

Re-Conceptualizing Internationalization of SMEs as an Entrepreneurial Process

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Abstract: An international operation of firms which has intensified over the last few years, affects many activities of companies, irrespective of their size. While large enterprises are increasingly involved in cross-border operations, these operations and the process of internationalization present challenges and opportunities for the entrepreneurs and the development of small and medium-sized enterprises. Although, mainstream theories of internationalization and recent advances that link internationalization and entrepreneurship assume the importance of ‘opportunity’, however, there is a paucity of research that places ‘opportunity’ as the core process in internationalization. By embracing international market opportunity discovery as a key dimension, this study conceptualized internationalization as an entrepreneurial process: the process of opportunity recognition, evaluation and exploitation in international markets.

Key words: Internationalization, entrepreneurship, opportunity, SMEs, integration, process

INTRODUCTION

Existing theories of internationalization predominantly leave the issue of ‘opportunity’ and ‘seeing’ the opportunity at the periphery of their argument. But this is where the strength of an entrepreneurship lens lies. The internationalization process of SMEs differs from that of large enterprises. The Uppsala Model believes that the internationalization of the firm is influenced by knowledge, experience and psychically distant. It seeks to explain and predict in two aspects: the step-by-step pattern of institutional development within individual national markets and the expansion of firms across national markets as they move from nations which are proximal to those which are increasingly psychically distant. During the last decade a new phenomenon categorized as a born global firm has come to public attention, largely due to the changes taking place in the external environment over the last few decades. Yiu *et al.* (2007) argued that global competition is present in almost every market in the world. The reasons for this have been identified as a range of factors that includes falling trade barriers, deregulation and privatization, maturity in domestic markets, faster information flows, improved communication and transportation networks, social developments such as more homogenous consumer needs, tastes and values, globally standardized products, high technology investments that cannot be covered by sales in domestic markets only, combined with shortening product life-cycles, other economies of scale benefits, global sourcing of resources and ideas, globalizing competitors and competition and free movement of capital goods,

services and people. In my thinking, the change in environment has had a fundamental impact on the strategies of most firms in the world. The easier accessing of internationalization knowledge has shortened the psychically distant of entering into foreign markets. But for most of the SMEs, the role of entrepreneur has played a more important role in the internationalization of SMEs.

Consequently, the main purpose of this conceptual study is to discuss internationalization of SMEs as an entrepreneurial process in identify foreign market opportunities. This is because recent developments in the field indicate two trends. First, there have been multiple efforts to explain some of these gaps using an entrepreneurship lens (Oviatt and McDougall, 2005a, b; Jones and Coviello, 2005). This approach is logical because internationalization and entrepreneurship research share common themes including the adoption of innovation, risk taking, new market entry and their theoretical origins overlap (Jones and Coviello, 2005).

EXPLAINING THE INTERNATIONALIZATION OF THE FIRM

Research into the internationalization of firms has progressed since the 1970s with the process of internationalization being one predominant area that has attracted considerable early research interest. “Internationalization” has been widely used to describe the outward movement in firm’s international operations (Turnbull, 1987). Others have defined it as the process of increasing involvement in international operations (Welch and Luostarinen, 1988). Both definitions imply that internationalization is associated with increasing

involvement in foreign markets. However, sometimes in response to various factors, a firm will drop a product, divest a division, sell a foreign production plant or lay off people involved in their international operation. In short, internationalization can also take the form of de-investment. Although, there have been a number of attempts to synthesize the internationalization literature, a single, commonly accepted interpretation of “internationalization” is yet not to be found.

Traditional models explaining firm internationalization:

The principal traditional theories are usually divided into behavioral theories (stages theory and network approach) and theories that borrow their main concepts from the field of economics. The stages theories suggest that the international involvement increases in stages as a result of incremental learning. The most prominent formulation of stages approach, the Uppsala-Model focuses on how organizations learn and how their learning affects their behavior (Johanson and Vahlne, 1990). In stages theory, internationalization is being seen as an orderly process progressing from purely domestic operations via exports and foreign direct investments into full-fledged multinational business.

The innovation model describes internationalization as an evolution of a firm through distinct learning stages of increasing foreign commitment with the firm being initially disinterested but becoming engaged as an experimental exporter, developing over time into an active exporter and at a later stage into a committed exporter (Cavusgil, 1980). Further, underlying the Uppsala Model is the claim that internationalization is affected by the compatibility between a firm’s experiential knowledge and its resource capabilities as well as the perceived psychic distance of the potential foreign market (Johanson and Vahlne, 2003). The psychic distance concept was defined by a group of researchers in Uppsala in the early 1970s as: factors preventing of distributing the flows of information between firm and market. Examples of such factors are differences in language, culture, political system, level of education, level of industrial development, etc. (Johansson and Wiedersheim-Paul, 1975). The greater the psychic distance, the less likely that country will be selected as a target market.

