



SMEs and international entrepreneurship: An institutional network perspective



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ABSTRACT

This study examines the influence of the use of institutional networks by SMEs in the context of international entrepreneurship (IE). It provides insights into SMEs' awareness of, access to, and actual use of the resources available through institutional networks and whether these are inducements or deterrents for entrepreneurial activities in foreign markets. A qualitative research design employing a multiple case study approach was used to investigate five internationalized SMEs from Sweden and Finland. The findings suggest that institutional network relationships have a positive effect on the internationalization process of SMEs. However, the significance of this influence is continuous and intertwined in the different stages of the internationalization process. A novel contribution of this study is the use of institutional theory combined with the network perspective to explain how SMEs' awareness of, and access to, institutional network resources affects their international entrepreneurial activities.

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1. Introduction

International entrepreneurship (IE) research has made significant progress over the past two decades (Autio, George, & Alexy, 2011; Dimitratos, Voudouris, Plakoyiannaki, & Nakos, 2012; Gabrielsson & Gabrielsson, 2013). However, there is a lack of consensus among scholars regarding the focus of IE research (Jones, Coviello, & Tang, 2011; Nummela & Welch, 2007). Jones and colleagues described the existing criticisms on the IE domain. Even though scholars have argued that the domain is fragmented and lacking consistency however, Jones and colleagues are of the opinion that IE is 'a young field...' which should not be regarded as amorphous (Jones et al., 2011, p. 633). Moreover, Keupp and Gassmann (2009) emphasized the lack of any unifying paradigms in IE research, so they proposed that the fragmented theoretical and contextual standpoints are challenges to the further development of the domain (See also Szyliowicz & Galvin, 2010). Meanwhile, Covin and Miller (2014) suggested that IE research can be contextualized into two broad streams: a) firstly, there is the new venture/new entry viewpoint, which considers IE primarily in the context of the identification and exploitation of opportunities for *new entry* (e.g. Mainela, Puhakka, & Servais, 2014) by new small firms (e.g. Dimitratos et al., 2012). These are often

classified as new international ventures, global start-ups, or born global firms (Sepulveda & Gabrielsson, 2013; Crick, 2009). (b) The second viewpoint of IE mainly concerns itself with the entrepreneurial activities and behavioral orientation of established firms in foreign markets (e.g. Mainela et al., 2014; Neill and York, 2012; Peltola, 2012). Arguably, both perspectives involve elements of innovation, strategic exploitation of opportunities, and renewal strategies in the competitive international business arena (Gabrielsson & Gabrielsson, 2013). This conceptualization echoes Oviatt and McDougall's (2005, p. 537 and 538) assertion that although the field of IE research began by studying the internationalization of new ventures, its scope has broadened beyond that, because competitiveness, innovation, and renewal strategies have become paramount for the survival of both new and established firms.

This study is structured on the conceptualization of the internationalization of firms, both as *new entry* and *firm renewal* in the context of IE. In this study, IE is understood according to McDougall and Oviatt (2000, p. 903) definition of IE as entrepreneurship that crosses borders and manifests itself in the proactive, risk-seeking and innovative behavior of the firm that bring value. Equally, the term "internationalization" refer to entrepreneurial internationalization as described by Jones et al. (2011).

Scholars agree that the area of how public institutional support networks influence the business outcomes of SMEs is under-explored (Bateman, 2000; Ceglie & Dini, 1999; Ramsden & Bennett, 2005; Séror, 1998). Therefore, a study focused on how institutional

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networks interplay with the IE activities of SMEs is of interest.¹ The European Union's standard definition refers to an SME as any enterprise with an overall headcount of less than 250 employees combined with a turnover of 2–50 million Euros or a balance sheet total of 2–43 million Euros (European Commission, 2005). A key objective of this study is to shed light on how SMEs' access to, and actual use of, institutional network resources interact with their internationalization process. Moreover, our contribution is aimed at understanding how small businesses derive value from network relationships with institutional actors. In addition, a novel contribution of this study concerns our use of institutional theory combined with the perspective of internationalization networks. This contributes to the growing body of literature on how institutional contexts influence IE. This study delves beyond export-assistance mechanisms and the export mode of SME internationalization. We examine the role of institutional networks in the entrepreneurial internationalization (Jones et al., 2011) activities of SMEs in general. We use the institutional network perspective in this context, because it provides a better explanation of how the various institutional support and network resources used by SMEs in the context of IE influence their international business outcomes. The remainder of this paper is organized as follows. The next section presents a literature review that discusses the internationalization of SMEs in the context of IE and the tendency of SMEs to rely on external networks to mitigate various resource constraints. Next, the institutional network perspective is elaborated on. The research's design and methodology are discussed in the third section, while the empirical analysis is presented and discussed in the fourth section. This paper concludes by discussing the key findings. The implications, limitations, and recommendations for research are also presented.

