Towards an Integrative Model of Small Firm Internationalisation

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Abstract. Firm internationalisation has long been regarded as an incremental process, wherein firms gravitate towards ‘psychologically close’ markets and increase commitment to international markets in a gradual, step-wise manner through a series of evolutionary ‘stages’. However, much of the recent literature provides clear evidence of rapid and dedicated internationalisation by ‘born global firms’. Typically, these are smaller entrepreneurial firms that internationalise from inception, or start to shortly thereafter. Their main source of competitive advantage is often related to a more sophisticated knowledge base. In addition, the authors have found evidence of firms supporting this ‘born global’ pattern of behaviour but also evidence of firms that suddenly internationalise after a long period of focusing on the domestic market. These ‘born-again’ globals appear to be influenced by critical events that provide them with additional human or financial resources, such as changes in ownership/management, being taken over by another company with international networks, or themselves acquiring such a firm. Based upon the extant literature and our own research, we propose an integrative model that recognises the existence of different internationalisation ‘pathways’. We then explore differences in behaviour due to the firm’s internationalisation trajectory and discuss the strategic and public policy implications.

Keywords: integrative model small firm internationalisation

Introduction

The emergence of a new stream of literature on ‘born global’ firms in the early 1990s presents a significant challenge to public policy in support of internationalisation. These smaller entrepreneurial firms tend to adopt a global focus from the outset and embark on rapid and dedicated internationalisation (McKinsey and Co., 1993). Their evolution has been influenced by an inexorable trend towards globalisation and the pervasive impact of new technologies (Knight and Cavusgil, 1996). In

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addition, these firms often possess a knowledge-based competitive advantage that enables them to offer value-added products and services (McKinsey and Co., 1993). Evidence from the literature concerning differences in the patterns, pace, and intensity of internationalisation of ‘born global’ firms vis-à-vis their more traditional counterparts, suggests that researchers need to re-conceptualise their views on the internationalisation process of smaller firms.

More recently, a study by Bell et al. (2001) identifies ‘born-again’ global firms that have internationalised rapidly after a long period during which they focused on the domestic market. These firms also fail to conform to the conventional ‘stage’ theories of small firm internationalisation. Following a review of the extant literature and a summary of the results of this research, the present contribution proposes an integrative model of small firm internationalisation. This normative model seeks to integrate the diverse ‘pathways’ that smaller firms may take during the internationalisation process. Thereafter, the differences in motivation and behaviour of firms pursuing alternative internationalisation trajectories are explored and the implications for firm’s strategies and for public policy in support of small firm internationalisation are discussed.

Review and synthesis of the literature

Most of the extant models posit that firms gradually internationalise in an incremental manner through a series of evolutionary ‘stages’. As they do so, they commit greater resources to overseas markets gradually and tend to target countries that are increasingly ‘psychically’ distant. An underlying assumption of all these models is that firms are well established in the domestic market before venturing abroad. (For comprehensive reviews of the literature see Leonidou and Katsikeas, 1996; Ellis and Pecotich, 1998.)

Criticisms that such conceptualisations wrongly assume step-wise progression and forward motion, pay insufficient attention to industry, company, or people contexts and are generally ‘much too deterministic’ emanated as long ago as the late 1970s (Buckley et al., 1979; Cannon and Willis, 1981; Reid, 1983; Rosson, 1984; Turnbull, 1987). Buckley et al. (1979) argued that firms do not necessarily adopt consistent organisational approaches to internationalisation. Turnbull (1987) also found little empirical support for incremental internationalisation as firms often omitted stages in the process.

More recently, Andersen’s (1993) conceptual critique focused on the weak theoretical underpinning of most process models and the lack of congruence between theory and practice. He concluded that the ability of such models to delineate boundaries between stages, or adequately explain the processes that lead to movement between them, was rather limited.

Despite criticisms of these process models, there is empirical evidence that many firms have internationalised in incremental stages and that others continue to do so. Moreover, such approaches are, arguably, still popular among traditional
firms gravitating outwards from large economies. Nevertheless, various emerging streams of research in the 1990s have served to seriously challenge ‘stage’ process models.

Firstly, many researchers have focused on network theory and internationalisation (Sharma and Johanson, 1987; Johanson and Mattsson, 1988; Axelsson and Johanson, 1992; Johanson and Vahlne, 1992; Benito and Welch, 1994; Vatne, 1995). The latter offers a model that nicely summarises the relationship between such networks and SME internationalisation. Therein, internationalisation is seen as an entrepreneurial process that is embedded in an institutional and social web which supports the firm in terms of access to information, human capital, finance, and so on.

However, incremental and network perspectives are not necessarily mutually exclusive. Based upon comprehensive case studies of four software firms, Covielo and Munro (1997) conclude that:

... Our understanding of the internationalisation process for small firms, at least small software firms, can be enhanced by integrating the models of incremental internationalisation with the network perspective.

Secondly, research into ‘born global’ firms (McKinsey and Co., 1993; Knight and Cavusgil, 1996), ‘international new ventures’ (McDougall et al., 1994; Oviatt and McDougall, 1994), and ‘committed internationalists’ (Bonaccorsi, 1992; Brush, 1992; Jolly et al., 1992) demonstrates early and rapid international expansion by smaller technology-intensive firms. (See also the more recent work of Jones, 1999; Autio et al., 2000; Crick and Jones, 2000; Eriksson et al., 2000, 2001; Harveston, 2000; Kedia, 2000; Yip et al., 2000; Yli-Renko et al., 2001.) Many of these ‘born global’ and ‘knowledge-intensive’ firms are formed by active entrepreneurs, often due to a significant breakthrough in process or technology, and their offerings commonly involve substantial value adding (McKinsey and Co., 1993). A common characteristic is that management adopts a global focus from the outset and embarks on rapid and dedicated internationalisation. This internationalisation behaviour is commonplace among firms that target small, highly specialised global ‘niches’.