The pattern is explained by the fact that firms enter markets with successively greater psychic distance. Other scholars support this view; they claim that managers who have little or no experience in international markets will initially expand their businesses into psychically close markets. Once successful, firms will pursue active expansion into more challenging and unknown markets

and become increasingly committed to international growth. Thus, according to the stages theory, foreign market commitment is composed of two factors: the depth of foreign market activity and the breadth of foreign market activity. Andersen notes that the Uppsala Model actually builds on the resource-based theory of the firm; increased market knowledge is supposed to lead to increased market commitment and vice versa (Andersen, 1997). It has been argued that the U-Model is weak, patterns of individual firms seem to be rather unique and situation specific. It uses only one explanatory variable (experiential knowledge) and hence is not likely to provide any sufficient explanation for a firm’s internationalization. Instead, it ends up being a mere description of a most typical sequence of internationalization. Furthermore, this approach stresses the inertial and reactive character of business organizations, neglecting the entrepreneurial strategic choice opportunities.

Rapid internationalization of SMEs: The stages framework, however, provides limited understanding of the internationalization of small firms as many must be international from the outset and may not be able to wait for stages to evolve. Research has identified an increasing number of firms which certainly do not follow the traditional stages pattern in their internationalization process. In contrast, they aim at international markets of maybe even the global market right from their birth. This has intuitive appeal especially in China and other places in the world. This kind of firms did not slowly build their way into the international trade which appears to contradict earlier studies on firms’ internationalization. Furthermore, international expansion through the conventional, incremental export development route is not the sole mode of international development for small high technology firms. There is evidence of an international orientation from the date they were founded, a rapid planned internationalization through several modes of market entry and a concentration on major markets through committed forms of entry strategy such as subsidiaries. Rapid change in the global business environment during the last few decades has had a strong impact on the internationalization process of most companies in the world.

During the 1990s a new phenomenon emerged as many small and medium-sized companies started a globalization process that deviated from the mainstream of traditional internationalization processes. These firms started their globalization immediately after establishment without any prior domestic operations of simultaneously with domestic business operations. Such companies have

also been named as born globals, global start-ups, high technology start-ups, international new ventures and instant exporters. The born globals is defined as companies that from inception seek to derive significant competitive advantage from the use of the resources and sales of outputs to multiple countries (Oviatt and McDougall, 1994).

The drivers of the internationalization of SMEs: The emergence of born globals is largely due to the changes taking place in the external environment over the last few decades. For all the factors driving the internationalization of born globals, the development of international market is an important inducement and the ingenuity of entrepreneurs is of a higher paramount. The rise of born globals may be attributed to at least three important factors: new market conditions, technological developments in the areas of production, transportation and communication and finally, competences of people including the founder/entrepreneur who starts the born global firm. All three factors are, however, interrelated (Madsen and Servais, 1997). Knight and Cavusgil (1996) present several trends which have given rise to the emergence of born globals:

- The increasing role of niche markets
- Advances in process technology
- Advances in communication technology which followed by the inherent advantages of small companies-quicker response time, flexibility, adaptability, etc.
- The means of internationalization-knowledge, technology, tools, facilitating institutions
- The trend towards global networks

One changing condition often mentioned is the increasing specialization and hence the number of niche markets seen as a consequence more firms producing very specific parts and components which they have to sell in the international marketplace, simply because domestic demand is too small even in large countries. Entrepreneurs in high tech markets may have to sell their innovative product worldwide. The other side of the coin is the fact that many industries are characterized by global sourcing activities and also of networks across borders. The consequence is that innovative products can spread very quickly to markets all over the world also because the needs and wants of buyers become more homogeneous. Hence, the internationalization process of subcontractors may be quite diverse and different from the stages model. In other words, the new market conditions pull the firms into many markets very fast.

Finally, financial markets have become international which means that an entrepreneur in any country may seek financial sources all over the world. These new market characteristics have not emerged by themselves, though. They have to a high degree been caused by some basic changes in technology. New production process technology implies that small-scale operations may also be economically sound; therefore specialization, customization and niche production are more viable alternatives in today's markets. Transportation of people and goods has become much more frequent, reliable and even cheaper than ever before; this means that cost barriers for an international approach have been removed. This is also a result of developments in area of communication; world markets have become more accessible at low cost by the use of fax machines, e-mail, etc. Day to day business can often be carried out in many countries from the same desk.

In the same vein, information about international markets may be collected, analyzed and interpreted from the very same desk. A final precondition for the changing market conditions and hence the rise of born globals is the increased ability of human resources to exploit the possibilities of the technological changes on the international markets. Basically the increased competences in this area are due to the fact that dramatically increasing number of people have gained international experience during the last couple of decades more and more student abroad, for example. Clearly, such mobility across nations, languages and cultures creates a much higher number of potential employees with a competence to communicate with, understand and operate in foreign cultures. Such capabilities are clearly a prerequisite for exploiting the opportunities offered by new production, communication and transportation technology.

Another effect of increased mobility and education across borders is that markets become more homogeneous. Therefore, the human resource side is certainly one of the driving forces behind the phenomenon of born globals. Especially, the past experience and present competences or ambitions of the founder of the born global firm should be taken much more into consideration. The background of the decision maker (founder) has a large influence on the internationalization path followed. Factors like education, experience from living abroad, experience from other internationally oriented jobs, etc., mould the mind of the founder and decrease the psychic distances to specific product markets significantly. The implication is that from the inception of the firm the founder may not see national borders as an obstacle but rather sees international

markets as open, waiting to be exploited. Hence, it is not necessarily so that the firm initially has to be engaged in a network which is primarily domestic. The previous experience and knowledge of the founder extends the network across national borders opening possibilities for new business ventures. In fact, the case of Born Global may be similar to the situation of “Late Starter” or the “International Among Others” (Johanson and Mattsson, 1988). In the latter situation both the environment and the firm is highly internationalized.