2. Literature review

2.1. Background

The internationalization domain in IE research (Oviatt & McDougall, 2005) has attracted considerable interest from scholars studying the internationalization process from various theoretical and empirical standpoints (Amal & Filho, 2010, p. 609; Welch & Luostarinen, 1988). Considering the apparent diverse viewpoints, Glaum and Oesterle (2007) assert that a unified definition remains elusive even after 40 years of research into the area of the internationalization of firms (p. 308). For the purpose of this study, we use the definition of internationalization put forward by Lehtinen and Penttinen (1999):

Internationalization of a firm concerns the relationships between the firm and its international environment, derives its origin from the development and utilization process of the personnel's cognitive and attitudinal readiness and is concretely manifested in the development and utilization process of different international activities, primarily inward, outward and cooperative operations (Lehtinen & Penttinen, 1999, p. 13).

The above definition is preferred because it emphasizes the use of various relationships and activities that go beyond the export perspective of internationalization. It also captures the exploitation of interactions between different actors—such as the firm's management and employees, as well as the external

environment that influences the focal firm's involvement in non-domestic operations. In addition, it also draws attention to the *inward*, *outward*, and *cooperative* perspectives of international engagements, so it is not limited to import/export operations (Ruzzier, Robert, Hisrich, & Antoncic, 2006; Welch & Luostarinen, 1993).

2.2. On the internationalization of SMEs in the context of IE

The internationalization of SMEs is a major vehicle for sustaining innovation, employment, and economic and social renewal (Greene & Mole, 2006), yet SMEs face many challenges in the IE process when compared to their resource-rich counterparts, the multinational enterprises (MNEs) (Hessels & Terjesen, 2010; Shaw & Darroch, 2004). Moreover, due to the small size of the home market in small open economies (SMOPECs) such as Finland and Sweden (Hallböck & Gabrielsson, 2013), many SMEs must internationalize and engage actively in IE as a principal means for survival and growth. Therefore, many governments proactively strive to support the engagement of firms in IE as a way to ensure not only the survival of local industries but also to promote economic stability and international competitiveness (Greene & Mole, 2006; Kibler, 2012). Thus, internationalization not only provides a competitive advantage to SMEs; it also enhances the economic robustness of all industry sectors, particularly within manufacturing and knowledge-intensive industries (Chiao, Yang, & Yu, 2006; Lu & Beamish, 2006, 2001).

Scholars agree that SMEs face difficulties regarding how to leverage international opportunities and the need to mitigate risks, competition, and other challenges on the international business frontiers (Bretherton & Chaston, 2005). Impediments to the internationalization of SMEs in the context of IE can include internal and external barriers (Leonidou, 2004, p. 279; Shaw & Darroch, 2004). For instance, internal barriers may include, but are not limited to, inadequate human capital; financial constraints; a lack of foreign market exposure; and limited technical expertise. Meanwhile external barriers could include a country's policies and regulatory environment, its competitive dynamics, a lack of access to network resources, and liabilities of foreignness (Johanson & Vahlne, 2009; Ruzzier et al., 2006; Torkkeli, Puimalainen, Saarenketo, & Kuivalainen, 2012; Zucchella & Servais, 2012). On the other hand, MNEs have greater financial and human resources when compared to SMEs (Hessels & Terjesen, 2010), and they are considerably more proficient in the use of network relationships with both public and private entities. Therefore, MNEs are better able to leverage international opportunities, and they are often capable of influencing the foreign market's environment at policy and industry levels (Sun, 2009; Augier & Teece, 2007). Therefore, many SMEs often rely on external resources for both new entry and further development in their IE endeavors (Coviello & Cox, 2006; Coviello & Munro, 1997; Ello, 2005; Johanson & Vahlne, 2009; Sörör, 1998; Street & Cameron, 2007). Because of the significant role of external resources in the international activities of SMEs, the dependency of SMEs on these resources is discussed in depth in the following subsection.

2.3. SME internationalization and resource dependency

Growth enterprises are important for the economy. The exploration of international opportunities is a vital aspect of growth entrepreneurship (Bosma & Levie, 2009), but the SMEs' resource constraints can hinder this. As a result, SMEs that manage to secure the resources required for international growth will have a significant impact on the economy (Ruzzier et al., 2006, p. 180).

Arbaugh, Camp, and Cox (2008) suggest that perceptual and experiential factors—such as perceived risks, knowledge and

¹ In this paper, an *institutional network* is defined in terms of the firm's collaboration with publically funded formal institutions, such as the ministry of foreign trade/industry, trade promotion councils, internationalization assistance organizations, research institutions, credit unions, embassies, chambers of commerce and national trade delegations (e.g., Bateman, 2000; Sörör, 1998; Spencer, Murtha, & Lenway, 2005; Whitley, 2000).

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