Enquiries conducted among smaller ‘knowledge-intensive’ firms also find that many ignore the home market altogether and target ‘lead’ markets, or enter domestic and international markets concurrently (see, e.g. Covielo, 1994; Bell, 1995; Boter and Holmquist, 1996; Covielo and Munro, 1997; Madsen and Servais, 1997). According to Bell (1995), if these firms are already established in the home market, they tend to follow domestic clients’ abroad, regardless of the ‘ psychic proximity’ of the market, a pattern that is also observable among more traditional firms. Evidence of inter-firm relationships supports network theories and such behaviour is particularly prevalent among firms operating in small open economies and in emerging nations, where domestic demand may be limited. (See Covielo and McAuley, 1999; for an excellent review and synthesis of sixteen contemporary empirical studies on internationalisation and the smaller firm.)

Thirdly, the literature on the globalisation of services (see Knight, 1999, for a comprehensive review) argues that service firms tend to internationalise in a
‘different’ way than their manufacturing counterparts (Erramilli and Rao, 1991, 1994; Chadee and Mattsson, 1998). Thus, the explanatory power of ‘stage’ theories for service sector firms is questionable. Moreover, the robustness of process models may be diminishing as boundaries between ‘product’ and ‘service’ offerings become increasingly blurred and as manufacturing firms incorporate a higher service component.

Fourthly, there is also evidence in the literature that firm internationalisation may be precipitated by particular ‘episodes’ that lead to rapid international expansion or de-internationalisation (Oesterle, 1997). On the other hand, specific events may encourage firms to focus on domestic markets. Accordingly, firms may subsequently experience ‘epochs’ of internationalisation, followed by periods of consolidation or retrenchment. These critical incidents may be triggered by forces that impact on the internationalisation strategies of domestic and overseas clients, or other network partners, as well as those that directly influence the focal firm (Bell et al., 1998). Thus, some firms may pursue ‘sporadic’ internationalisation trajectories that are different from both the traditional ‘incremental’ and ‘born global’ pathways.

Finally, recognition that firm internationalisation may be affected by multiple influences over time (Melin, 1992), has led to a reawakening of interest in contingency approaches first articulated by Reid (1983). In recent years various authors have developed contingency frameworks in the international business and exporting fields (Woodcock et al., 1994; Yeoh and Jeong, 1995; Kumar and Subramaniam, 1997). The latter, in justifying a contingency approach, argue that the existing literature has not devoted much attention to evaluating market selection and mode of entry as interdependent decisions. One might go further and suggest that the range of the firms’ internationalisation decisions, incorporating product decisions, market choice, and entry modes, are made in a holistic way (a notion initially presented by Luostarinen, 1979).

Allied to these contingency approaches may be the resource-based perspective. Its basic premise is that it is the firm’s ability to generate and build or leverage resources and competencies that is the key to competitive advantage and organisational survival (Wernerfelt, 1984; Barney, 1991; Grant, 1991). Small internationalising firms will respond differently in their efforts to overcome resource/competence deficiencies in areas such as finance and human resources. Such responses will also be ‘contingent’ on the levels of resources the firm has at its disposal (Reid, 1983; Woodcock et al., 1994; Yeoh and Jeong, 1995).

Research focus and approach

In recent years the authors have conducted a series of small firm internationalisation studies in several UK regions (England, Northern Ireland, and Scotland), Australia, and New Zealand. As previously reported (Bell et al., 1998, 2001), these enquiries adopted an exploratory, qualitative, case study approach and involved in total 50 in-depth semi-structured interviews with Chief Executive Officers (CEOs) or export
managers of small-to-medium sized internationalising firms. Judgement samples, in which ten ‘knowledge-intensive’ and ‘traditional’ firms were equally represented at each location, were constructed using directories of SMEs known to have an international involvement (such as, databases provided by Scottish Enterprise, Northern Ireland Local Enterprise Development Unit, Dunedin City Council, and the Victoria Chamber of Commerce). In addition, other published information (press reports, trade association listings, etc.) and the researchers’ preexisting knowledge of firms were used in sample selection.

The overall objective of these investigations was to gain a deeper understanding of the internationalisation processes of SMEs. In particular, the original aim was to explore and seek to explain any variations in the patterns, pace, and processes of internationalisation between ‘traditional’ and knowledge-intensive ‘born global’ firms. Data were collected and analysed utilising a template specifically designed for the purpose of obtaining deep and rich qualitative insights into the phenomenon under investigation. This instrument contained a number of structured questions designed to gather data for classification purposes (firm size, age, export experience, export ratio, first export market/s, current market/s, etc.). In addition, a series of open-ended questions were used to probe the strategic directions of firms and underlying reasons for key internationalisation decisions.

A qualitative approach was employed to systematically analyse open-ended questions and identify variations in patterns of response between ‘knowledge-intensive’ and ‘traditional’ groups. This involved a thematic analysis, conducted manually, that explored a number of pertinent issues including:

- the factors that motivated firms to internationalise
- firms internationalisation objectives
- the patterns and pace of internationalisation
- market entry and distribution strategies
- strategic approaches to international marketing
- methods of financing international expansion.