Use of multiple modes of entry at a point in time: Research shows that as an SME becomes more internationalized they will tend to use a wider array of entry modes and therefore developing a condition to operate with multiple modes (Welch and Luostarinen, 1988). The use of multiple modes of entry at a point in time including its additions and deletions is a form of change in internationalization behavior that has received scant attention in prior research (Petersen and Welch, 2002). The decision making in utilizing a particular mode of entry is not necessarily a stand-alone decision when a firm already has pre-existing international operations. However, both economics and process perspective has so far focused on “the choice of individual modes rather than the prospect of using a combination of modes in a foreign market at a point in time” (Benito and Welch, 1994) and that “each entry decision is made in isolation” (Kim and Hwang, 1992).

The Uppsala/Stages Model provides no theoretical justification as to how and why firms may use multiple modes at a point in time and this contradicts with the establishment chain logic. Nor does the Eclectic/Economic paradigm explain how and why firms could utilize internalization and externalization advantages at the same time when both are feasible. While firms may not make decisions in the rational manner suggested by the classic decision making models (Calof, 1993), the issue of rationality in decision making in mode change/addition/deletion is relatively unexplored. The Network Perspective also does not provide a rationale for this phenomenon because it does not focus on decision making logic in the mode choice. Petersen and Welch (2002) provide one of the most comprehensive reviews of the use of multiple modes of entry to-date and suggest that the use of multiple modes can take the form of:

- Unrelated modes (no connection between modes used within a foreign market)
- Segmented modes (use of multiple modes to serve different segments)
- Complementary modes (combination of modes to achieve the firm’s objectives)
- Competing modes (e.g., direct selling to end users and use of distributorship time)

Researchers argue that the way foreign operation mode change has been “relatively crude and bear little resemblance to the sophisticated explanation of the internationalization process that scholars have been developing” (Petersen and Welch, 2002).

EXPLAINING ENTREPRENEURSHIP

A number of definitions of entrepreneurship have been suggested: Kirzner (1994) views the discovery of opportunities as the core of entrepreneurship; Loane and Bell (2006) define it as the creation of new enterprises; Stevenson and Jarillo (1990) as the study of why how and what happens when entrepreneurs act and “pursuit of opportunities without regard to the resources currently controlled”; Lumpkin and Dess (1996) as new entry, i.e., entering new or established markets with new or existing goods or services by launching a new venture, either by startup or through an existing firm or via internal corporate venturing and Shane and Venkataraman (2000) define it as the study of the discovery, evaluation and exploitation of opportunities and who does this. This study adopts the definition put forward by Shane and Venkataraman (2000) and Stevenson and Jarillo (1990), particularly in relation to the ownership of resources involved.

There has been a shift in research emphasis in recent times, away from a focus on the characteristics of people and firms who act in entrepreneurial ways to one that focuses on the processes of entrepreneurship itself on opportunity recognition and exploitation. It has moved also from an economic rationalist approach that assumes perfect information, rational expectations and optimization as the determinants of entrepreneurship to a disequilibrium and behavioral approach which focuses on the understanding of how opportunities are discovered (Eckhardt and Shane, 2003; Shane and Venkataraman, 2000) and acted upon by people and firms (Shane and Venkataraman, 2000; Lumpkin and Dess, 1996). Despite there being no agreed definition of entrepreneurship, some common themes have emerged around the concept of opportunity as a central element in the process (Eckhardt and Shane, 2003). Opportunities are recognized by entrepreneurs in various ways that are not yet well understood and are acted on or exploited by the entrepreneur or by others to whom the opportunity is sold or transferred.

The role of entrepreneur in encouraging the internationalization of SMEs: The explanations for the accelerated internationalization of SMEs are numerous and include entrepreneurial vision and capabilities, prior foreign experience of entrepreneurs, emergence of global demands for goods and services that enables small firms to adopt an international perspective regardless of age

and size, the need to reach markets of sufficient size and exploit first-mover advantages and the ability to rely on international networks and strategic alliances. In my thinking, however, the entrepreneur is the key factor. Founders and managers with long international experience, good foreign language skills, international networks and excellent technological competence all reduce uncertainties in the international market place and thus decrease lateral rigidity towards globalization. Companies with founders and managers like these can rapidly enter more distant markets and do so with operation modes requiring more commitment. Moreover, the founders of born global companies also possess other characteristics vital for their companies' success. They are often entrepreneurial which can be seen in their flexibility and readiness for change.

The mindsets and attitudes of the managers of born globals differ from those of the managers of more traditional companies. These managers have a clear vision of their firm's global future and growth. They feel that the global markets are accessible; they are not limited by their national country borders and work proactively to create their own international opportunities. Furthermore in born global companies which are often small, the top managers usually meet with international customers and thus the role of individuals, rather than organizational routines is more important for decision-making than in larger companies. This is especially the case in the early years when the top managers are the founders and are almost inseparable from their firm. From the resource-based point of view, there are five factors encouraging some owner-managed SMEs to enter international markets. These are clear desirability of internationalization, general human capital sources, the principal founder's management know-how, the principal founder's specific industry know-how and a principal founder's ability to obtain financial resources that can act as a buffer against random shocks.

