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# Internationally leading SMEs vs. internationalized SMEs: Evidence of success factors from South Korea

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## ABSTRACT

Previous studies on the internationalization of small and medium-sized enterprises (SMEs) have typically compared the performance of internationalized SMEs (I-SMEs) with that of non-internationalized SMEs. However, not all I-SMEs can successfully lead the international market either unless they should consistently strive to attain and maintain competitive advantages. Thus, this study aims at identifying success factors which influence efforts of I-SMEs to lead international markets as internationally leading SMEs (IL-SMEs). To examine the success factors of the IL-SMEs, in this paper, IL-SMEs are specifically defined as I-SMEs which occupy dominant positions in the international market, i.e., ranking among the *top three* worldwide. The results based on a sample of 88 South Korean SMEs including 18 IL-SMEs and 70 I-SMEs indicate that 18 factors (out of 47 factors) show significant differences between IL-SMEs and I-SMEs in terms of customer relations/service, technological innovation, and corporate strategies. Also, by factor analysis and logistic regression analysis, three factors influencing the success of IL-SMEs are identified in the perspectives of technological innovation (R&D) and international marketing (customer satisfaction and demand quality/scope). Surprisingly, internationalization strategies and external markets have no relationship with performance of IL-SMEs. These results provide important implications to policy-makers interested in the sustainably international competitiveness of SMEs.

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## 1. Introduction

International entrepreneurship of small and medium-sized enterprises (SMEs) has received interesting research attention in the past decades since international customer needs and decision-making process of SMEs significantly differ from those of large firms. In developing and emerging economies, internationalization has been considered one of the most important strategies for the survival, growth, market expansion, and success of SMEs (Musteen, Francis, & Datta, 2010; Pangarkar, 2008). The mainstream of studies on internationalized SMEs has been identifying the key factors that influence the international success of SMEs and the determinants of their innovation performance in international context (Raymond & St-Pierre, 2010). As key factors, such studies have typically tried to focus on the demographic such as firm size (Fritsch & Meschede, 2001; Moreno & Casillas, 2007) and social capital (Balachandra & Friar, 1997). In addition, more key factors have been then continuously identified focusing on the SME's behavior, such as market orientation (Jaworsk & Kohli, 1993;

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Narver & Slater, 1990), entrepreneurial orientation (Hult, Hurley, & Knight, 2004; Lumpkin & Dess, 1996), R&D activity/ technological orientation (Becheikh, Landry, & Amara, 2006; Chesbrough, 2003; Raymond & St-Pierre, 2010), knowledge orientation (Hoffman, Parejo, Bessant, & Perren, 1998), and learning orientation (Rhee, Park, & Lee, 2010; Slater & Narver, 1995).

Amongst others, a large number of studies have found a positive relationship between internationalization and SMEs performance (Loth & Parks, 2002; Pangarkar, 2008). Through internationalization, SMEs can take advantage of international markets and explore market niches in various countries. In doing so, they can enhance their revenue and profit potential (Luostarinen, 1979). SMEs can recoup their R&D and marketing expenditure through increased sales and profits and maintain their competitiveness by exploiting foreign markets. Highly internationalized SMEs tend to emphasize technological innovation, whereas domestic ones allocate limited resources to such activity (Pangarkar, 2008). Internationalization can provide SMEs with increased flexibility through arbitrage opportunities as well (Allen & Pantzalis, 1996).

However, the majority of the literature has been limited to the drivers of internationalized SMEs (I-SMEs) performance only. Most of previous studies have compared I-SMEs with non-internationalized SMEs and typically focused on identifying the determinants of the success of internationalized SMEs. To date, beyond internationalization, I-SMEs should try to consistently prosper in terms of above-average profits and dominant market share as well. Among I-SMEs, some are able to outperform others and lead the international market. I-SMEs are likely to fail and easy to drag behind as well unless they continue their struggle to improve and maintain their competency to be global champions. As enhancement of the global competency is very important and timely for SMEs, only internationally leading SMEs can move forward to the next successful phase of rapid internationalization. Thus, an analysis on behavior of internationally successful SMEs in global markets can be helpful for other I-SMEs that have difficulties in acquiring global competitiveness. It is critical to take a look at distinct requirements of I-SMEs' long-term success for leading the international market.

Several studies focusing on the success of these outperforming I-SMEs, especially called as internationally leading SMEs (IL-SMEs) in this paper, have already considered with emerging concepts such as the midsize giants (Simon, 1992), good to great (Collins, 2001), hidden champion (Simon, 2007), high-growth firms (Moreno & Casillas, 2007), and post-catch-up innovation (Lee & Rhee, 2008), etc. These terms have been coined to distinguish critical factors as well as to differentiate between the best and better firms in internationalization context. The success factors of the best firms (IL-SMEs) outperforming better firms (I-SMEs) have been considered as one of the interesting research topics in various academic fields. In fact, the hidden champion and good to great were driven from the business area. In addition, the high-growth firm and post-catch-up innovation was from the economic area and the innovation area, respectively. We use the IL-SME concept as an umbrella term that includes all those terms reported in a variety of research areas for indicating the best I-SMEs in the international market. Despite this increasing importance of the IL-SMEs' study, however, it is limited that previous studies above have been somewhat qualitative and typically focused on a general case study of successful firms. Few studies have developed measures and assessment instruments for examining the behavior of IL-SMEs in practical. There is a dearth of research on determinants of the IL-SMEs' success.

Thus, this study aims at empirically identifying these success factors of IL-SMEs, not success factors for I-SMEs, by considering a number of variables for the internationalization of SMEs. More specifically, the key factors influencing the success of IL-SMEs are examined to help change I-SMEs to IL-SMEs. Prior to the outset of this study, we first define the IL-SMEs as I-SMEs which occupy dominant positions in each segment of the international market, i.e., ranking among the *top three* worldwide on a basis of the market share and CEO's comment. Especially, the current study focuses on practical contribution to formulate a theoretical construct for IL-SMEs' success based on a lot of specific factors in the inductive method and exploratory research framework. From the inductive method and exploratory framework, any new factors which have not yet been identified can be generated and the applicability of better-established factors can be tested for related studies (Saunders, Lewis, & Thornhill, 2000; Wilson, Daniel, & McDonald, 2010). For this, we use the survey data conducted with the help of the Science and Technology Policy Institute (STEPI) and the Small and Medium Business Administration (SMBA) of South Korea (hereafter, Korea) to enhance the I-SMEs performance. We surveyed a comprehensive set of IL-SMEs' activities determining what constitutes the core of the international leadership construct. A lot of driving elements of I-SMEs and IL-SMEs performance are selected from a large body of the previous literature.

This study's analytic procedure has two modules. In the first module, the major significant factors are identified differentiating between I-SMEs and IL-SMEs based on a statistical test. To our knowledge, this study is the first to empirically and statistically identify the determinants of IL-SME performance based on numerous variables by the inductive method. In the second module, the factor analysis and the logistic regression analysis are conducted for examining differentiated factors related to IL-SMEs' success among significantly different factors identified from the first module. These success factors of IL-SMEs help I-SMEs achieve more concrete international competitiveness and policymakers build up appropriate criteria of alternatives to support I-SMEs.

The rest of this paper is organized as follows. Section 2 provides a literature review on internationalization of SMEs, focusing on I-SMEs and IL-SMEs. Section 3 describes research methodology with the data, variables, and analytic procedures. Section 4 presents the significantly different factors and identifies key success factors of IL-SMEs. Section 5 suggests managerial implications for the internationalization of SMEs in Korea, and Section 6 concludes with some suggestions for contributions and future research.

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