Firms were drawn from a variety of industries including electrical and mechanical engineering, food and beverage, information communications technology, printing and textiles. All were current exporters, employed less that 250 staff (over 90% had less than 100 employees) and were independent operations indigenous to the location. A demographic profile of the firms is shown in Table 1.

Findings

Results from the UK studies have been reported previously (Bell et al., 1998). In summary, they revealed some significant differences in the patterns and pace of internationalisation between knowledge-intensive and traditional firms. The former firms adopted much more proactive and structured approaches to internationalisation and
Table 1. Demographic profile of firms.

<table>
<thead>
<tr>
<th>Firm characteristics</th>
<th>% (n = 50)</th>
</tr>
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<tbody>
<tr>
<td><strong>Age of firm</strong></td>
<td></td>
</tr>
<tr>
<td>Less than 10 years</td>
<td>20</td>
</tr>
<tr>
<td>10–20 years</td>
<td>56</td>
</tr>
<tr>
<td>More than 20 years</td>
<td>24</td>
</tr>
<tr>
<td><strong>Size of firm (turnover)</strong></td>
<td></td>
</tr>
<tr>
<td>Up to £1 m</td>
<td>16</td>
</tr>
<tr>
<td>£1.0 m–£1.9 m</td>
<td>26</td>
</tr>
<tr>
<td>£2.0 m–£4.9 m</td>
<td>44</td>
</tr>
<tr>
<td>More than £5.0 m</td>
<td>14</td>
</tr>
<tr>
<td><strong>International experience</strong></td>
<td></td>
</tr>
<tr>
<td>Less than 5 years</td>
<td>24</td>
</tr>
<tr>
<td>5–10 years</td>
<td>44</td>
</tr>
<tr>
<td>More than 10 years</td>
<td>32</td>
</tr>
<tr>
<td><strong>Export initiation</strong></td>
<td></td>
</tr>
<tr>
<td>Less than 2 years after start-up</td>
<td>20</td>
</tr>
<tr>
<td>2–5 years after start-up</td>
<td>24</td>
</tr>
<tr>
<td>5–10 years after start-up</td>
<td>20</td>
</tr>
<tr>
<td>Over 10 years after start-up</td>
<td>36</td>
</tr>
<tr>
<td><strong>Export ratio (% of turnover)</strong></td>
<td></td>
</tr>
<tr>
<td>Less than 20%</td>
<td>26</td>
</tr>
<tr>
<td>20–49%</td>
<td>34</td>
</tr>
<tr>
<td>50–69%</td>
<td>24</td>
</tr>
<tr>
<td>Over 70%</td>
<td>16</td>
</tr>
<tr>
<td><strong>Industry sector</strong></td>
<td></td>
</tr>
<tr>
<td>Clothing and textiles</td>
<td>14</td>
</tr>
<tr>
<td>Engineering</td>
<td>26</td>
</tr>
<tr>
<td>Food and Drink</td>
<td>20</td>
</tr>
<tr>
<td>Electronics &amp; ICT</td>
<td>24</td>
</tr>
<tr>
<td>Printing</td>
<td>6</td>
</tr>
<tr>
<td>Other (giftware, furniture)</td>
<td>10</td>
</tr>
</tbody>
</table>

were more flexible in relation to their choice of entry modes. They also internationalised more rapidly, many from inception or shortly thereafter, following the Oviatt and McDougall (1994) ‘born global’ classification. In some cases, domestic and international expansion occurred concurrently. In others international involvement preceded domestic expansion or the home market was ignored altogether as firms targeted ‘lead’ markets. In contrast, traditional firms tended to adopt a more ad hoc, reactive and opportunistic approach to internationalisation. This was likely to occur in an incremental manner over a longer period of time, with firms often focusing on ‘psychically’ and/or geographically ‘close’ markets. Evidence also emerged that, while knowledge-intensive firms tended to focus on ‘lead’ markets (such as the USA, Europe, or Japan), many of the traditional firms targeted ‘lag’ markets that were technologically less sophisticated.
These findings were corroborated by the results from the Australian and New Zealand sample, with the exception that, due to their location, these firms considered Asia-Pacific markets as geographically and/or psychologically proximate. Taken together, they support the main themes emerging from the recent literature on knowledge-intensive firms and ‘international new ventures’ (see e.g. Boter and Holinquist, 1996; Coviello and McAuley, 1999; Jones, 1999; Crick and Jones, 2000; Ericksson et al., 2000, 2001; Shrader et al., 2000). However, they also provide evidence of incremental approaches to internationalisation among traditional firms that support more conventional views on the subject.

During the course of these enquiries, evidence also emerged that a number of long-established ‘traditional’ firms, 16 in all, had suddenly internationalised, having previously shown little or no enthusiasm for the task. In virtually every case, their dramatic change in strategic focus was precipitated by a ‘critical’ incident, or through a combination of several ‘incidents’ occurring around the same time. (For a detailed discussion of these episodes, together with supporting case studies, see Bell et al., 2001). Especially noteworthy was that these ‘episodes’ were common to a number of the firms in the different countries under investigation. These findings support Oesterle’s (1997) arguments on ‘epochs’ of internationalisation and we decided to re-classify this group of firms as ‘born-again’ globals.