Clear desirability of internationalization: For successful internationalization enterprises, they all have the internationalization idea from the first day of their establishment. Entrepreneur's internationalization ambition has a tremendous influence to the enterprise internationalization. The entrepreneurs display the internationalization faith in any situation. The achievement of an international enterprise can't be manifested in short-term; it is also followed by all kind of risks. So, internationalization must be manifested in its long-term strategy and forms an atmosphere of pushing internationalization in enterprise. For example, Honda put forward a credendum in 1956 of "We must have the vision

of world field and produce products with excellent quality and reasonable price". The credendum of the most famous Japanese toy company TOMY is "Toys do not have national boundary".

General human capital: The principal entrepreneur can provide a firm with general human capital or resources, either in the form of the entrepreneur's own life experiences or education. Entrepreneurs with more diverse levels of human capital are purported to have the ability to develop relevant skills and contacts and are able to tap into dense resource and information networks. Education is related to knowledge, skills, problem-solving ability, discipline, motivation and self-confidence. Firms owned by principal founders who have been awarded a university degree generally have had their expectations raised. Further, more highly educated entrepreneurs have enhanced problem-solving skills. Due to wider social and business networks, they are more aware of business opportunities in foreign markets.

Management know-how: The central resource of a firm, the principal founder, can acquire resources using management know-how and the ability to identify appropriate partners, investors and advisors which can be nurtured to supply the firm with necessary resources. Firms with diverse management know-how may be able to introduce better human resource practices, undertake more promising competitive strategies and identify more promising market opportunities. Management know-how is form of social capital representing the no economic knowledge that has a direct impact on individual economic behavior. Principal founders drawn from business-owning backgrounds may in addition, be better prepared to face the market opportunities in domestic and international markets. Entrepreneurs who have held managerial or professional positions prior to start-up may, therefore, be more aware of the possibilities and practicalities of exporting sales abroad. The skills, competencies and networks accumulated during a previous business ownership experience can influence the decision to enter export markets. Habitual entrepreneurs who are more aware of potential market opportunities may seek to capitalize on their existing skills and competencies in new markets.

Industry-specific know-how: Previous experiences and beneficial close relationships can accumulate a principal founder's industry-specific know-how with specific customers, suppliers or shareholders. In addition, entrepreneurs with pre-ownership experience in the same industry as their current firm provide them with detailed

knowledge of the task environment. Industry-specific experience allowed entrepreneurs to become acquainted with a customer base locally, nationally and internationally and to develop more appropriate market niches. A positive relationship between entrepreneurs' prior experience in the industry with new firm success has been identified. Some principal founders are able to identify resources and market opportunities in foreign markets to ensure the survival and development of their ventures. Founders with limited information networks and exhibiting "satisficer" rather than "profit maximization" tendencies may prefer to service the needs of customers in local markets rather than export sales abroad. Firms owned by founders who perceive difficulties for their businesses in the future may also be less likely to risk the survival of their businesses by exporting sales abroad. In marked contrast, firms with previous experience and track record of profitability selling their products or services abroad will continue to seek market opportunities in foreign countries.

Ability to acquire financial capital: Firms in early stages of internationalization has more difficulties in obtaining the necessary funds for exporting their goods or services abroad. The availability of capital allows entrepreneurs to learn and overcome problems. In addition, more capital allows a firm to pursue a broader range of activities as well as more ambitious projects. Financial resources can be invested into capital-intensive projects that may enable firms to secure existing markets as well as enter new markets for the first time. Further, the financial barrier to exporting may be removed if a principal founder has been able to secure external sources of finance based on its experience.

International Entrepreneurial Orientation (IEO): Lumpkin and Dess (1996) based on Covin and Slevin's original conceptualization, identify five dimensions of Entrepreneurial Orientation (EO): autonomy, innovativeness, risk taking, proactiveness and competitive aggressiveness, beliefs, emphasis, past behavior and preferences at the top management and firm level. Knight and Cavusgil (2004) added an international context to this construct into international entrepreneurial orientation (i.e., IEO) and a new item 'whether the top management tends to see the world as the firm's market place. Kreiser show how the five dimensions of EO are linked to different aspects of a firm's activity and performance. Similarly, this study views that the dimensions of EO impact opportunity recognition in different ways. It proposes that three of the five dimensions of EO, innovativeness, autonomy

and proactiveness, drive opportunity recognition. Innovativeness is a firm's tendency to engage in and support new ideas, novelty, experimentation and creative processes that may result in new products, services or technological processes. It is a critical factor and in some ways it is an aspect of entrepreneurship rather than an antecedent that enables a firm to visualize, think and extrapolate new means ends relationships in international markets. Autonomy is the independence and freedom in bringing forth an idea or vision and carrying it through to completion. It is the precondition for creative decision making required to see new means ends frameworks in international markets. Proactiveness is a forward-looking perspective that accompanies innovative or new venturing activity (Lumpkin and Dess, 1996) and enables a firm to think and see new means ends frameworks ahead of others (i.e., recognition of international entrepreneurial opportunity).

