Small -and Medium- Sized Enterprises (SMEs) Entering International Market for Sustainable Growth

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Abstract: Increase in globalization and internationalization in markets has created a complex business environment for all size firms. This has led to the transformation of the relationships between firms and growing use of cooperation agreements by all firms especially small -and medium- sized enterprises (SMEs) that are seeking opportunities in international markets. In this direction, as SMEs recognize the need to utilize their limited resources more effectively to compete with more powerful competitors in the global arena, owner/managers internationalize their operations by cooperating at the strategic level. The aims of these cooperations are to pursue growth opportunities, to access additional relationships, to reduce uncertainty and to overcome their size barrier and to expand businesses in the new geographic markets.

In the literature, internationalization processes have mainly been studied for multinational corporations (MNCs) but less for SMEs, which tend to have been neglected in internationalization research (Jansson & Sandberg 2008). But a better understanding of the process of entering international markets will help small firms avoid potential obstacles to success (Rowden 2001). In this context, the main purpose of this study is to enhance the understanding of the cooperative internationalization strategy of SMEs. Our study focuses on providing information on the SMEs business characteristics, the concept of internationalization, motivations, processes, advantages and disadvantages of SMEs' internationalization, cooperative internationalization of SMEs, network model such as Sectoral Foreign Trade Companies (SFTC) used in Turkey, and making suggestions for owner/managers of SMEs to develop successful foreign market entry process by cooperating with other firms.

Keywords: Globalization, Cooperation, Internationalization Strategy, International Arena, SMEs, Sectoral Foreign Trade Companies, Turkey.

Introduction

As the rate of economic globalization becomes faster and faster, small businesses can no longer afford to ignore the challenge of international commerce. Thus small businesses that are playing an increasingly vital role in today's business environment must develop a global culture, gain crucial international experience and overcome their size barrier (Rowden 2001; Steensma et al. 2000) by cooperating with other firms. This requires choosing the appropriate entry strategy and the right partner if they hope to have any chance of success in the international arena. In this context, this study focuses on the cooperation of SMEs that have been built for the purpose of international expansion.

Most of the early studies related to internationalization strategies have dealt with large firms, whereas SMEs are only rarely investigated (Fink et al. 2008). So there is still insufficient knowledge about the internationalization of these types of firms (Westhead et al. 2001). However, the development of communication and transportation technologies has made international expansion possible for SMEs as well (Saarenketo et al. 2008). In this direction many approaches have been developed for the understanding of the internationalization process of SMEs. One of them is the cooperative international expansion is the main theme of this article.

The facilitating role of globalization and outsourcing has expanded firms' use of external resources to reduce innovation time spans, costs and risks, and acquire greater flexibility in their operations. Indeed, the very success of the SMEs vis-a`-vis their larger competitors may be due to their ability to utilize external relationships more efficiently. So the growing use of networks by a broader cross-section of firms reflects a catch-up by larger firms: it has long been recognized that one of the major competitive advantages SMEs have over large firms has been their flexibility (Narula 2004) that enables them to match quick changes in market demands (Colley 2006).

To date, an entrepreneur's human capital as well as business demographics promoting independent owner-managed firms to sell their goods or services into foreign markets is not well understood. Nevertheless, there is a growing awareness of a need for a greater understanding of this group of entrepreneurial ventures (Westhead et al. 2001). In this direction, this paper seeks to enhance understanding of the international expansion of SMEs. Notwithstanding, from a theoretical perspective, the primary focus of this paper is to provide suggestions for how SMEs will use cooperative business strategy to carry out successful entry into international markets.

SMEs Business Characteristics

SMEs are not simply smaller versions of traditional firms and have many differences in ownership, resources, organizational structures and management systems (Pangarkar 2008). Compared with larger firms, small (less than 50 employees) and medium (between 50 and 250 employees) sized firms (Gilmore et al. 2006) have limited financial and managerial resources, personnel and capabilities. Further, SMEs are usually owned and managed by founders, whereas large firms are managed by professionals. As a result of this, the decision-making in SMEs is highly centralized (Lu and Beamish 2006).

Previous literature recognizes that SMEs are heavily reliant on the attitudes, skills and expertise of their personnel. Thus multiple roles being filled by staff and a lack of organizational slack make dealing with anyone outside of the company much harder (Major & Cordey-Hayes 2000). Due to staffing limitations, small firms often suffer from managerial inexperience with international markets and have limited global information-gathering capabilities (Rowden 2001) compared to large firms.

