



Entrepreneurship and strategy in the international SME

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Abstract

Small and medium enterprises (SMEs) have begun to play a critical role in international trade. Statistics from the Organization for Economic Cooperation and Development (OECD) and other sources indicate that SMEs now account for a very substantial proportion of exports from most industrialized nations. But very little is known about the effect of having an international entrepreneurial orientation, or the role of specific strategies associated with this construct, on the foreign performance of such firms. Using data from an empirical study of SMEs, we devise a structural model that reveals the role of international entrepreneurial orientation, key strategic activities, and the collective effect of these constructs on the international performance of the modern, international SME. These findings and their implications for scholars and managers are discussed. © 2001 Elsevier Science Inc. All rights reserved.

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1. Introduction

International business has long been regarded as the domain of large, resource-rich companies (e.g., Johanson and Vahlne, 1990; Root, 1994). However, recent evidence suggests that internationally active small and medium-size enterprises (SMEs; defined here as firms with 500 or fewer employees, a definition used widely in industrialized countries) are emerging in large numbers and presenting an important challenge to this traditional thinking (e.g., OECD, 1997; Rennie, 1993; Rose and Quintanilla, 1996). With advances in information and communications technologies, the globalization of markets, and other facilitating trends, more SMEs are active in international markets than ever before (Bell,

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1995; Craig and Douglas, 1996). In numerous countries, such firms are now the driving force for a substantial share of export growth and future economic prosperity (Economist, 1993; Gupta, 1989).

In general, smaller firms are important. SMEs account for over 95% of businesses, create roughly 50% of total value added worldwide and, depending on the country, generate between 60% and 90% of all new jobs (OECD, 1997; United Nations, 1993). While they historically have not been associated with international business, based on an empirical study of trends in 18 industrialized countries, the Organization for Economic Cooperation and Development (OECD) notes that SMEs now account for about a quarter of exports in most industrialized nations (OECD, 1997). Internationally-active SMEs are emerging in notably large numbers throughout the world, and they tend to be more dynamic and grow faster than strictly domestic firms (Bell, 1995; Nakamura, 1992; OECD, 1997; Rennie, 1993; United Nations, 1993). Since the 1970s, numerous key trends have made going international a more viable option for many such enterprises.

To the extent they can be entrepreneurial engines for new technologies, product innovations, and the broader development of nations, the rise of the international SME is a key trend. However, smaller firms usually lack the resources, capabilities, and market power of traditional multinational enterprises (MNEs). Given their relatively low base of resources, compared to their larger rivals, the complexities of international operations tend to be considerably more challenging for the SME.

We sought to investigate the international approaches of the modern SME through a two-stage research approach that involved, first, case studies to uncover key postures and strategies that give rise to international performance in new international ventures and, second, a survey-based study of international SMEs intended to confirm the validity of findings from the case studies. Our focus was the fundamentally important posture of entrepreneurship or, more precisely, entrepreneurial orientation, in the international success of the SME. Entrepreneurial orientation emphasizes innovation in the firm's offerings and processes, risk taking, and a generally proactive approach to business.

When applied to international business, an organizational culture characterized by this construct is likely to engender the development and activation of key strategies that give rise to superior performance in foreign markets. Among the most important of these is strategic competence that provides the primary means through which the firm interacts with its external environment. The international environment entails a range of complexities related to differences in culture, political systems, and economics. Marketing skills and other key strategic approaches can allow the resource-constrained smaller firm to achieve superior performance results via manipulation of levers such as research and development, emphasis on quality, product adaptation, and effective distribution. Additional strategies investigated here include the acquisition of technology in order to support product development and adaptation, as well as general preparation to enter complex foreign markets.

In the context of increasing smaller firm international involvement, the purpose of this paper is to investigate the above issues, particularly in light of the constructs highlighted above and their proposed contribution to international performance (e.g., market share and profitability), in the contemporary SME. In the following pages, we first summarize key

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