The other two dimensions of EO affect the willingness and ability of people and firms to exploit (rather than recognize) new opportunities that have been developed. Risk taking is the predisposition to engage in risky business activity and the preference for bold versus cautious acts to achieve firm objectives. It is a prerequisite for entry into unfamiliar foreign markets with untried and untested new approaches where resources are at risk and expected returns are uncertain. Competitive aggressiveness is the firm's propensity to directly and intensely challenge its competitors to achieve entry to improve its market position or to outperform rivals in the marketplace. It drives the firm to enter new foreign markets. Prior research shows that IEO is an important predictor of born global firms (Knight and Cavusgil, 2004). However, there is a lack of further empirical studies that examine the role of IEO in the internationalization of firms in general and among born globals in particular.

International opportunity exploitation: Opportunity refinement/development is viewed as part of the opportunity exploitation process in which time and resources are committed to investigating and evaluating the opportunity until a decision is made to commit the firm to exploiting the international market opportunity. This can involve an incremental process of increasing commitment as reflected in the stage models of international market development. Search may start from the original opportunity recognized, i.e., known unknowns are identified and searched for including potential international counterparts and information about relevant markets and environments necessary to exploit an identified opportunity. This may uncover unexpected new information leading to further refinement of the existing

opportunity or the identification of other types of opportunities. For instance, a firm may seek other firms to offer a service/product to and suggest other types of problems or opportunities as relevant such as a proposed product or service more suited to another type of market or need. Thus, finding and acting on an opportunity leads to further problems, leading to further creative effort and opportunity recognition as a means of overcoming subsequent problems.

Opportunity exploitation involves a decision to act based on the opportunity recognized and refined. Refinement and exploitation fade into each other as any cognitive effort, commitment of resources and time based on the opportunity recognized including search, evaluation and exploitation, can lead to learning new things and feedback effects on earlier stages of the process.

Exploitation involves identifying, evaluating, accessing, creating and using resources to exploit the opportunity including all potential forms of international market entry. The existing resources and capabilities of the firm affect what it can do and see and its motivations affect how it evaluates alternatives. A firm can use and develop its own resources and capabilities, making do with whatever they have on hand, i.e., bricolage (Baker and Nelson, 2005) and/or access use and co-develop other firms' and other people's resources. The involvement of others not only augments internal resources but also reduces uncertainty as the firm co-develops the opportunities with others to improve their existing supply or to meet existing demands. It also creates potential problems because of conflicts of interests and perceptions. The process is partly creative and entrepreneurial in character as the firm does not know all that is required to exploit an opportunity when it begins. Nor does it know all potentially relevant partners; it still faces a condition of Knightian uncertainty. The process of exploitation continues over time and involves a mix of deliberate rational action and refinement of the initial opportunity as well as unexpected contingencies and feedback effects which shape the pattern of development over time. As a result the patterns of exploitation are strongly path dependent: history matters.

The act of exploitation leads to learning by doing and further search with possibly unexpected results as the firm interacts with others including actual and potential customers, suppliers, competitors and complementors and observes the consequences of their and others' actions. New knowledge is obtained and prior knowledge is confirmed or adapted. The outcomes of exploitation in the form of refinement and international market entry has

additional multidimensional feedback effects on the development and depletion of the firm's resources, network ties and on its attitudes and interests in international business and markets (its international entrepreneurial orientation). What and how a firm exploits an opportunity affects what it can see in the future what new types of information may come its way and the resources it has or can access or know about. The opportunities exploited by a focal firm, its network ties and the opportunities exploited by others, offer future potential sources of ideas, knowledge and resources which can be recombined, refined and exploited as future opportunities. Through retrospective sense making processes firms get better at seeing and formulating subsequent means-ends combinations. In other words, the firm does not know what they deal with until they see the outcome of what they do. Earlier acts of recognition and exploitation shape subsequent acts.

OPPORTUNITY IDENTIFICATION IN INTERNATIONAL MARKETS

Drawing on Shane and Venkataraman (2000) definition of entrepreneurship as well as on Eckhardt and Shane (2003) definition of entrepreneurial opportunity, internationalization can be conceptualized as 'the discovery, evaluation and exploitation of entrepreneurial opportunity in international markets. A review of the literature leads to the identification of various factors and processes underlying opportunity discovery, evaluation and exploitation in international markets. The first stage of literature review leads to the identification of three types of factors affecting opportunity recognition, i.e., prior knowledge, network ties and firm resources.

Prior knowledge: Prior studies have given scant attention to the process of opportunity recognition in international markets. Austrian economics argues that opportunities exist through market errors because knowledge is not equally distributed among actors in markets (Kirzner, 1994), i.e., information asymmetry (Hayek, 1945). People are able recognize opportunities because they have relevant prior knowledge that makes this possible while others do not (Venkataraman, 1997; Shane and Venkataraman, 2000). According to Venkataraman (1997), each person's idiosyncratic prior knowledge creates a knowledge corridor that allows opportunities to be recognized or not. In a study of technological innovations at Massachusetts Institute of Technology, Shane and Venkataraman (2000) showed that differences in prior

knowledge (i.e. of markets, ways to serve markets and customer problems) influenced who discovered entrepreneurial opportunities and that different entrepreneurs see different opportunities. Other scholars have suggested that profound market or technical knowledge is a prerequisite for new venture ideas.