Further exploration revealed that the most common ‘episode’ was a change in ownership and/or management that typically occurred in a number of ways. Firstly, through a management buyout (MBO), of which there were at least six examples (over 10% of cases). Secondly, where the focal firm was taken over by another (four cases). Thirdly, where a firm had actually ceased trading or was in receivership and was acquired either by the existing management, or a third party (three cases). Perhaps a more apposite term for the latter is ‘re-born’ or ‘resurrected’ global firms as, like Lazarus, they had literally returned from the dead. In each of these cases the change in ownership and/or management introduced new decision-makers with a greater international orientation. This was often accompanied by an infusion of additional finance and access networks in overseas markets. Another quite frequently occurring event was where an existing domestic customer had suddenly internationalised and the firm had ‘followed’ the client into new markets (six cases). Allied to this, were several cases where a new client already operating internationally had entered the home market. Finally, there was evidence that increasing adoption of information communication technologies (ICT) was influencing the internationalisation behaviour of these firms. Though not ‘episodic’ in nature, embracing such technologies can facilitate these ‘born-again’ firms to embark on an ‘epoch’ of internationalisation.

The main differences in the internationalisation motivation and behaviour of ‘traditional’, ‘born global’, and ‘born-again global’ firms emerging from the extant literature and our own enquiries are summarised in Table 2. As can be seen, clear differences in motivation are manifest. ‘Traditional’ firms tend to be much more reactive, firms are ‘pushed’ into international markets by adverse domestic market conditions, unsolicited orders or enquiries, or the need to generate revenues to
Table 2. Differences in internationalisation behaviour.

<table>
<thead>
<tr>
<th></th>
<th>‘Traditional’</th>
<th>‘Born global’ firms</th>
<th>‘Born-again’ global firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motivation</td>
<td>Reactive</td>
<td>Proactive</td>
<td>Reactive</td>
</tr>
<tr>
<td>Adverse home market</td>
<td>‘Global ‘niche’ markets</td>
<td>‘Committed’ management</td>
<td>Response to a ‘critical’ incident (MBO, take-over, acquisition, etc.)</td>
</tr>
<tr>
<td>Unsolicited/enquiries orders</td>
<td>‘International from inception’</td>
<td>‘Active search’</td>
<td></td>
</tr>
<tr>
<td>‘Reluctant’ management</td>
<td>‘Competitive advantage’</td>
<td>‘First-mover’ advantage</td>
<td>Exploit new networks and resources gained from critical incident</td>
</tr>
<tr>
<td>Cost of new production</td>
<td>‘Rapid penetration of global “niches” or segments’</td>
<td>Protecting and exploiting proprietary knowledge</td>
<td></td>
</tr>
<tr>
<td>Processes force export initiation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Objectives</td>
<td>Firm survival/growth</td>
<td>‘Changing sales volume’</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Gaining market share</td>
<td>‘Acquiring customers’</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Extending product life-cycle</td>
<td>‘Rapid growth of global “niches” or segments’</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Protecting and exploiting</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>proprietary knowledge</td>
<td></td>
</tr>
<tr>
<td>Expansion patterns</td>
<td>Incremental</td>
<td>Concurrent</td>
<td>‘Epoch’ of domestic market</td>
</tr>
<tr>
<td>Domestic expansion first</td>
<td>‘Near-simultaneous domestic’</td>
<td>‘Concurrent’</td>
<td>orientation, followed by rapid internationalisation.</td>
</tr>
<tr>
<td>Focus on ‘psychic’ markets</td>
<td>‘May precede domestic market activity’</td>
<td>‘Focus on ‘lead’ markets’</td>
<td>Focus on parent company’s networks and overseas markets</td>
</tr>
<tr>
<td>Limited evidence of networks</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pace</td>
<td>Gradual</td>
<td>Rapid</td>
<td>Late/rapid</td>
</tr>
<tr>
<td>Slow internationalisation</td>
<td>Speedy internationalisation</td>
<td>‘Rapid’</td>
<td>No international focus then</td>
</tr>
<tr>
<td>(small number of markets)</td>
<td>(large number of markets)</td>
<td></td>
<td>rapid internationalisation</td>
</tr>
<tr>
<td>Single market at a time</td>
<td>Many markets at once</td>
<td></td>
<td>Several markets at once</td>
</tr>
<tr>
<td>Adaptation of existing offering</td>
<td>Global product development</td>
<td></td>
<td>Adaptation/NPD</td>
</tr>
<tr>
<td>Method of distribution/entry modes</td>
<td>Conventional</td>
<td>Flexible and networks</td>
<td>Networks</td>
</tr>
<tr>
<td>-----------------------------------</td>
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</tr>
<tr>
<td>Use of agents/distributors or wholesalers</td>
<td>Use of agents or distributors Also evidence of integration with client’s channels, use of licensing, joint ventures, overseas production, etc.</td>
<td>Existing channel/s of new ‘parent’, partner/s or client/s</td>
<td></td>
</tr>
<tr>
<td>Direct to customers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>International strategies</td>
<td>Ad-hoc and opportunistic Evidence of continued reactive behaviour to new opportunities Atomistic expansion, unrelated new customers/markets</td>
<td>Structured Evidence of planned approach to international expansion Expansion of global networks</td>
<td>Reactive in response to ‘critical’ incident but more structured thereafter Expansion of newly acquired networks</td>
</tr>
<tr>
<td>Financing</td>
<td>‘Boot-strap’ into new markets</td>
<td>Self-financed via rapid growth Venture capital, Initial public offerings (IPO)</td>
<td>Capital injection by ‘parent’ Refinancing after MBO</td>
</tr>
</tbody>
</table>
finance future product or process improvements and management is more reluctant to internationalise. The ‘born global’ firms have more committed management, pursue global ‘niches’ from the outset and are generally more proactive. The ‘born-again’ global firms’ sudden change of focus from a domestic to an international orientation is triggered by an infusion of new human and/or financial resources, access to new networks in overseas markets, acquisition of new product/market knowledge, or some other critical incident.