Small entrepreneurial firms are responsible for much of the growth and innovation in global economy (Steensma et al. 2000). They promote private ownership and diversification of economic activities, stimulate innovations, generate the majority of jobs, support sustainable development, make a significant contribution to exports and trade and develop entrepreneurial skills (Colley 2006).

Compared to MNCs, smaller firms are unfettered by bureaucracy, hierarchical thinking, and expensive existing information systems. But they are often more customer- oriented, and have quicker response times when it comes to implementing new technologies and meeting specialized needs and tastes. So they are usually more able to adapt their systems, routines, and the collective employee mindset to the imperatives of international competition (Liesch & Knight 1999).

SMEs that are operating in demands a high level of customer-orientation as well as an emphasis on new (technological) knowledge development (Gills 2005) are generally regarded as more easily influenced by external forces than are larger firms (Cheng & Yu 2008). Further, SMEs are subject to the liability of smallness which is reflected in this type of firms' difficulties in obtaining and securing critical resources and their vulnerability to environmental changes. Such disadvantages impose constraints on the expansion of SMEs either in the domestic or international markets. So that SMEs usually have less international experience and are subject to more severe local knowledge deficiencies when they expand their facilities across borders (Lu and Beamish 2006). In this context, SMEs can carry out expansion of their operations into foreign markets successfully by developing cooperative relationships with other firms.

The Concept of Internationalization

Internationalization is the process by which firms increase their awareness of the direct and indirect influence of international transactions on their future, and begin to engage in transactions with firms in other countries (Lu and Beamish 2001). In other words, it is the discovery, enactment, evaluation and exploitation of opportunities across national borders to create future goods and services (McDougall & Oviatt 2005).

A number of explanations have been proposed to account for firms' internationalization processes. For example, the resource-based view of the firm has been shown to be important since the managers leverage resource advantages and minimize transaction costs to obtain a competitive advantage overseas (Spence et al. 2008). In addition to this, several theories from the international business literature have been presented below to explain why firms engage in international operations (Westhead et al. 2001):

- Transaction cost theory suggests that firms choose the least-cost international location for each activity they perform and grow by internationalizing markets, bringing interdependent activities under common ownership and control up to the point where the benefits of further internationalization are outweighed by the costs.
- A network theory of internationalization suggests that firms achieve their competitive advantage by developing mutually supportive interactions with other firms.

- Monopolistic advantage theory suggests that firms will internationalize when they can use their established advantages in foreign countries at little or no additional cost.
- Internationalization theory suggests that firms internationalize to reduce costs by internationalizing the transfer of goods and services across national borders where it is cheaper.
- Product cycle theory suggests that firms internationalize in an attempt to protect their existing markets of mature products.
- The stage theory of internationalization suggests that a firm's international operations will gradually increase as it gains knowledge and experience in the international arena and as it develops relationships that cross international boundaries.
- Oligopolistic reaction theory suggests that firms will try to reduce their risk by imitating competing firms' entrance into foreign operations.
- Strategic choice theory suggests that firms facing strategic complexities respond opportunistically to changing market opportunities through a careful evaluation of risks with managers actively determining many features of a firm's internationalization.

Although there have been a number of attempts to synthesize the internationalization literature, a single, commonly accepted interpretation of ''internationalization'' is yet to be found. According to this, the internationalization patterns of individual firms seem to be rather unique and situation specific (Saarenketo et al. 2004).

International Expansion of SMEs

Internationalization is an issue that –until recently– was in most cases only relevant for large companies. But increased pressure on the home market coming from international competitors is now, however, being felt by SMEs as well, moving them to seek opportunities in international markets (Fink et al. 2008) actively.

Many SMEs, especially high technology firms, are forced to internationalize early in their development due to a focus on niche markets and the small size of their domestic markets relative to the potential that exists abroad (Bradley et al. 2006). But although SMEs have been increasingly active in international markets, existing theories of internationalization have tended to focus on large MNCs and argued that firms must have strength either in resources or knowledge if they are to fully overcome the transaction costs in integrating across borders (Cheng & Yu 2008).

