

The Internationalization of Emerging and Developed Countries' SMEs

Subjects: **Business**

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The topic focuses on the tension between SMEs' growth and sustainability in emerging and developed Countries' Internationalization: and presents a conceptual model of this process. Economic growth is a priority in many developing countries in the drive to eradicate inequality and poverty, but elevated levels of economic growth are regarded as inimical to climate preservation and sustainability. The continuing depletion of natural resources and industrial pollution has led to increasing global pressure and government policies aimed at reducing climate deterioration. Advocates of 'strong sustainability' are concentrated in the economically developed world, while developing countries have a greater need for economic growth and advocate weaker forms of sustainability where economic development, the promotion of employment and eradication of poverty take precedence over climate preservation concerns. Extant internationalization literature does not provide an integrated model of sustainable internationalization. (i.e., the relative emphasis of human and natural capital in contextual and universal factors in the internationalization process of developing and developed countries). To address this underexplored research gap a cross-sectional, non-probabilistic convenience sample of South African SMEs using a mixed methods approach, and a secondary data eclectic analysis of developed and developing countries' SME internationalization using a comparative multiple-case design, were adopted in this study.

sustainable internationalization

SMEs

developed and developing countries

1. Contextual and Universal Factors in Emerging and Developed Countries' SMEs' Internationalization

Sadeghi et al. [1] distinguished between universal factors in internationalization as those that SMEs consider important regardless of where they are operating, and contextual factors as important aspects of the internationalization process in specific countries. Sadeghi et al. [1] also pointed out that the concepts of universal and contextual factors are popular in entrepreneurial theory. The two concepts correspond to institutional theory's heuristics of isomorphism and particularism [2] quite closely. However, as Sadeghi et al. [1] pointed out, many studies using an institutional approach to SME internationalization do not consider the specific institutional aspects of particular contexts that facilitate or impede this process—nor do they consider the changes in emphasis of contextual and universal factors over time as the internationalization process and institutional environment develop and mature.

It seems clear in the extant literature that the concepts of universal and context-bound factors are used very broadly and interchangeably to describe one situation or another, and the boundary of what is considered 'universal' is widened or narrowed according to a specific authors' focus [1]. For example, in Sadeghi et al.'s [1][3] study, the 'universal' focus is largely on comparing two countries: a developing country with an emerging market (Iran) and a developed one (Italy). Furthermore, the importance of institutional development over time in entrepreneurial internationalization in emerging markets is often overlooked with an overemphasis on cross-sectional analyses [3]. A general model of SME internationalization would be needed to broadly embrace the gradual process of internationalization of developing countries globally [4]. The key to developing such a model resides in considering the impact of contextual and universal factors in trade development over time by comparing developing and developed countries. Most institutional models dealing with phases of industrialization have looked at the process of industrialization without considering gradual changes in the context and universal factors that occur as a country develops and its trade matures [1][4].

Moreover, despite many different approaches to the internationalization of SMEs described in the literature, no single model is currently recognized and accepted [5]. This is largely because the economic environment in which SMEs internationalize is in a constant state of flux, meaning new criteria and conditions emerge that need to be considered in extant models. This dynamic aspect of internationalization noted by Daszkiewicz and Kristof [6] is integrated and developed in the model of sustainable internationalization subsequently discussed in this entry. However, a brief account of the main theories of internationalization is required before focusing on contextual and universal factors in sustainable internationalization.

Stage theories of internationalization comprise the earliest form of internationalization models [7].

Stage theories indicate that in the initial phase of development, companies only do business in the internal market and entry into exporting is done gradually and incrementally. The stages can be divided into pre-engagement, initial and advanced [3]. Pre-engagement is comprised of companies operating only in their domestic markets. The initial stage describes the tentative steps a company makes towards exporting and the advanced stage is achieved when foreign trade is reliably and consistently maintained [3]. The most celebrated stage model is that conceived by Johanson and Vahlne [7], the Uppsala internationalization model which, based upon a Swedish company's database, finds that Swedish firms often begin the internationalization process with ad hoc exporting and establish their operations in small steps. First they use intermediaries, represent focal companies abroad, and then they develop their operation into supplying manufactured goods to overcome trade barriers in existence at the time. They called this the establishment chain [7]. A central feature of their model was the concept of psychic distance which suggested that effective internationalization tended to occur most readily between countries with small psychic distances in terms of cultural, linguistic, and knowledge factors [7]. As Daszkiewicz and Kristof [6] put it: "...the model focuses on the gradual acquisition, integration, and use of knowledge about foreign markets and operations, and on the incremental commitments in foreign markets. In particular, attention was focused on the increasing involvement in the individual foreign country."