Prior knowledge can be derived from various sources including objective and experiential internationalization processes rather than initial international market entry but the prior internationalization experience of people in a firm due to their working in other firms is relevant. Foreign institutional and business knowledge can be acquired through foreign language proficiency, overseas travel, living and work experience, education abroad and prior employment/business experience abroad. This produces what may be described as a person's international orientation or foreign orientation (Holzmuller and Kasper, 1990). International orientation and experience are forms of tacit, experiential knowledge (Penrose, 1959) of the type the Uppsala Model focuses attention on that reduce the perceived risk and uncertainty associated with entering foreign markets. The relevance of such prior experience and learning in speeding up overseas market entry by smaller firms has been well accepted by the born global theorists (Oviatt and McDougall, 1997).

Objective knowledge is acquired through standardized methods of collecting and transmitting information, i.e., market research, etc.; experiential knowledge is country-specific and cannot be transferred between firms or business units". Ericksson distinguish three types of experiential knowledge in an international business context: "experiential knowledge of clients, the market and competitors" (foreign business knowledge), "experiential knowledge of government, institutional framework, rules, norms and values" (foreign institutional knowledge), "experiential knowledge of the firm's capability and resources to engage in international operations" (internationalization knowledge). Internationalization knowledge would seem more important in explaining subsequent internationalization processes rather than initial international market entry but the prior internationalization experience of people in a firm due to their working in other firms is relevant.

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Another type of prior knowledge is the adaptation of prior technical knowledge for new uses (Venkataraman, 1997). While exaptation plays a critical role in the history of technological invention, adaptation of prior technical knowledge can play an important role in international opportunity recognition. Prior knowledge influences the way entrepreneurs comprehend, extrapolate, interpret and apply new information in ways that those lacking it cannot duplicate (Roberts, 1991). It helps entrepreneurs appreciate the value of new information. It influences individuals' willingness and ability to make new connections among pre-existing ideas as well as with new ideas, hence allowing them to recognize opportunities. Prior knowledge not only resides in the focal actors but also in the connected others and new actors when they are connected to the focal actors.

Network ties: Entrepreneurship is both an economic and social activity and social contacts often drive entrepreneurial activity. Society and business is characterized by information heterogeneity due to the specialization of people and firms in different types of activities, industries and locales (Hayek, 1945). Social and business networks extend the eyes and ears of a person or firm, providing a means of access to new and different types of information and ideas than would otherwise be encountered. They are also a means of accessing and co-producing resources required to further develop and exploit entrepreneurial opportunities and a means of spreading and managing the risks and uncertainties involved (*ibid*). The important role played by networks and social ties is well established in entrepreneurship research (Elfring and Hulsink, 2003). Research shows that they are sources of information or ideas that trigger entrepreneurial opportunity recognition, they reduce a firm's perceived risks of entering a new market through more trusted information sources and they are a gateway to resources. Thus, it is not surprising that entrepreneur's social networks are often considered the most significant resource of the firm (Johanson and Mattsson, 1988). The role of networks in foreign market selection and entry

indicates that international entrepreneurial opportunity development is a discovery process rather than one solely determined by strategic decisions, rational processes or systematic information gathering.

An individual's or firm's social and business network comprises both strong and weak ties. According to Granovetter (1973), "strength of a tie depends on the combination of the amount of time, emotional intensity, intimacy and the reciprocal services". Ties between diverse sets of people with infrequent, irregular, loose and non-affective contacts (Elfring and Hulsink, 2003) such as friends, friends of friends, casual business contacts, scientific community contacts and association memberships are examples of weak ties. According to Granovetter (1973), weak ties are more likely to be a source of new types of information. Most people have more weak than strong ties and weak ties can act as bridges linking networks with different types of information and ideas. Burt (1992), further developed Granovetter's theory by pointing out that it is not the strength of the tie that matters so much as whether they link different networks that are otherwise not connected or in his terms, they bridge 'structural holes.'

The role of weak ties as sources of international entrepreneurial opportunity recognition has some empirical support. The many studies that have been done over the years on why firms go into international markets has shown that unsolicited orders are an important trigger (Ellis and Pecotich, 2001). In a recent study, Styles and Ambler found that among 434 Australian and British exporters, 22% of exporters made contact with their overseas distributors through friends or other acquaintances while 21% knew the overseas distributor from a previous job or business. These accidental exporters were 'discoverers' of not searchers for international entrepreneurial opportunities. Similarly, Ellis and Pecotich (2001) show that weak ties formed as the result of cosmopolitanism of the decision makers, provide the necessary information for the discovery of international entrepreneurial opportunities and export initiation. Bell provided evidence for 'client followership' in the internationalization of high technology firms. In addition, networks were also found to play a role in influencing the location of internationalization (Johanson and Mattsson, 1988).

Hills *et al.* (1997) in a study on solo entrepreneurs versus network entrepreneurs, found that network entrepreneurs discovered significantly more opportunities. Lastly, in a study of the effect of the number of weak ties, Singh found that size of a social

network is significantly and positively related to the number of new venture ideas identified and the number of new venture opportunities recognized/discovered.