Firms’ international objectives are also markedly different. For ‘traditional’ firms the main goals appear to be survival by increasing sales volume, greater market share, or extending product life cycles. The ‘born global’ firms seek to gain ‘first mover’ advantage and achieve rapid penetration of global ‘niches’ or segments. They attempt to protect and exploit proprietary knowledge and ‘lock-in’ clients. Often, the pace of technological innovation leads to very short life cycles and narrow windows of commercial opportunity. For ‘born-again globals’ the main objective appears to be to exploit new networks and resources gained as a result of particular ‘critical episodes’.

In these circumstances, the patterns and pace of internationalisation vary considerably. ‘Traditional’ firms tend to focus on the domestic market first, expand incrementally, gravitate to ‘psychically close’ markets, and/or target less developed markets. They often internationalise one market at a time and concentrate on a small number of key markets, adapting existing offerings to the needs of each new market. Among ‘born global’ firms, domestic and international expansion tends to be concurrent and internationalisation may even precede domestic market activities. Firms are also likely to be influenced by global industry trends, enter many ‘lead’ markets simultaneously, undertake global product development and not be overly influenced by ‘psychic’ proximity. However, as Jain (1996) observes, the need to maintain strong intellectual property rights can impose certain restrictions on their expansion patterns, particularly to markets where protection of patents can be a problem. Among ‘born-again global’ firms an epoch of domestic market orientation is replaced by one of rapid and dedicated internationalisation.

Among ‘born global’ and ‘born-again global’ firms there is stronger evidence of export or domestic client followership and of the importance of networking with suppliers and other channel-partners. In terms of channel selection, ‘traditional’ firms tend to adopt fairly conventional approaches such as agents or distributors. In addition to these methods, ‘born global’ and ‘born-again global’ firms are more likely to integrate into client’s existing channels (e.g. by adopting customers dealer networks or value added retailers, or in the case of the latter, new networks provided by the acquiring or acquired partners). Both categories are also more likely to set up licensing agreements or enter alliances with (new) clients and/or suppliers.

Finally, there is also evidence that ‘traditional’ firms continue to be more ad hoc, reactive and opportunistic, whereas ‘born global’ firms generally adopt much more structured approaches to internationalisation. In the case of ‘born-again’ global firms, strategies tend to be much more systematic once the decision to internationalise has eventually been triggered by a critical incident. All of these
differences are incorporated in the integrative model of small firm internationalisation that is proposed and discussed hereafter.

An integrative model of small firm internationalisation

The normative model proposed in Figure 1 is based on the extant internationalisation literature, incorporates recent empirical enquiry into the processes of ‘born global’ firms and includes our own observations on the ‘born-again global’ phenomenon (McKinsey and Co., 1993; Knight and Cavusgil, 1996). A number of pertinent observations should be made regarding this conceptualisation. Firstly, the three main trajectories shown in the model are intended to indicate stereotypical internationalisation patterns rather than rigid ‘pathways’. In practice, the actual trajectories of firms will be highly individualistic, situation specific, and unique. Secondly, we posit that the knowledge base of the firm is a source of competitive advantage that influences both the patterns and pace of internationalisation. Thus, firms with highly sophisticated knowledge bases are likely to internationalise much more rapidly than are those with more basic capabilities.

In the proposed model firms can be classified as ‘traditional’, ‘born global’, and ‘born-again global’. ‘Traditional’ firms are those that follow an incremental approach to internationalisation, becoming established in their domestic markets before initiating international activities (and often entering markets with increasing ‘psychic’ distance). Among ‘traditional’ firms, the knowledge-based element of offerings need not necessarily be high, although some quite sophisticated processes may be involved. Typically however, neither products nor processes are particularly advanced.

‘Born global’ firms may be further classified as either ‘knowledge-intensive’ or ‘knowledge-based’ firms. Firms in both of these categories can be defined as those ‘having a high added value of scientific knowledge embedded in both product and process . . . Often, this knowledge is also required in sales and marketing functions’ (Coviello, 1994). The essential difference between them is that ‘knowledge-based’ firms exist because of the emergence of new technologies (such as ICT, biotechnology, etc.). They will either have developed proprietary knowledge or acquired knowledge, without which they would not exist (e.g. software developers, Internet providers, or firms offering other distance independent services). In contrast, ‘knowledge-intensive firms’ may use knowledge to develop new offerings, improve productivity, introduce new methods of production, and/or improve service delivery but are not inherently knowledge-based. The use of computer aided design (CAD), computer aided manufacturing (CAM), and high-tech fabrics in the clothing industry is a case in point. Similar developments have also occurred in the printing industry as a result of electronic publishing technologies.

‘Knowledge-based’ firms are likely to internationalise very rapidly. However, it is postulated that the pace of internationalisation of ‘knowledge-intensive’ firms is likely to be determined by whether they are technological ‘innovators’ or ‘adopters’.
The former are more likely to internationalise at a faster pace than the latter, however, in smaller open economies limited domestic market opportunities may also be a driver. Nevertheless, in all cases, the knowledge base can be regarded as a core competence and a source of competitive advantage (Autio et al., 2000; Ericksson et al., 2000; McNaughton, 2001).
In respect to service-intensive firms, particularly those that involve franchising and/or retailing operations, successful commercialisation of the business concept in the home market is often a prerequisite to any international involvement (McIntyre and Huszagh, 1995; Björkman and Kock, 1997). Thus a firm may spend a longer period of time designing, testing, and developing the service offering for domestic consumption, before initiating rapid international expansion. In this context, the lag between start up and internationalisation can be explained by the need to gain the requisite market knowledge in order to culturally adapt service offerings and marketing strategies for foreign consumers (Knight, 1999; Lovelock, 1999).

