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IBR 1371 No. of Pages 13
ARTICLE IN PRESS
International Business Review xxx (2016) xxx–xxx
Contents lists available at ScienceDirect
International Business Review
journal homepage: www.elsevier.com/locate/ibusrev

Competing on the edge: Implications of network position for internationalizing small- and medium-sized enterprises

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ARTICLE INFO

Article history:
Received 9 November 2015
Received in revised form 22 August 2016
Accepted 23 January 2017
Available online xxx

Keywords:
Competition
SME internationalization
Business network
Structural holes
Uppsala internationalization process
Born global

ABSTRACT

Three generic competitive strategies attributed to internationalizing SMEs of targeting niches, differentiating products and leveraging networks fail to adequately explain how SMEs win customers in other countries against both large and small competitors. This study distinguishes competitive strategy (*how* firms compete) from competitive advantage, and from competitive engagements where firms deploy their competitive advantages to win customers within business network relationships. By abductively reasoning from the competitive engagements entered into by the internationalizing SMEs from the Fleet Management Systems industry segment in New Zealand, we show that these firms often compete with foreign rivals by using their position on the edge of a business network to leverage information asymmetries across structural holes. We contribute by integrating this conception of internationalizing SME competitive strategy with the business network foundations of the Uppsala internationalization process model.

1. Introduction

Small- and medium-sized enterprises (SMEs) begin competing with firms in foreign countries when they internationalize and must have a competitive advantage (Caves & Porter, 1977; Rugman, Verbeke, & Nguyen, 2011) in order to overcome their liability of foreignness (Zaheer, 1995) and to win customers. The resource-based view (RBV)–with ownership of valuable, rare, inimitable and non-substitutable resources as the basis of a competitive advantage (Barney, 1991)–has been the dominant theoretical perspective for investigating SME internationalization (Freeman & Cavusgil, 2007). However, competitive advantage remains only a potentiality until the firm competes against rivals to win customers, and thereby survive and grow:

> "Owning or having access to a valuable and rare resource is necessary for competitive advantage yet alone it is insufficient. Such resources must be effectively bundled and deployed . . . in specific competitive engagements for a firm to *realize* a competitive advantage" (Sirmon, Gove, & Hitt, 2008, p.919).

In the RBV competitors are only acknowledged indirectly as entities over which to gain advantage, with the theoretical focus inside the firm (Kraaijenbrink, Spender, & Groen, 2010) and the mechanisms by which resources influence business outcomes against rivals relatively unexplained (Sirmon, Hitt, & Ireland, 2007). In other words, identifying an internationalizing SME's competitive advantage is insufficient to explain *how* that SME competes with rival firms in a foreign country.

Internationalizing SMEs, particularly those in high-technology industries, rely on intangible firm-specific resources such as technological knowledge for their competitive advantage (Autio, Sapienza, & Almeida, 2000; Rialp, Rialp, & Knight, 2005) but must compete with other firms for factor resources and customers when they enter a new country. Competing is a process involving the struggle for limited resources, yet the term is often applied loosely in business and scholarly research to both individual firm actions and the general activity of firms in a business environment (Grimm, Lee, & Smith, 2006). In this paper, *competing* is defined as one organization vying, either directly or indirectly, with a rival for the same pool of resources in a zero-sum relationship (Barnett, 1997). *Competing* and *internationalizing* are related but not synonymous concepts; although internationalizing requires competing for resources in another country, competing does not require internationalizing.

Internationalizing SMEs have limited firm-specific resources, market knowledge and international experience (Hånell & Ghauri, 2016) yet are able to enter new countries, survive and sometimes prosper despite these limitations (Sui & Baum, 2014). How internationalizing SMEs compete against rivals encountered in

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http://dx.doi.org/10.1016/j.ibusrev.2017.01.003
0969-5931/

foreign markets is the focus of this paper. Investigating this requires examining the interrelationships between firms, customers and competitors in the context of international business to distinguish three concepts bound up within "competing"; competitive advantages as potential firm-specific resources and capabilities that lie dormant until a firm can deploy them, competitive engagements as the points where SMEs encounter rivals seeking the same customers and resources (Easton, 1988; Sirmon et al., 2008), and competitive strategy describing *how* SMEs bring their competitive advantages to bear in competitive engagements (Grimm et al., 2006; Porter, 1980). Understanding competitive strategy is central to linking SME competitive advantage to business outcomes such as survival, growth and financial success within international contexts (Martineau & Pastoriza, 2016). In linking internationalizing to competing, we apply the revised (Uppsala) business network internationalization process model because it specifically addresses SME internationalization and provides a multi-level framework that includes network relationships with other market participants (Johanson & Vahlne, 2009). Fig. 1 shows the locus of our paper.