The eclectic model of industrialization focuses on a specific aspect of the industrialization process. Dunning [8] regards his approach as eclectic as the three main aspects of his eclectic paradigm were selected from several different theoretical approaches. Dunning [8] suggests that internationalization will occur when a company has: an ownership advantage not possessed by its competitors; the location attractiveness of the country/countries focused on for internationalization; and the company's ability to internalize its competitive advantage. This theory suggests that a firm's ability to universalize its competitive advantage in countries it trades with will determine whether its long-term internationalization is effective or not [8].

The third main theory of internationalization is the resource-based view (RBV) of the firm proposed by Barney [9] which in some aspects resembles stage theory. RBV theory suggests that a firm's valuable and rare resources give it a competitive advantage that can be extended for prolonged periods and for as long as it can insulate itself from resource imitation, transfer, or substitution. Generally speaking, empirical evidence has consistently supported the RBV model of internationalization [10]. Both Dunning [8] and Barney's [9] models focus on describing company criteria that need to be satisfied for successful internationalization.

What these models consistently show—implicitly if not explicitly—as for example, in the cases of the attribute-type RBV and eclectic models, is the dynamic nature of the internationalization process and the fact that it occurs over a period of time.

In their rigorous and thorough review of the internationalization literature, Castagna et al. [3] indicated that the process tends to occur in three separate sequential stages. The first stage is regarded as 'extension'; the second phase consists of penetration into the international market; and the third, market integration. Having briefly outlined extant industrialization literature, it is now necessary to discuss the concept of 'sustainability' as it is defined and used in the current study in some detail.

2. Weak and Strong Sustainability and Its Meaning in the SME Internationalization Process

The literature on strong and weak sustainability suggests that the term "sustainability" is used in two different ways that can be attributed to diametrically different conceptual perspectives. One meaning of sustainability, usually regarded as the eco-centric or 'strong' view, refers to sustainability as the preservation of environmental natural capital, while the other, the anthropocentric or 'weak' view, refers to the development of economic capital in goods and services. As Ayres et al. [11] put it:

"Much of the confusion in the discussion of strong sustainability arises from a failure to distinguish between the two assumptions dividing weak and strong sustainability. The first is the assumption of substitutability between natural and manufactured capital. The second is that economic well-being "covers" all other concerns. If the second assumption is accepted (as it sometimes is by advocates of strong sustainability) then the argument about substitutability boils down to a purely economic debate about elasticities of substitution, technological advancement and so on. If, on the other hand, substituting financial capital for natural resources is incompatible with maintaining

a suitable physical environment for the human species, then strong sustainability implies that we must step outside the conventional market framework to establish the conditions for maintaining human happiness."

Thus, 'strong sustainability' is eco-centric in orientation and advocates that there is a non-negotiable element that aims to ensure that the natural environment remains suitable for the existence of human life and the maintenance of flora and fauna [9].

Weak sustainability can be defined as an overriding concern to increase manufactured capital despite the destruction of natural environmental resources that this might cause. An often-cited example of the implications of weak sustainability suffering from an anthropocentric focus on unbridled growth via economic capital is that of the catastrophic effects of a policy implemented on the small Pacific Island of Nauru [12].

In 1900, one of the world's richest deposits of phosphate was found on the island of Nauru but after extensive mining for ninety years, the island is now desolate. Initially, the emphasis on natural resource exploitation above any other consideration reaped anthropocentric benefits for the islanders in the form of high per capita incomes. A trust fund from the income from phosphate sales was built for the islanders and accumulated a net worth of approximately USD 1 billion, Interest from the trust should have allowed a secure and sustainable income for all the island's inhabitants, but the Asian financial crisis wiped out the value of the fund and the islanders have been left with a desolate and biologically impoverished environment that may never fully recover. The experience of Nauru clearly indicates that a weak sustainability policy with an extreme anthropocentric focus is likely to create utter environmental devastation over time. What the Nauru example clearly indicates is that the substitution of natural resources for manufactured capital may constitute a 'one way' street. Once a natural resource has been ruthlessly exploited for manufactured capital, there may be no coming back [12].

Strong sustainability is defined by Brekke [13] as 'non-diminishing life opportunities' that "... should be achieved by conserving the stock of human capital, technological capability, natural resources and environmental quality". Strong sustainability aims to ensure that viable amounts of natural, economic, and social capital should be maintained as natural resources are essential for economic capital production and human wellbeing and cannot be fully substituted. Additionally, strong sustainability can be justified in ethical-legal terms since nature has its own right to exist and prosper and that some flora and fauna are unique, since their loss is can be made irreversible through extinction. Extreme forms of strong sustainability maintain that all components of the natural environment must be preserved undiminished and uncontaminated by human and/or the production of economic capital [14]. This 'Deep Ecology' extreme view is untenable on the grounds that human life needs to utilize natural capital to survive, natural resources are themselves in a state of constant fluctuation through continuous evolution, and the rights of nature need to be considered and balanced with human rights [14]. Thus, a compromise in strong sustainability needs to be created that focuses on the use of natural resources to sustain human wellbeing including that which is needed for economic capital production within sustainably defined limits, and unique and irreplaceable biological assets [14].