‘Born-again global’ manufacturing firms tend to emanate from traditional industries rather than high technology sectors. However, their knowledge intensity may increase due to improvements in product and/or process technology in their particular industry, or due to new product and/or market intelligence acquired as a result of the critical incident. In some cases, this new knowledge will be acquired through a take over of another firm. Gaining greater knowledge of products, processes, or markets may increase the pace of internationalisation. The term ‘born-again’ is increasingly also being applied to firms that have changed or modified their traditional business formats in order to internationalise via the Internet. Thus the adaptation of product and/or market innovation, or the adoption of new information technologies may also be ‘drivers’ of internationalisation.

The model acknowledges views articulated in the contemporary literature on knowledge intensity as a major source of international competitive advantage (Coviello and McAuley, 1999; Jones, 1999; Autio et al., 2000; Yli-Renko et al., 2001). This knowledge intensity may stem from greater proprietary knowledge in terms of product or service offerings, new design, development and production processes, technological innovations, or the adoption of e-business solutions (Brock, 2000). It may also be influenced by greater knowledge of global industry sector and of ‘niche’ markets for offerings. In these circumstances, the pace of internationalisation will be rapid as firms seek to exploit narrow windows and gain first mover advantage (McNaughton, 2001). Conversely, lower knowledge intensity of products, processes, sectors or markets is likely to lead to more gradual internationalisation.

Secondly, the model recognises that the small firm internationalisation process is neither linear nor unidirectional (Turnbull, 1987; Bell, 1995). The use of the term ‘state of internationalisation’ (rather than ‘stage’) in the model is intended to reflect the potential for forward and backward momentum. This ‘state’ is contingent upon prevailing external environment conditions, the availability or absence of human and financial resources within the firm, other internal considerations and arguably of greatest importance, the key decision-makers’ mental model and global mindset (Berry, 1998). Accordingly, firms may experience ‘epochs’ of internationalisation, followed by periods of consolidation or retrenchment, or they may be involved in ‘episodes’ that lead to rapid international expansion or de-internationalisation (Oesterle, 1997). Equally, specific events may encourage firms to focus on the home market. These ‘episodes’ or ‘epochs’ may be triggered by forces that impact on the
internationalisation strategies of domestic or overseas customers and other network partners, as well as those that directly influence the focal firm.

Thirdly, given that ‘no single theory appears to have sufficient explanatory power on its own’ (Coviello and McAuley, 1999), the proposed model incorporates dimensions of extant incremental ‘stage’ theories and network perspectives. It also recognises the explanatory value of contingency approaches and allied resource-based theories. By integrating elements of each of these conceptualisations, the intention is to seek to provide a coherent perspective of small firm internationalisation.

Finally, the main thrust of the proposed model is to focus on strategic rather than operational issues. Thus, it does not focus explicitly on the development of marketing activities in specific overseas markets. However, it is intended to provide a basis for the development of prescriptive models that will contribute to managerial decision-making and address issues relating to the financing of international operations. Furthermore, the model offers useful perspectives on policy formulation and implementation in support of small firm internationalisation, given that the nature and level of firms’ support needs are likely to vary considerably depending on the different internationalisation ‘pathways’ or trajectories.

**Managerial, public policy, and research implications**

**Managerial implications**

The different internationalisation trajectories identified in the model offer some useful insights into firm’s internationalisation strategies, in particular, the means of financing of international operations. Firms pursuing the traditional ‘pathway’ are likely to ‘bootstrap’ into international markets using revenues generated from the domestic market and/or from the initial excursion into export markets and any support they may be able to obtain from government sources to finance subsequent international activities and expansion. Clearly, an unsatisfactory outcome at any stage may delay the internationalisation process, or indeed, result in subsequent de-internationalisation. Moreover, the lack of capital to finance such activities may often lead to a slower, and perhaps a less optimal, pace of internationalisation, with firms being unable to exploit all of the export opportunities presented to them.

Firms pursuing the ‘born global’ trajectory will face quite different problems. Here the firm’s strategy is likely to be to gain first-mover advantage by internationalising rapidly into key ‘lead’ markets. This will require substantial up-front financing and involve significant product and market development costs. If they successfully penetrate a large ‘lead’ market (which might include the home market) they may have sufficient revenues to expand rapidly into other markets, otherwise, they may need to seek venture capital or secure mezzanine financing. Indeed a strategy, from the outset may be to make the firm sufficiently attractive to be taken over by a larger domestic or international player. This not only provides the firm with the resource
base it requires for internationalisation, but often makes a rather nice contribution
to the founder’s pension plan, or provides them with the capital to set up a new
venture!

The financial considerations involved in pursuing a ‘born global’ strategy are
especially critical in circumstances where long research and development lead-times
and/or product approval processes are involved prior to commercialisation. For
example, in pharmaceutical or biotechnology sectors, the time scale for new product
development may be 3–5 years or longer, during which time costs are being incurred
without a supporting revenue stream. Such issues clearly require much greater
research enquiry and public-policy attention.