There is an array of modes for entering international markets, such as exporting, licensing, non-equity strategic alliances, joint ventures and wholly owned subsidiaries, each of which has its own advantages and disadvantages (Lu & Beamish 2006). But exporting is still the primary foreign market entry mode used by small firms in their internationalization efforts presumably because it offers an effective means of international expansion without over-extending the capabilities or resources of the firm (Bradley et al. 2006).

For SMEs, internationalization is an entrepreneurial activity, and entering new geographic markets can be regarded as, on a large scale, the act of adopting new practices (Cheng & Yu 2008). But SMEs attempting to internationalize face a basic marketing dilemma—do they attempt to internationalize unaided or do they form a partnership with stronger firms in their business system that can help them. One such way is to internationalize as part of a supplier-customer network in partnership with established MNCs to respond to customer product and service preferences in myriad international markets (Bradley et al. 2006).

Motivations for International Expansion of SMEs

SMEs are increasingly internationalizing their business activities. The drivers for increasing involvement of them in the world markets, to name a few, have been the increasing competition in both domestic and foreign markets and the fast development of information and communication technologies. As a result of this rapid internationalization, managers of SMEs are facing challenges regarding how to enter countries which are, in many ways, different from the home country (Ojala 2008). But they can overcome the challenges and uncertainty of the complex internationalization process by cooperation.

Although SMEs are generally considered to be more risk-averse than their larger counterparts to adopt the new practice, which makes them less willing to go abroad, they also tend to react to the quests from external parties easily, which induces in them the need to go abroad. The environmental context that is a critical factor for SMEs most likely pushes them to initiate internationalization. It may be said, then, that the way in which a SMEs internationalizes is the result of the combination of its actual internal abilities and its leader's cognition of its external environment (Cheng & Yu 2008).

A major reason why the managers of SMEs internationalize is to pursue growth opportunities and they often collaborate for that purpose. These collaborative ventures are creating a shift in business relationships from a conflict mode based on competition to a collaborative mode. Presently, the trend is for management teams to concentrate on core competencies (Westhead et al. 2001) and potentially outsource those that do not provide a competitive advantage in order to increase agility and flexibility (Spence et al., 2008) and cover the uncertainty of the internationalization process (Fernández and Nieto 2005).

The International Expansion Process of SMEs

International expansion is an important growth strategy for SMEs when the scope of their business is geographically restricted. Some researchers have asserted that when SMEs initiate internationalization, they will tend, due to lack of resources and advantages, to export goods as their mode of foreign market entry. In addition, researchers have asserted that such firms will typically increase their international involvement through a series of carefully planned stages (Cheng & Yu 2008).

The operations in a foreign country are supposed to start by indirect entry modes, which do not require extensive knowledge about the environment of the target country and more commitment to the market. According to this, indirect entry modes increase a firm's knowledge about the target country and allow it to learn about how to deal with the customers in that country. Once the country has become more familiar for a firm, direct operations can start there (Ojala 2008). In this context, the typical stages of internationalization process for a small business include (Dollinger 1995):

1. Passive Exporting: The firm fills international orders but does not seek export business. At this stage, many small business owners do not realize that they have an international market.

2. Export Management: The owner or a specific manager specifically seeks export sales. Because of resource limitations, most small businesses at this stage rely on the indirect channel of exporting.

3. Export Department: The firm uses significant resources to seek increased sales from exporting. The key for most small firms is finding a good local partner for distribution.

4. Sales Branches: When demand for the product is high in a country, it justifies setting up local sales offices. Small firms must have the resources to transfer home managers to expatriate assignments or to hire and train local managers and workers to run these operations.

5. Production Abroad: Production moves a firm beyond downstream value-chain activities and allows them to gain local advantages. This is often a very difficult stage for small firms because the cost of a failed direct investment can put the whole firm at risk for survival.

6. The Transnational: Small size does not preclude a small business from developing a globally integrated network that characterizes the transnational corporation.

The movement through the stages of the entry process is intimately connected to the development of institutional knowledge, making it easier to develop customer relationships. As a consequence, the more relationships in a foreign country that have reached later stages, the more established and internationally experienced the firm becomes and the higher the degree of internationalization of the SME. And also the more countries in which the SME has established relationships, the more internationally experienced is the firm (Jansson & Sandberg 2008).

