

International Business Strategy

Lecture Eight

Internationalization Process

Introduction

In our week seven, we covered international alliances as part of the answer to **HOW** to enter a foreign market. In this lecture we will look at how businesses internationalize. The context here being that of small businesses (SMEs). We will look at internationalization approaches and models as well as ways in which SMEs can cheaply get contacts internationally.

Learning Outcomes

1. Understand the process of internationalization.
2. Differentiate models of internationalization
3. Propose some of the cheap strategies SMEs can use to get international contacts

Small Businesses and their Significance

Definition of Small business (SMEs) as per United Nation quoted by Parboteeah and Cullen (2011) are those firms having less than 500 employees. The threshold of the number of employees may vary from country to country and organization to organization, but what is clear is the contribution that these businesses make to any economy and indeed the global economy. This contribution is more enhanced in developing countries where they are the main source of job creation and economic development. World Bank SME Finance, (n.d.) noted that SMEs represent 90% of businesses and 50% of employment worldwide. In the emerging markets 7 out of 10 new jobs are created by these SMEs, a clear indication of their place in any economy. Given this crucial contribution that they make, it is not surprising their interest in seeking opportunities outside their national boundaries. When venturing into the foreign markets, they can result in the same strategies as multinationals from the least one-export to the deepest one foreign direct investment.

Since they are small and often under the grip of their owner or founders, SMEs face different challenges from those of bigger multinationals. This lecture will investigate some of these as well as show how basic entrepreneurial strategies can help SMEs in taking their products or services into the global marketplace.

Internationalization of SMEs

The term internationalization in our context means the process through which a business increases its activities outside its country of origin. According to Parboteeah and Cullen (2011), SMEs have two main broad approaches to go international.

1. Incremental Approach

Here SMEs start as passive exporters where they are only seeking to fulfill orders that are coming their way. They are not actively marketing their products to foreign customers but only fulfill what comes their way. Later, when export demand grows, they consider establishing an export department or an international division which now focuses on foreign demand. Other strategies such as Joint venture and FDI, as we covered them in our earlier lectures follow. The typical stages for SMEs are as follows;

- **Stage 1:** Passive exporting- The SME only fulfills the orders it is receiving from foreign customers.
- **Stage 2:** Export management- Export is seen as an opportunity and a designated person is assigned the role
- **Stage 3:** Export department- There is significant resources dedicated to export and need to increase it
- **Stage 4:** Sales branches- The increased and often high demand for the SME's products in the foreign market justifies the establishment of a local sales office.
- **Stage 5:** Production abroad-The SME establishes local production unit to allow adaptation or efficiency.
- **Stage 6:** The Transnational: Here the SMEs establish themselves in more than one region adapting to the local needs.

This first approach is not only a choice for SMEs but also for large organizations because it reduces risk exposure, as they only move to the next stage when the current one has worked. It also allows them to build their expertise or advantage on an incremental basis.

2. Born Global

In a few instances a firm may develop a product that has demand internationally, therefore requiring it to go global immediately or rapidly. Such firms are referred to as global start-ups or born global firms. They are often very flexible and fast-moving firms and more common on technological fronts. The risks are higher in this approach compared to the traditional incremental approach. It works where the owners or managers have high international market knowledge mostly because they could have worked with a multinational. They are

also highly dependent on the personal networks of the founders to succeed in the markets where those networks are. The product or the services are highly differentiated or niche-market oriented.

Internationalization Models

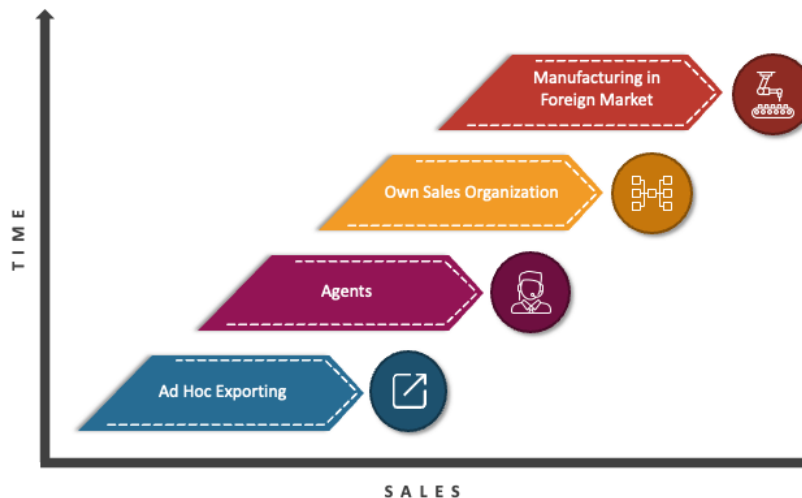
In this section, we will review different models used to show how businesses grow into international markets. The models are related to the two approaches we discussed in the foregoing section. They provide some routes that SMEs can use to venture into international markets. We look at three models but focus on two as born global was captured in the section above.