Once they have eventually opted to pursue an internationalisation strategy, firms
pursuing the ‘born-again global’ pathway may be in a better position to finance
rapid international expansion. This may be due to having established a good revenue
stream from a more robust domestic market position. Alternatively, they may have
gained a substantial infusion of human and financial resources, proprietary
knowledge, or international marketing expertise following an acquisition, as a result
of having been taken over, or due to another critical incident. In the case of MBOs,
the strategies pursued by the new owners or management team (and/or the influence
of non-executive directors on strategy) may lead to rapid internationalisation in
order to make the firm a more attractive take over proposition. However, in
circumstances where ‘a born-again global’ strategy is pursued because of difficulties
in the domestic market, or when substantial investment in an acquisition has been
required, the financial issues may have more in common with the ‘traditional’
trajectory.

This ‘born-again’ trajectory is also more likely to be adopted by service-intensive
firms in retailing, leisure, and hospitality, because of a tendency towards direct
and more costly modes of investment, or for franchisers who need to develop and
‘prove’ the business concept in the domestic market before expanding inter-
nationally. Regardless of whether service offerings are targeted at business-to-
business or to consumer markets, rapid internationalisation is unlikely to take place
until the concept and the quality of service delivery are proven in the home
market and can be culturally adapted (Grønroos, 1999; Samiee, 1999; Stauss and
Mang, 1999).

Clearly, the choice of internationalisation ‘pathway’ will also influence other
dimensions of firms’ business strategies and the resources they must acquire or
leverage to successfully pursue their objectives. For example, the management of
human resources will vary according to internationalisation trajectory, with
incremental firms investing in human capital as and when financial circumstances
permit and when these resources are needed. For ‘born global’ firms, recruitment of
key members of the management team will almost certainly be a prerequisite and
having the necessary spectrum of skills are in place from the outset is paramount to
ensure the success of the strategy (Elkjaer, 2000; Ranft and Lord, 2000). As already
indicated firms pursuing a ‘born-again’ pathway may do so because they have
acquired additional human capital.
Implications for public policy in support of firm internationalisation

Evidence of different internationalisation trajectories also has profound implications for public policy support for SMEs, given that the focus of many national Export Promotion Organisation (EPO) strategies is on supporting this sector. Seringhaus and Botschen (1990) conclude that the specific goals of EPOs are:

1. ‘to develop a broad awareness of export opportunities and to stimulate interest among the business community;
2. to assist firms in the planning and preparation for export market involvement;
3. to assist firms in acquiring the needed expertise and know-how to successfully enter and develop export markets;
4. to support foreign market activity tangibly through organisational help and cost-sharing programmes’.

Seringhaus (1986) argues that these goals hold particular relevance to under-resourced SMEs, whose significant economic, social, and international contributions are increasingly recognised by public policy makers and researchers alike (UNCTAD/ITC, 1986, 1988; EIM/ENSIR, 1993; US SBA, 1993; Czinkota, 1994; Acx et al., 1997; OECD, 1997). However, an extensive literature on export assistance has generally been highly critical of EPO support for smaller firms. Serious concerns have been raised regarding the utility of export market information and the efficacy, timeliness and value of services (Pointon, 1978; Buckley, 1983; Cavusgil, 1983; Bannock and Partners, 1987; Howard and Herremans, 1988). Typically, awareness of EPO offerings and satisfaction with provisions among smaller firms are also found to be very low (Kaynak and Stevenson, 1982; Albaum, 1983; Walters, 1983; Denis and Depelteau, 1985; Kedia and Chhokar, 1986).

The scope and nature of direct and indirect export assistance is comprehensively discussed by Diamantopoulos et al. (1993), who contend that EPO offerings in different countries are generally very similar (see Figure 2). Evidence from the literature (Bowen, 1986; Seringhaus, 1987; Elvey, 1990; Seringhaus and Rosson, 1990; Camino, 1991; Rosson and Seringhaus, 1991), also suggests that most national EPO provisions are geared towards offering support and assistance to firms pursuing the ‘traditional’ incremental pathway. This focus places great emphasis on the pre-export phase and in particular on stimulating export initiation, where considerable EPO resources are employed in providing standardised information on foreign markets. Although such an emphasis is consistent with the prevailing views on internationalisation during the 1980s, it is debatable if it is of any real value to ‘born global’ firms, or indeed to rapidly internationalizing ‘born-again globals’. These firms are highly motivated to internationalise and recognise the benefits of doing so. Further attempts to stimulate export activity are akin to preaching to the converted and an inefficient use of scarce EPO resources.
Secondly, the provision of standardised export market information is not of particular benefit to ‘born global’ firms that target narrow global ‘niches’. They are more likely to have better market knowledge than their ‘traditional’ counterparts, or find it relatively easier to obtain (Bell, 1997). As players in knowledge-based sectors, they are also more likely to have better access to the shared ‘intellectual capital’ embedded in the global industry. For example, a developer of banking software will not find it hard to identify a small number of banks operating in any given market. Moreover, with the globalisation of this sector, it is highly likely that the banks will have known affiliates or subsidiaries in other countries that may also adopt the solution. Similarly, an obvious distribution channel for software packages that are designed for an IBM platform, for example, may well be the IBM world wide dealer network. Hence, pre-existing relationships between hardware and software firms
may obviate the need for an extensive agent/distributor search. In this context, relationships with the local subsidiary or dealer network may provide valuable contacts with overseas affiliates, customers, or dealer networks. Finally, according to Bell (1997), knowledge-based firms have a greater facility with the new information technologies, such as the world wide web (www) and demonstrate a greater propensity to use them to obtain knowledge of competitors offerings and export market intelligence.