Firm resources: Resource-based theory is one of the most important theories that inform the theoretical development and empirical research in entrepreneurship (Alvarez and Busenitz, 2001) and international business (Peng, 2001). Barney (1991) defines resources as "all assets, capabilities, organizational processes, firm, attributes, information, knowledge controlled by the firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness". While Wernerfelt (1984) defines resources as "those assets that are tied semi permanently to the firm", resources may play two roles in entrepreneurship. First, they can act as a trigger to opportunity discovery in that they allow a firm to see a match between the resources it owns or are currently controlled by others which can be deployed to add value and create a market demand through which economic rents can be made. Second, resources drive a firm to exploit an opportunity. A firm may need to look beyond core strengths and capabilities that lead to domestic success as these do not always guarantee the ability to make a successful foreign market entry. Dealing with foreignness in international markets often requires additional resources that are unique, proprietary or inimitable to provide a sustainable competitive advantage (Barney, 1991).

Importance of entrepreneurial behavior and process-assumption of opportunity recognition and exploitation process: The three mainstream theories of internationalization assume the importance of business opportunities in international markets, however none of these perspectives directly addresses the process of opportunity recognition, evaluation and exploitation. Market imperfections, a core concept in the Eclectic Paradigm can be seen as important sources of opportunities. The motives for factor, market or technology seeking behavior are basically based on the assumption of opportunity located in a different geographical context. The Network Perspective assumes new international market opportunities and initiatives may arise anywhere in the network that in turn can lead others to recognize and exploit similar or linked opportunities that they might otherwise have remained blind to. The growth of market knowledge (i.e., the input) leading to gradual international market progression (i.e., the output) in the Uppsala Model assumes the importance of opportunity (i.e., the process). Johanson and Vahlne (1990) repeatedly used the word 'opportunity' in their

discussion of internationalization but did not provide an explanation of the opportunity process. They recognized that the opportunity side of the internationalization process is not very well developed (Johanson and Vahlne, 2006) and emphasize the importance of opportunity in the Uppsala/Process Model.

Despite this importance, very few studies focus on the international opportunity process. Likewise, the related body of literature that focuses on the theory of international new ventures (Oviatt and McDougall, 1994) also gives little attention to the process of opportunity recognition and exploitation. Studies of opportunity process have largely been the domain of entrepreneurship research in a domestic context (Dimov, 2007; Choi and Shepherd, 2004; Elfring and Hulsink, 2003; Shane and Venkataraman, 2000; Gaglio and Katz, 2001; Hills *et al.*, 1997). However, this is where the strength of an entrepreneurship lens lies as it places ‘opportunity’ as the core process in explaining the phenomena. A more in-depth understanding of the opportunity process underlying the mechanism of internationalization would help address the gaps in the literature as well as resolve the inconsistencies between the predictions of the existing theories, helping to advance our theories and research beyond the relatively simplistic ‘proactive vs. reactive’ and ‘planned vs. unplanned’ classifications of firm internationalization.

Integration of internationalization and entrepreneurship research streams: There are growing calls for research to integrate the internationalization and entrepreneurship research streams. The integration between the two research streams is a logical one as their theoretical origins overlap, particularly on three main theories: resource-based theory (Barney, 1991; Alvarez and Busenitz, 2001), transaction cost economics and internalization logic (Coase, 1937; Anderson and Gatignon, 1986), social network theory (Birley, 1986; Ellis and Pecotich, 2001). The two streams also share common themes including the adoption of innovation (Schumpeter, 1934), risk taking (Knight and Cavusgil, 2004) and new market entry (Lumpkin and Dess, 1996; Schumpeter, 1934). Jones and Coviello (2005) identified that the two research streams are unified by two fundamental elements: behavioral process associated with the creation of value by assembling dispersed information, resources and people to exploit an opportunity (Johanson and Vahlne, 2003) and time, through which and at which behavioral processes take place.

Recent developments in the internationalization literature reflect an integration of multiple theoretical

lenses in a manner that is pluralistic and holistic (Jones and Coviello, 2005), particularly the internationalization and entrepreneurship research streams (Loane and Bell, 2006). Despite the progress made to-date, there are methodological issues that challenge further development in the discipline as discussed in study. Methodological issues in internationalization and entrepreneurship research streams in a review of the ‘state of the art’ of international entrepreneurship methodologies, Coviello and Jones found that research that integrates internationalization and entrepreneurship was characterized by static, cross-sectional studies that do not incorporate time as fundamental to isolating key development in studies of internationalization and a lack of comparative research within and across sectors. They highlighted the need to better capture entrepreneurial behaviour and processes over time. In the words of Coviello and Jones “important yet harder to obtain data are generally lacking (e.g., research on complex entrepreneurial internationalization behavior over time), complex process are not captured, unless at a very narrow level.

CONCLUSION

Rapid change in the global business environment during the last few decades has had a strong impact on the internationalization processes of enterprises. Traditional internationalization theory believes that enterprises internationalize along certain ways to move into foreign markets. However, more and more fast internationalizing behaviors of SMEs are obviously different from what is described by the traditional theory. Though a range of factors cause the formation of enterprise’s instant internationalization, entrepreneurship has played a vital role in the enterprise’s internationalization advancement. Entrepreneur’s clear vision of internationalization, general human capital, management know-how, industry-specific know-how and ability to acquire financial capital are most important factors.