In the SME internationalization process, sustainability can be seen as a movement from a 'weak' sustainability emphasising local contextual economic factors, or factors focused largely on short-term economic viability, to a 'strong' sustainability emphasis focused on universal factors shared by trading partners that include economic, social, and environmental concerns.

A good example of this is presented by the new US trade initiative to generate sustainable trade practices between the US and China that play 'by the rules of the road' as internationally defined [15]. In effect, this means that the SMEs of emerging countries should move away from a contextual 'my way' of internationalization to embrace an economic (weak sustainability) emphasis to a more universalized, and integrated (economically, socially, and environmentally) 'our way' of internationalization based on strong sustainability. Thus, since emerging markets such as South Africa need a sustainable and integrated trade that combines economic growth with the preservation of scarce natural resources to avoid irreversible environmental damage [16], investigations into South Africa's SMEs progress towards sustainable internationalization are vital. Such information will inform government and institutional policy decision makers to motivate for integrated, sustainable trade conditions in their country and help SMEs on their path towards strong sustainable internationalization.

3. Contextual and Universal Factors in Sustainable Internationalization Process

Figure 1 below gives a diagrammatic representation of the model of internationalization derived from the analysis. The model outlines the relative importance of contextual vis-à-vis universal factors for *sustainable* SME internationalization.

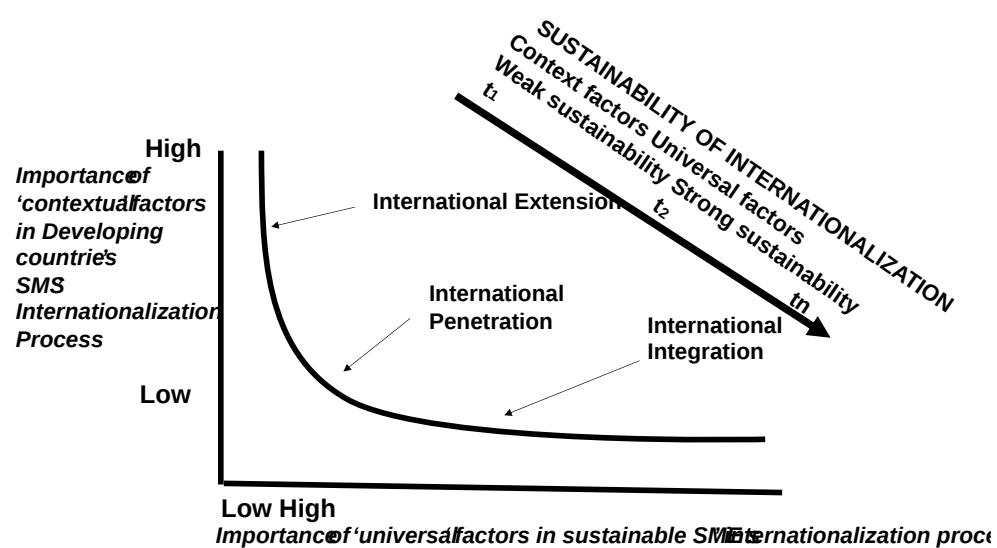


Figure 1: A heuristic model of the relative importance of contextual vis-à-vis universal factors in the sustainability of SMEs' internationalization process over time.

The tentative model displayed in Figure 1 suggests indeterminate time phases (t_1 , t_2 , and t_n) in each stage of internationalization as the firm moves through the three stages of the internationalization process: extension, penetration, and integration [1]—corresponding to a gradual movement from weak to strong sustainability [14][23][24]. The model also suggests in the downward sloping curve in the diagram that the internationalization process moves towards an integration phase of strong sustainability [14][23] and integrated trade [1]. **Figure 1** also suggests that contextual factors (other than those that may provide a competitive advantage to a specific country and are compatible with principles of strong sustainability) diminish in importance and universal factors become increasingly influential in the successful outcome of sustainable internationalization [1][14][23][24]. The empirical primary data obtained from the mixed methods survey of South African SMEs lend support to the model and show that contextual factors are more influential than universal ones in the extension phase of internationalization and tend to be focused on human capital growth.

4. Conclusions

Stage models have tended to be purely descriptive, describing the stages that the internationalization process undergoes in the development of integrated trade between countries. However, developing countries such as South Africa—where SMEs play a pivotal and growing role [16][25][26]—require more prescriptive models of the internationalization process that may allow prescriptive steps to ensure, as far as possible, that the internationalization process ends in *sustainable* success. The contextual–universal time-phased model developed in Figure 1 suggests that SMEs in developing countries should try to generate universal features in their trade environment that promote an ‘our way’ focus and emphasize strong sustainability aspects as early as possible without impeding their initial primary function of generating rapid economic growth.

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