Advantages and Disadvantages of SMEs' International Expansion

Prior literature is in broad agreement that internationalization has a positive impact on firm performance. Drawing from the literature on international and global strategies, firms can have greater cost efficiencies primarily due to a greater volume of business and the ability to exploit economies of scale. An international firm also benefits from the diversity of environments it operates in. Thus it enjoys tremendous learning opportunities while satisfying the diverse customer needs and responding to different competitors in international markets (Pangarkar 2008).

The literature on the international entrepreneurship emphasizes the use of formal and informal relationships to penetrate and expand into foreign markets. According to this, the need to collaborate and to achieve an international presence has become a necessity, especially for SMEs, but the challenges encountered with such strategies are high as it is not uncommon to see high failure rates (Spence et al. 2008). In addition to this, when SMEs make their initial entry into international markets, they are especially prone to problems associated with the liabilities of foreignness and smallness, which may lead to poor financial performance and a variety of other concerns for managers (Bell 1995; Lu & Beamish 2001).

Although internationalization can be regarded as an opportunity-seeking choice on the part of firms, it may also represent a critical decision due to the costs and risks involved (Cheng & Yu 2008). Prior literature has identified the numerous constraints faced by SMEs in international expansion. Typically SMEs do not perform global scanning and hence might lack the information and managerial expertise necessary for exploiting the international opportunities. Buckley (1999) argues that, due to constraints of management time, smaller firms frequently take short-cuts in decision-making and information gathering, which can be disastrous.

Further, internationalization increases the requirements for coordination and communication among different units within the SME as well as other parties located in different geographic areas (Pangarkar 2008).

Many SMEs suffer scale and resource disadvantages compared to their global rivals, adversely impacting the likelihood of success of their internationalization initiatives (Pangarkar 2008). Compared to large firms, SMEs are less competitive; for instance, they may not be able to capture business opportunities due to inferior products, shortages of finance and limited administrative capacity (Jansson & Sandberg 2008). In addition, any foreign market initiative will take a larger proportion of resources of a SME than a large firm. In the event of failure of the particular initiative, the impact on a SME may be greater, which increases the risk levels of them (Lu & Beamish 2001).

Despite the constraints and challenges faced, SMEs are likely to enhance their performance through greater internationalization. And by becoming international, SMEs may be able to provide better service to their MNC clients and, in the case of foreign direct investment, avoid import tariffs (Pangarkar 2008). In this context, many approaches have been developed for examining the internationalization of SMEs (Saarenketo et al. 2004). One of them is the cooperative internationalization of small firms depends on an organization's set of relationships with partner firms rather than a firm specific advantage.

Cooperative International Expansion of SMEs

Organizations that seek to reduce costs, to respond rapidly to market demands and to build competitive advantages around their core competencies can not execute strategies without drawing on the skills and resources of other organizations (Lin & Zhang 2005). Thus in an environment characterized by globalization, new expectations from customers and changing competitivity criteria, many dynamic SMEs have opted to (Raymond & Blili 1997) cooperate with other firms to overcome these challenges, to avoid significant barriers to long-term success, to enhance their competitivity in the market and to reduce their environmental uncertainty.

The traditional internationalization theories suggest that the firm's international involvement increases in stages as a result of incremental learning. However, due to the key characteristics of SMEs, cooperative internationalization is becoming an increasingly important option for them. Thus for the small firms showing very rapid and intensive international growth that they would otherwise not be able to take on by themselves enabled (Saarenketo et al. 2004; Fink et al. 2008) by cooperation with other firms. Because partner firms provide useful information about business opportunities, characteristics, obstacles or problems that they face in the foreign market, the perceived risk for SMEs is lowered as a result.

In terms of research in this area, scholars have found that relationships are at the core of the internationalization process (Jansson & Sandberg 2008). In light of the relatively lower transaction volume of SMEs when compared to large companies, effective and efficient coordination mechanisms in the cooperative internationalization of SMEs are accordingly of particular importance. Indeed, the characteristics of SMEs create particular challenges in the internationalization process. But recently, cooperative arrangements have received increased attention as a means to meet these challenges (Fink et al. 2008).