The continued emergence of international entrepreneurship as a field of study separate from international business and entrepreneurship has led researchers to take a closer look at the contributing disciplines and subsequently ‘flesh out’ the common ground, specifically between internationalization and entrepreneurship. McDougall and Oviatt in further research on the area have amended their definition of international entrepreneurship as a combination of innovative, proactive and risk-seeking behavior that crosses national borders and is intended to create value

in organizations.’ Such a definition indicates the acceptance of the link between internationalization as a firm-level undertaking which involves the crossing of international borders with identification of the characteristics of entrepreneurial orientation.

A further affirmation of the interface between internationalization and entrepreneurship uses the work by Covin and Slevin as a springboard. They assert that behavior is the ‘central and essential element in the entrepreneurial process’ and that an organization’s actions (or behavior) are what makes it entrepreneurial. Extending this analogy, examining the internationalization behavior of firms and identifying its entrepreneurial qualities would provide further unifying directions for international entrepreneurship research.

This study is of a great importance for both research in academia and managerial policy in sense that the internationalization of small and medium sized enterprises has increased substantially in the last few decades yet guidelines for practitioners for discovering, evaluating and exploiting opportunities in international markets are in short supply. Hence, studies that addresses or brings this topic into the mainstream research is vital to academics, managers and aspiring entrepreneurs with the outcomes making academic, managerial and policy contributions. The rise of so-called born global firms has challenged the validity of extant theories of internationalization, particularly the Uppsala Model. This has led to the emergence of the theory of international new ventures and the field of international entrepreneurship. However, there are inconsistent views as to whether firms follow an evolutionary or ‘revolutionary’ trajectory as portrayed by born globals. While the majority still maintain the contemporary view, a number of scholars have provided arguments and evidence that support the evolutionary nature of firm development (Bell *et al.*, 2001). This suggests that our theories and research have not sufficiently explained the underlying mechanism of internationalization. Therefore, more research is needed to better understand this important phenomenon.

Moreover, complete to partial de-internationalization (such as reduction of operations, switching to a mode of entry that entails a lower level of commitment or using more than one mode at any point in time or reduction of ownership or stake in a foreign venture) can be seen as ongoing processes that are part of the general entrepreneurial behavior and processes over time as firms seek to maintain the viability of their international operations. These ranges of behavior are related to the emergence/disappearance/re-appearance of opportunities and how firms act upon them. But our theories and

research are not designed to explain how change unfolds in firm internationalization histories. The central question then is: how do we explain the mechanism of internationalization that can account for various temporal and dynamic processes? One possible solution is found in the entrepreneurship research stream, particularly the opportunity discovery-evaluation-exploitation framework (Shane and Venkataraman, 2000). This framework is appropriate given the assumption of ‘opportunity’ in existing theories of internationalization and the role of opportunity development. Nevertheless, to-date the opportunity-based paradigm has only largely been the domain of entrepreneurship research in a domestic context. Therefore, applying the opportunity-based paradigm to internationalization is timely and will help fill the gaps and inconsistencies in the internationalization and international entrepreneurship literature. By understanding ‘opportunity’ as a core process in internationalization, this study is also important and timely for policy makers seeking to promote firm internationalization and the kinds of assistance that are appropriate for different firms in different contexts.

A review of the literature in internationalization has demonstrated that it is lacking a comprehensive framework for understanding the process and dynamics of firms’ internationalization over time. This research gap maybe attributed to the limited understanding of how opportunities and firms evolve and the methods applied in previous internationalization and entrepreneurship research. A review of the latest development in the field suggests two trends: that the study of internationalization is progressing towards a unifying framework that integrates multiple or holistic approaches and the growing recognition of entrepreneurship as an important theoretical lens to investigate the phenomena. A review of the entrepreneurship literature also suggested that it can contribute to theoretical development in internationalization in three respects. First, by developing a reconceptualization of internationalization as an entrepreneurial process, defined as the discovery, evaluation and exploitation of entrepreneurial opportunities in international markets. Second, through the identification of underlying factors and processes which influence the discovery-evaluation-exploitation process. Third, by focusing and tracing the development of opportunity and firms over time.

SUGGESTIONS

Hence, this study suggest to the prospective researchers to view internationalization of SMEs as an entrepreneurial process: the process of discovering and

exploiting opportunities in the international markets that consists of an outcome which is unknowable. Such a view should acknowledge that the discovery process and opportunity refinement/development is part of the exploitation process. The entire process could depend on a firm's starting conditions including its prior knowledge, how it is embedded in networks of relations with other actors (which both enable and constrain the firm's ability to discover and exploit international opportunities) and the firm's willingness to engage in international behavior involving the commitment of time and resources to international market opportunities with uncertain outcomes. Therefore researchers and practitioners should consider the integration of both internationalization and entrepreneurship theories in order to capture and understand fully how SMEs identify foreign market opportunities and internationalize their operations. This is logical since both disciplines share common themes including the adoption of innovation, risk taking, new market entry and their theoretical origins overlap.

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