An examination of the three generic competitive strategies of niche targeting, product differentiation and network building attributed to internationalizing SMEs in the extant literature suggests that even in combination these fail to fully explain how internationalizing SMEs deploy their competitive advantages in engagements to win customers against competitors both large and small. To investigate how internationalizing SMEs compete we used a multiple case study research design to explore the competitive strategies of the internationalizing SMEs in the Fleet Management Systems (FMS) industry segment from New Zealand (NZ). Fleet Management Systems combine hardware and software to allow businesses to remotely manage fleets of vehicles and is a high growth, high-technology global industry segment characterized by business-to-business markets. A census study of all the NZ FMS firms allowed comparisons between similar firms in a similar competitive context. An abductive approach to data gathering and analysis revealed that the SMEs' competitive strategy was to develop a small number of highly-committed customer relationships to gain incremental resources and knowledge which enabled them to expand into customers' industry networks over time. By bridging structural holes (Burt, 1992) in business networks, an SME's specific position on the edge of a network allowed it to compete against large firms, foreign country SMEs, and other internationalizing SMEs.

The paper's first contribution is to show theoretically and empirically that niche targeting, product differentiation and network building are inadequate explanations of internationalizing SME competitive strategies against SME competitors, which may be the primary competitors that internationalizing SMEs face. A second contribution is to show why a small number of highly-committed business relationships, combined with a position on the periphery of a network, matter more for SME competitive success than being a network insider with many network relationships (c.f. Johanson & Vahlne, 2009; Vahlne & Johanson, 2013). A third contribution is to propose how the Uppsala business network internationalization process model (Johanson & Vahlne, 2009) can be expanded into an internationalizing SME competitive process model in international contexts. The paper is structured as follows. In the next section we explain competing in business networks, summarize the revised Uppsala model, review the three competitive strategies typically associated in the literature with SMEs, and outline our methods. An overview of the FMS industry and its competitive context precedes cross-case analysis of internationalizing SME competitive patterns. We then further develop our theoretical argument about how SMEs compete internationally. Limitations and suggestions for future research conclude the paper.

2. Literature review

2.1. Internationalizing SMEs

Three types of internationalizing SME have been identified empirically (Olejnik & Swoboda, 2012): (1) traditionally internationalizing SMEs which gradually expand overseas, making greater commitments as they gain experience; (2) entrepreneurially-initiated Born Globals which begin international sales within a few years of firm foundation; and (3) Born Again Globals which focus on their domestic markets for many years and then suddenly internationalize rapidly after a major strategic change. Twenty years of research into Born Globals has led to multiple definitions of rapidly internationalizing small ventures (Cesinger, Fink, Madsen, & Kraus, 2012), with Welch, Rumyantseva, and Hewerdine (2016) suggesting that researchers have progressively loosened the Born Global concept until it means little more than earlier internationalization relative to other SMEs. Gaining competitive advantage and improving competitive performance motivates internationalization (McDougall, 1989) and was a key attribute in the seminal definitions of Born Globals (Knight & Cavusgil, 1996, 2004) and International New Ventures (Oviatt & McDougall, 1994). To return to these competitive roots, this paper addresses all internationalizing SMEs and relates its findings to variations across SME types.

2.2. Competitors of internationalizing SMEs

Competitors are seldom mentioned in extant SME internationalization literature, and then usually in relation to SMEs avoiding large competitors (e.g. Aspelund & Moen, 2005; Gabrielsson, Kirpalani, Dimitratos, Solberg, & Zucchella, 2008). The competition literature however, emphasizes that SMEs are a distinct strategic group competing with each other rather than with large firms (Audretsch, Prince, & Thurik, 1999; Mas-Ruiz & Ruiz-Moreno, 2011). Lacking resources, SMEs specialize and partition the market

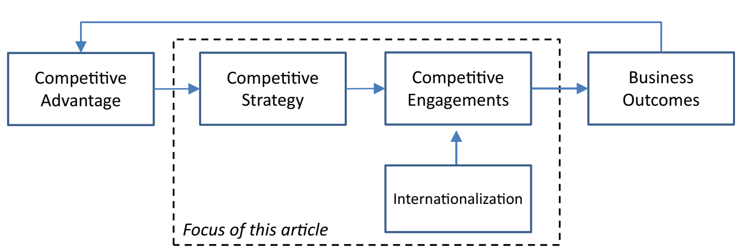

Fig. 1. Conceptual model of competing.

Source: Adapted from Grimm et al. (2006).