Collaborative ventures can be formed for the purpose of gaining a significant presence in a new market, acquiring technology, enabling faster entry into the market and facilitating international expansion (Spence et al. 2008). Further, in the early phase of internationalization, SMEs gather more information about foreign markets through international strategic partners (Lee 2007). Thus in the environment that is characterized by speed, flexibility and innovation, cooperative internationalization plays an important role in the success of SMEs' business strategy.

Researches have shown that a significantly greater percentage of small firms are using cooperative strategies than are their larger counterparts (Steensma et al. 2000). Thus SMEs' international expansion is often dependent upon a myriad of agreements with firms from the same or unrelated industry sectors, suppliers, customers, competitors and public organizations (Spence et al. 2008).

SMEs can compensate for their liabilities of smallness through the establishment of inter-firm cooperations (Fink et al. 2008) that offer an effective means of internationalization for them in general (Fernández & Nieto 2005). Thus a promising way for SMEs that have a smaller pool of internal resources and knowledge to increase their global competitiveness is to form cooperative relationships with larger MNCs. Such arrangements allow them to reach global markets and to achieve economies of scale, by integrating into the value chains of the larger firms (Etemad et al. 2001). In addition to this, cooperative internationalization is a useful way for SMEs to access new opportunities, to reduce costs and allows them to compete more effectively with more powerful competitors in the foreign markets.

By joining competencies, cooperative international expansion requires a lower amount of internationalization know-how on the part of the partners than would be needed (Fink et al. 2008). Moreover, partnerships formed in order to ease entry into foreign markets are likely to increase the degree of internationalization of the firm (Reuber & Fisher 1997). Thus due to the attractiveness and importance of cooperative international expansion for SMEs, this special form of internationalization will be focused upon in this paper.

In this part of study, we focus on why and how the firms -which are located in different countries- engage in international operations? A network theory of internationalization suggests that firms achieve their competitive advantage by developing mutually supportive interactions with other firms (Westhead et al. 2001). So we will explain network organization theory shortly from the perspective of SMEs and then give an example from Turkey.

Strategic Cooperation of SMEs and Organizing Model for Entering Foreign Market: Network Organizations

SMEs give importance developing strategic cooperation and organizing model such as networking as a result of the new competition thought. Most of small firms have not enough competence, knowledge and sources to be alive. So they transfer the competence from the other firms and make strategic cooperative agreements. After transferring some sources from other the firms specializing on their core area (Christensen 1994; Esener 1997; Hamel & Prahalad 1995; Sanchez & Heene 1997; Quinn 1994; Ozgen et al 2003). Large organizations use size advantages although the small size ones use flexibility, lean and innovativeness. By developing strategic cooperation SMEs use large size advantages as well as small size. Network structure emerged as a result of strategic cooperation among different sized firms. There are some benefits of network form for SMEs such as creating value, competitive advantage, improving exporting, finding and serving new markets (Miles & Snow 1992).

The Structural Result of Being in Network Organization for SMEs: Sectoral Foreign Trade Companies Case for Turkey

In Turkey, SMEs motivated to exporting by the model of Sectoral Foreign Trade Companies (SFTC). SMEs take advantages of being in network type such as SFTC in Turkey after 1980s liberation period (Ozgen et al. 2003). In SFTC structure, there are many SMEs at the same production field being together and part of the same organizing model. The main aim of this model is to enter different world market. The most important advantages of this model are economies of scale and professional marketing activities in exporting for SMEs (Celik & Akgemici 1998). The role of SFTC is not only maintaining exporting activities but also developing new competences, socializing new business ideas to partners, creating trust, transferring knowledge between partners (Ozgen et al. 2003).

Conclusion

In today’s globalization era, complex business environment generates enormous challenges for all firms especially for SMEs that seek opportunities in foreign countries. But SMEs that face several constraints and risks in international expansion process can also benefit from internationalization in several different ways. Since international expansion is based on the capability of the firm to exploit its local advantages in foreign markets, the lack of strategic resources, the uncertainty and complexity of the process and smallness make international expansion a difficult goal to achieve for SMEs. In this direction many small firms choose to concentrate on their domestic market, neglecting opportunities of international markets. But in order to achieve successful international expansion, they may choose to cooperate with other firms to overcome certain traditional barriers, to facilitate demands of business environment of global markets and to gain and sustain the global competitive advantage.