Uppsala-Model (U-Model)- The model was proposed by Johanson and Vahlne in 1970s. This proposes gradual expansion of international operations by the firm. It starts with export engagement, which could be incidental but allows for little information access about the foreign markets. This could lead to deliberate export mostly through an agent which accord the firm deeper market knowledge. This may lead to fully owned subsidiaries, which give full control of operations in the foreign markets. The model puts emphasis on experiential learning and how this helps to reduce uncertainty in foreign markets. It also suggests that firms will establish themselves in markets that are culturally and geographically closer before they can move to those that are a bit distanced and unfamiliar. The model is depicted in **figure 1** using two dimensions: Time and sales.

Figure 1: Uppsala Model

UPPSALA MODEL

Uppsala Internationalization Process Model Revisited



Source: <https://www.collidu.com/presentation-uppsala-model>

Network Model- The model puts emphasis on the power of networks and relationships in international business. Firms can utilize alliances, partnerships, and social networks to access foreign markets and/or resources. This networking allows the firm to overcome the cultural, language and institutional liabilities related to foreign market entry.

Born Global Model- The explanation is the same as given in the second approach.

How can SMEs develop Global Culture

Global culture occurs when the managers, founders, and employees view strategic opportunities as global and not just confined to their home markets. In SMEs this may not be fully there and therefore there is the need to develop it if they are to compete successfully in those markets. The key decision makers in such firms must get to the point where they believe national boundaries are not relevant and that they can do business anywhere in the world. The big question is, how do they develop such a culture? Here are some guidelines;

- Overcome the perceived psychological distance between home and foreign markets.

- Have managers/employees or founders who have international experience. This can be done through travel and exhibitions.
- Managers who are risk takers. To go international requires some bit of risk appetite, having a manager who is risk averse will be counterproductive.
- Having employees who have the right attitude toward international strategies and markets

When should a SME go International?

According to Parboteeah and Cullen (2011), the following questions are important when an SME is contemplating international markets.

- *Do we have a global or service?* For SME, due to limited resources, it would serve them if the product they have can be sold worldwide with minimal adaptation.
- *Do we have the managerial, organizational, and financial resources to internationalize?* Where some of these are available then the SME can pursue internationalization.
- *Are we willing to commit our resources to internationalization?* Here the question is about willingness to take the risk. Is the return from the foreign markets worthwhile?
- *Is there a country where we feel comfortable doing business?* Here the concern is about culture similarities, without the resources to understand cultural practices in many countries, an SME may establish itself in a market that has similarities.
- *Do we have a unique product that the big firms may not easily copy?* If your product or resources are rare, meaning the big firms will not easily copy, then the SME can venture in foreign markets
- *Can we afford to be multinational?* If there is pressure for the SME to internationalize such as declining home markets/demand or intensifying competition in the local market. If these conditions exist, the SMEs may resort to internationalization.

SMEs customers contact techniques

This section presents some of the possible low-cost strategies that SMEs can use to build their customer base.

1. **Trade shows:** Both national and international trade shows present an inexpensive way to get in contact with potential customers and business partners. These shows give business opportunities to display and showcase their products as well as their product catalogue. In most countries this is made possible by the chambers of commerce, Trade promotion agencies, or foreign ministries.

2. **Catalog expositions:** These are mostly done by embassies and consulates. Here the business does not have its products or personnel at the shows, only its products catalogs and sales brochures. Since a firm does not need to ship its products or send people to the show it is a very cheap way to get potential customers abroad.
3. **International advertising agencies:** Firms can also get in touch with agencies that are involved in international advertising who may specialize in certain products or markets. They are conversant with the local environment and the cost may be worthwhile.
4. **Government sponsored trade missions:** As we discussed in an earlier lecture, governments are at time interested in encouraging export from their countries, to achieve this they may promote local business or products through sponsoring trade missions in potential foreign countries.
5. **Direct contact:** Though not easy or cheap, a local firm could reach out directly to a potential alliance partner, distributor or customer.
6. **Web pages and electronic commerce:** In the current age and with technology, firms can utilize their webpage as well as social media to reach out to potential customers, funders, and partners. We have seen firms able to source and sell their products through e-commerce.



Source: android4stores.blogspot.com



Source: <https://editoy.com/posts/5592>

Entry Wedge for SMEs in a new Market

An entry wedge is a strategic competitive advantage that helps a business to break through an established market. It is a strategy to gain a foothold in an industry or market. The following are some of the options SMEs may have;

1. **First mover advantage:** Here the SME seeks to be the first one to introduce a new product or service in the market. Skype, Booking.com, and Spotify positioned themselves by being the first movers in telecommunication, travel and music industry. This continues to give them sustained advantages in their respective markets.
2. **Technological or innovation leadership:** The SME is the first one to introduce a new technology. Companies such as Airbnb, Tesla, and Uber managed to venture globally due to their disruptive innovations, this is the same fuel that has managed to maintain their sustainable competitiveness.
3. **Copycat businesses:** The me-too strategy can work in varying product or services. Here the SME find a small or slight way to vary their product or services from the existing businesses. Examples of firms that have successfully used this model include Flipkart the Amazon of India, the Didi Chuxing- the Uber of China and Tokopedia- the Alibaba of Indonesia.

Topic Recap

In this topic we have looked at internationalization from the perspective of SMEs.

We explored different approaches and model to the process.

We have also proposed different inexpensive strategies that SMEs can use to build international customer base.

Next topic we look at global marketing strategies that firm can use.

References

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