The rapid pace of internationalisation among 'born global' firms also presents a major challenge to EPOs, not only in terms of providing assistance in a timely manner, but also in respect to the nature of the support provided. Such firms may not only be developing new products for multiple markets, but also entering these markets concurrently. Such activities incur substantial up-front product and market development costs. In addition, shorter life cycles and more complex offerings make these high-risk ventures, although the potential rewards are also very significant. Moreover, narrower 'windows' in global 'niche' markets mean that firms are less likely to be able to use the revenues generated in one international market to finance expansion into another. Clearly any assistance that EPOs can provide in terms of defraying market research, and research and development costs is welcome. However, such assistance as is presently available is probably too limited to make a significant impact. Furthermore, greater collaboration between EPOs, other public bodies involved in supporting technological innovation and academia is desirable to enable firms to develop more cohesive international product/market development strategies.

Another major support need for ‘born global’ firms results from the nature of their offerings. As Coviello (1994) observes many of these have a significant ‘knowledge embedded … that is also required in sales and marketing functions’. In these circumstances, levels of pre- and after-sales services required in support of offerings will be high. Whether these are provided in-house or contracted-out to intermediaries, the skills required in order to deliver quality support will be costly. Moreover, more frequent visits to a greater number of markets will be required to maintain and develop good relationships with clients and/or channel partners. While support for attending trade fairs or participation in outward missions may facilitate occasional contact with overseas partners, few support mechanisms exist to assist ‘born global’ firms to develop their international networks effectively and systematically.

In respect to ‘born-again’ global firms, the precipitated shift in market focus may lead to similar support requirements to those of born globals. Arguably, their financial situation may be stronger due to an influx of additional capital, or critical incidents may have provided access to new global networks, technologies, markets, or greater management expertise. Nevertheless, they too will have some very specific support needs due to the pace at which they will be seeking to internationalise, particularly in respect to new product development for multiple international markets. In the case of internationalising service firms, once the concept has been ‘proven’, substantial human, financial, and management resources will be required to identify appropriate international channel partners or franchisees.
From the preceding discussion it is clear that public policy for SME internationalisation requires a fundamental reconsideration to better address the support needs of ‘born global’ and ‘born-again global’ firms. In summary:

- The value of stimulation programmes for firms that are committed to internationalisation is doubtful. EPOs should re-deploy their scarce resources in other areas.
- The provision of generalised export market information is of limited value. EPOs should seek to become repositories of ‘hard’ market intelligence. Acting as www portals, they should also screen other useful secondary sources and direct firms to them.
- The pace of internationalisation among ‘born global’ and ‘born-again global’ firms demands a fast response from EPOs and greater levels of assistance for concurrent entry into multiple international markets. Greater collaboration is also required with other agencies in support of innovation, and research and development. Creating an environment conducive to encouraging the availability of venture capital is also an important priority.
- Greater support is required for ‘born global’ and ‘born-again global’ firms in respect to developing international network relationships. At the same time, EPOs should help firms capitalise on any opportunities to access these networks from within the domestic market.

Clearly, many EPOs have sought to address earlier criticisms in the literature regarding the general nature of provisions and most now accept the need to provide appropriate support for ‘born global’ firms. Nevertheless, many still need to adopt more holistic approaches to supporting SMEs that recognise that firm internationalisation is much broader in scope than merely exporting goods or services as it often include inward as well as outward strategies (for a good discussion of these issues, see Fletcher, 2001). Secondly, greater acknowledgement that internationalisation may result from contacts in the domestic market is important and assistance in developing such networks is clearly desirable. Thirdly, that as internationalisation may involve a wider spectrum of activities including acquisitions or sell outs, mergers, joint ventures, or alliances and other strategies, guidance and support for these activities is crucial. Fourthly, that the support needs of firms pursuing different internationalisation trajectories or ‘pathways’ will be significantly different and must therefore be addressed in a much more targeted manner. Finally, it is evident that acquisition of additional resources is vitally important to the internationalisation process. In these circumstances, the remits of EPOs could be usefully extended beyond providing export information to include facilitation to assist internationalising SMEs to identify, leverage, and harness additional human, financial, and knowledge resources.

Research implications

The proposed integrative small firm internationalisation model highlights differences in processes, patterns, and pace among ‘traditional’, ‘born global’, and ‘born-gain
global’ firms. It also seeks to incorporate aspects of process and network theories in order to offer a broader viewpoint on SME internationalisation. Elements of contingency approaches and resource-based theory are incorporated, particularly in the ‘born-again’ pathway. In attempting to integrate these diverse, yet complementary, perspectives, this contribution support previous calls for more holistic approaches to research in the field. As Coviello and McAuley (1999) observe ‘conceptually, future research should integrate the extant views of internationalisation, recognising that no single view may be appropriate’.

It is also the authors’ intention to seek to move the small firm internationalisation research agenda forward to enable enquiry to focus on specific and important issues in the area. In particular, much greater enquiry is required into ways in which internationalizing SMEs can leverage additional external financing, acquire and exploit knowledge, improve their stock of human capital, and enhance their networking capabilities. Acknowledging the existence of multiple internationalisation ‘pathways’ will facilitate such research. It will also assist policy formulation in support of SME internationalisation and the development of much more targeted export assistance programmes.

**Conclusion**

While the internationalisation process of individual firms is situation specific and unique, the present study identifies a number of stereotypical ‘pathways’ that firms may follow. In each of these trajectories differences in motivation, objectives, and knowledge intensity impact on the patterns and pace of internationalisation and influence the strategic approaches adopted by firms. Based upon the empirical findings, an integrative model of small firm internationalisation is proposed and managerial, public policy, and research implications are discussed.

**References**


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