Small businesses often do not have the inhouse resources to identify or go directly to foreign markets. Thus collaborative ventures may be attractive to the managers of SMEs who are interested in lowering costs, expanding what they offer to the market, getting access to additional resources, managing uncertain international environment, overcoming operational weaknesses, learning from partners and improving effectiveness in the market.

An organization’s growth largely depends upon its relationships with other organizations. In this context, to address competitive threats and concentrate on their core competences and strengths cooperative internationalization increases the success chance of SMEs. Thus cooperative internationalization that is the alternative choice for SMEs’ expansion in the new markets provides benefits for them to broad a product line or to develop new products, to acquire new capabilities and to reduce the threat of competition.

SME owner/managers cooperate with other firms for international expansion if they understand how to use this strategy in a practical way by avoiding potential obstacles to success. In this study, an extensive review of literature is made to identify the cooperative internationalization of SMEs. In this context, owner/managers of SMEs should give much more attention to the following issues for cooperating with other firms to internationalize their facilities and to compete successfully in the global arena:

- As they must be aware of the challenges of entering the international marketplace, SME owner/managers should analyze some important issues such as cultural characteristics, business environment and practices, politics and laws in the foreign country. And they should focus on a country where they believe the benefits of international expansion to be the strongest.
- SMEs that expanding their facilities abroad should gather and interpret information from its external environments and have strong ownership advantages if they are to successfully overcome the disadvantages of operating in host countries. In this context, managers should pay more attention to how and with whom cooperative relationships should be established and what management skills are required over time.
- Without appropriate capabilities and knowledge international expansion may not lead to better performance. Thus an important role of SME owner/managers is to build up their capabilities useful for internationalization process.
- SME owner/managers should pay more attention to the integration of systems, cultures, and individuals of the partner firms in the early phases of cooperative internationalization. In addition, they should have multicultural competence, use specific coordination tools to link together activities processed by different firms and to federate independent goals.
- SME owner/managers should be aware of mutual benefit is critical to maintaining the relationship at an appropriate level, focus on creating synergy and achieve win-win situation for both sides and an ongoing long-term relationship with partner firm.
- In order to cope with the complexity of internationalization process, partner firms should arrange detailed negotiations for determining the level of strategic and operational fit, managerial rules, the responsibilities of the partners and the management and term of the relationship.
- SME owner/managers should participate in goal setting and planning activities altogether for achieving the aims of better performance outcomes for international expansion and review the performance of relationship periodically.
- International expansion of SMEs by cooperating experienced partner reduces risk and uncertainty in the market. But SMEs should be more careful about choosing the right and non-opportunistic partner that has relevant resources and capabilities, because they have limited opportunities to fail.
- Cooperative international expansion requires building interpersonal relationships between the partner firms. Because good relations between partners build trust, facilitate harmonious relationships and lead to achieve strategic goals.
- SME owner/managers should be sensitive about the communication strategies employed in their relationships and give attention to the accuracy, timeliness, adequacy and credibility of information exchanged between firms. This behavior helps them to realize mutual benefits by reducing misunderstandings.
- The business environment in which SMEs have to operate has become increasingly complex, unpredictable and unstable. Thus they should be flexible enough to satisfy environmental needs and fit the dynamic requirements of the economic, social, cultural and industrial conditions of the international market.
- SFTC structure is an important advantage for SMEs for entering foreign markets (Ozgen et al. 2003). Because strategic cooperations provide SMEs to develop projects that are not done alone and solve the scale problems of small firms, owner/managers of these firms should choose the right expansion strategy with the right partner in the right time.

Cooperative internationalization that is the way of rapid internationalization for SMEs improves the competitiveness of firms by speeding up organizational learning, by providing access to external resources, by reducing risk and production cost, and by fostering rapid learning and change. In this context, SMEs that are characterized by limited resources may overcome their resource shortages, reduce strategic and environmental uncertainty and increase their viability in the foreign markets by cooperating with other firms. So this study suggests that despite the several constraints faced by them, for SMEs in a fiercely competitive environment, the best way to enter international market is to build cooperative relationship with the right partner at the strategic level.

The new developments in the world create an excellent opportunity to study the internationalization of SMEs, which is an underdeveloped area in international business research (Jansson & Sandberg 2008). In this context, this study provides a greater contribution to the understanding of the phenomenon of SMEs' international expansion by cooperating with other firms.

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