30 need to develop to sustain and / or increase their internationalization activity. The  
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32 lack of skilled personnel and the need to develop more informal and tacit knowledge  
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34 have been identified as major barriers to SME growth in general (DTI, 2004), and  
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36 these issues would seem to extend to internationalization.  
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40 • Owners of established private SMEs could be provided with assistance to address  
41  
42 attitudinal, resource, operational and strategic barriers to (subsequent)  
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44 internationalization (Raines and Brown, 2001). Policy-makers should acknowledge  
45  
46 that the perception of these barriers and their severity might vary with the experience  
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48 of the entrepreneur. More experienced exporters may perceive themselves to be  
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50 better equipped to overcome these barriers, or may face different barriers from those  
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52 faced by less experienced exporters. This suggests a need to develop  
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54 internationalization initiatives to include those firms that have some international  
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3 experience but which face problems in exploiting opportunities to further increase the  
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5 share of sales exported.  
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11 *Mode of entry options*

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13 As earlier intimated, SMEs may have greater flexibility in their choice of foreign  
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15 modes of entry than previously thought. For example, modes of entry thought to be  
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17 available only to experienced 'internationalizers' may also be appropriate for new-  
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19 comers. This review raises the following issues:  
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- 22 • Policy-makers should seek to make SMEs aware of the benefits and costs of each  
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24 mode of entry into foreign markets. Many SME owners are motivated by autonomy  
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26 and independence. This may manifest itself in a reluctance to relinquish control,  
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28 which may be necessary to a certain extent in joint ventures, alliances and mergers.  
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30 SMEs may need to be made aware that they may be unable to internationalize without  
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32 losing control (Acs et al., 1997). Further, these modes of entry may be associated  
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34 with a number of learning opportunities that SMEs are not aware of. For example,  
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36 double layered foreign market entry modes (i.e., those involving two (or more) parties  
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38 such as alliances, licensing and acquisitions), can provide access to a wider breadth  
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40 and depth of knowledge and ensure that this knowledge is articulated and  
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42 communicated between the parties involved.  
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51 *Domestic and international resources*

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53 While domestic environmental conditions matter, a body of evidence highlights that  
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55 some entrepreneurs (and firms) are leveraging resources located elsewhere (Phelps et  
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57 al., 2001). For example, some private SMEs with smaller resource pools may be able  
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59 to access resources from (larger) organizations located outside the SME's local  
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3 domestic context. Moreover, private SMEs engaged in a sub-contract chain might be  
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6 'pushed' abroad by a major customer may have access to its foreign networks and  
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8 other resources. The following issues, therefore, need to be considered:  
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10  
11 • To encourage the supply of 'export capable' and 'export committed' firms, policy  
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13 should proactively encourage entrepreneurs on a continual basis throughout the  
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15 internationalization process, to key into domestic as well as external pools of  
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17 resources and opportunities, through the development of networks and co-operative  
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19 arrangements. Entrepreneurs with international experience could, for example,  
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21 provide a mentoring role for inexperienced entrepreneurs as part of a generic network  
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23 building policy.  
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27 • Policy-makers may also seek to encourage greater cooperation. Many firms  
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29 appear to be concerned about the loss of independence from international co-  
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31 operation, but there is a need to recognize that co-operation is important for business  
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33 survival and the honing of the capabilities that ensure competitive advantage. The  
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35 development of informal co-operation, rather than a focus solely on the formation of  
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37 formal links, may be a means of reducing perceptions that co-operation is in some  
38  
39 way threatening. Many of the barriers to internationalization faced by SMEs can be  
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41 circumvented by using existing multinationals as conduits for international expansion  
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43 (Hewitt-Dundas et al., 2005). However, assistance may need to be provided to enable  
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45 more SMEs to develop appropriate negotiating terms with prospective (larger) trading  
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47 partners (Acs et al., 1997). Informal links may not necessarily be bilateral but in the  
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49 form of clusters of complementary firms. The development of such clusters may go  
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51 some way to alleviate issues relating to asymmetric inter-dependence between large  
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53 and small private firms.  
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- To enhance the export capability or commitment of SMEs, there may be a case for greater proactive enhancement of their incubator and / or regional context to enable more SMEs to realize their potential. This would seem to require the development over a significant period of time of an international social network to attract the appropriate calibre of skills within the incubator as well as active links with venture capital firms that operate at an international level (Clarysse et al., 2005). In addition, it is important to recognize from a policy point of view, that the efficacy of incubators may be influenced by the regional context (Cantwell and Piscitello, 2005; Taymaz and Kiliçaslan, 2005). It may be more feasible to develop incubators that can have a significant positive effect on internationalization in regions that have high technology centres (such as Boston and Southern California in the USA).

#### *Attention to the entrepreneur*

The review of the evidence base identified a need for policy to focus on the entrepreneur (and not the SME alone) with regard to the design of policies to support internationalization (Westhead et al., 2001b; 2005; EIM, 2005). The entrepreneur (or the entrepreneurial team) is generally the key resource of a private firm. However, some entrepreneurs may be more adept at identifying opportunities for internationalization than others. Some entrepreneurs may recognize opportunities to internationalize products and services that might typically be seen as non-tradable. The latter entrepreneurs have honed their alertness skills to opportunities and / or have collected and processed information surrounding the array of opportunities in domestic and international markets. Nijkamp (2003) has highlighted that the entrepreneur is increasingly viewed as a creative network operator and manager. The following issues, therefore, should be considered:

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4 • Policy-makers concerned with maximizing returns on their investment may  
5 benefit from targeting groups of entrepreneurs that offer greater ‘internationalization  
6 potential’. Policies encouraging more and better entrepreneurs (DTI, 2004; EIM,  
7 2005), may need to be fine-tuned to reflect the different experiences, knowledge and  
8 learning behaviour reported by inexperienced novice entrepreneurs and experienced  
9 habitual entrepreneurs (Westhead et al., 2003). Experienced habitual entrepreneurs  
10 may have ‘experimental’ knowledge in domestic as well as international markets. For  
11 example, entrepreneurs who own more than one business simultaneously (i.e.,  
12 portfolio entrepreneurs) generally have more resources at their disposal and identify  
13 more opportunities (Westhead et al., 2005). These portfolio entrepreneurs may be  
14 those most able to deliver wealth gains from internationalization and policy assistance  
15 might usefully be targeted toward them. There may also be policy scope to provide  
16 incentives for habitual entrepreneurs that are experienced in exporting to partner with  
17 inexperienced novice entrepreneurs.

#### 38 *Implications for researchers*

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41 The presented discussion suggests implications for researchers in respect of both  
42 theory building and empirical analysis. Table 1 highlights that internationalization  
43 has been examined from several conceptual perspectives. In this study, a distinction  
44 had been made between traditional internationalization theories (i.e., stage theory and  
45 internationalization / transaction costs theory) and emerging international  
46 entrepreneurship theories (i.e., strategic choice theory, learning and knowledge theory  
47 and resource-based / network theory). Internationalization by SMEs introduces a  
48 need for further conceptual approaches that incorporate the behaviour and  
49 characteristics of the entrepreneur (or entrepreneurial team). Future studies may  
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3 benefit from exploring the following broad research question. How do the resources  
4 and competencies of the entrepreneur interact with firm and external environmental  
5 factors in affecting the performance of firms that internationalize? While Jones and  
6 Coviello (2005) have attempted to present a synthesis of these approaches, additional  
7 theory building research is required to develop this line of argument further to  
8 encompass the range of SMEs that internationalize.  
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Research relating to SME internationalization is associated with several methodological problems. Some studies are not keyed into debates relating to the internationalization of private smaller firms as opposed to larger multinational firms. Further, there are a number of concerns surrounding the size and representativeness of samples, the techniques used, and the validity and reliability of measures operationalized in SME studies. Particular problems relate to establishing whether there is a causal link between internationalization and firm performance. On the basis of cross-sectional analysis, it is unclear whether any causal link runs from internationalization to superior performance, or vice versa. Moreover, some firms develop their activities over time and they adapt their modes of internationalization at different points in time as part of the process of learning and development. This suggests a need for deeper understanding of the determinants of internationalization.

There is, therefore, a need for longitudinal datasets and the application of panel data estimation techniques. In such analysis, there is also the need to consider the nature of the lag between internationalization and any improved firm performance. This additional research can provide an evidence base, which can guide policy with regard to resource allocation decisions and the targeting of groups for assistance. Identification of the time lags between internationalization and superior firm performance effects in particular has implications for the timing and duration of

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2  
3 policy support. While some work is emerging that uses longitudinal data, evidence  
4 from these studies can be problematical if they explore online datasets constructed for  
5 different purposes and utilize proxies for key variables that are too blunt (see  
6 Requena-Silvente, 2005). This suggests a need for research that either uses  
7 specifically designed questionnaires administered over time (Autio et al., 2000) and /  
8 or the combination of these instruments with archival data (Zahra et al., 2000).  
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Table 1: Different Theoretical Perspectives on SME Internationalization

Theme	Traditional internationalization theories		International entrepreneurship theories		
	<i>Stage theory</i>	<i>Internalization / transaction cost theory</i>	<i>Strategic choice theory</i>	<i>Learning / knowledge theory<sup>1</sup></i>	<i>Resource-based / network theory</i>
1. SMEs can internationalize from the outset	No, build resources and experience first in domestic market	Depends on transaction costs	Depends on motivation and relationships with clients	Yes	Possibly, if have internal or external resources
2. Once SMEs internationalize, they continue to do so	Unilinear	If transaction costs increase, exit internationalization activities. Role of sunk costs	The need to redirect scarce expert resources means complex strategic choices; influenced by ability to obtain repeat business and evaluation of experience	Increased learning leads to increased internationalization [implicitly if learning is negative, may reduce internationalization]	May exit if resources depleted
3. SMEs can enter through high control entry modes	Firms move from low to high control modes as they develop experience and commitment	Depends on transaction costs and cost of resource commitment	Past experience influences form of servicing in a particular foreign market; different motivations affect choice of entry mode	High control from start increases learning	Depends on nature of resource access required
4. Domestic environmental factors provide spillovers that can be leveraged by SMEs to internationalize	Domestic market provides basis for resource and expertise accumulation		Domestic market demand and supply context can be projected into foreign market	Restricted domestic market	Domestic market provides resources to internationalize. May use domestic resources initially overseas if are geographically fungible
5. SMEs can leverage external resources		Joint ventures provide middle range control	Importance of sustainability of relationships with clients, in some cases to 'pull' firms abroad	Build links with networks of larger organizations to obtain knowledge	Depends on nature of resource access required

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6. Focus on the firm rather than the entrepreneur	Firm	Firm / transaction	Firm	Firm / entrepreneur	Firm / entrepreneur / network
7. SMEs that internationalize outperform	Yes	Depends on transaction costs	Depends on motivation	Yes	Depends
Representative articles	Johanson and Vahlne (1997)	Buckley and Casson (1976); Hennart (1988)	O'Farrell et al., (1998)	Autio et al., (2000); McDougall and Oviatt (2000); Oviatt and McDougall (2005); Zahra and George (2002); Zahra (2005)	McDougall et al., (1994); Bloodgood et al., (1996); Westhead et al., (2001b)
Industrial sector	Depends	Depends, but main focus on manufacturing	Depends	High technology firms	Depends
Tradability of goods or services	Develops over time	Depends on transaction cost	Depends	Yes, high technology firms	Depends

Note: <sup>1</sup> Learning and knowledge theory is especially linked to international new ventures [INVs] and born global [BG] ventures.