

# **MAY SMALL AND MEDIUM-SIZED ENTERPRISES BE GLOBAL FIRMS? CONCEPTUALIZATION AND COMPETITIVE DETERMINANTS**

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## **ABSTRACT**

This research explores the characteristics, particularities and determinants of SMEs operating in multiple national markets. After contrasting characteristics of large multinational types with those of SMEs identified in the literature, it has been observed that there are two categories of SMEs that operate outside their home country: international and globally oriented. The globally oriented SMEs share some characteristics with both multidomestic, global as well as transnational large multinationals, while having their own particularities. The paper proposes a definition, a conceptual framework and conditions for a sustainable value-creation of globally oriented SMEs.

## **INTRODUCTION**

In recent years, Small and Medium-Sized Enterprises (SMEs) have increased their international activities, paralleling trends in market globalization (Loveman and Sengenberger, 1990; Cecora, 2000). By 2000, SMEs contributed between 25% and 35% of world manufactured exports and accounted for a smaller share of foreign direct investment (OECD, 2002: 66) The situation of SMEs facing globalization challenges has received increasing interest from academics and professionals as attested by the number of books, conferences, and papers dedicated to the topic (Luostarinen et al., 1994; Rommel et al., 1995; Simon 1996; Zahra, Kuratko, and Jennings, 1999; McDougall and Oviatt, 2000; Audretsch, 2003; Etemad and Wright, 2003).

However, Jones (1995: 116) observed that the majority of papers and books published “describe a number of factors contributing to ‘internationalization’ rather than ‘globalization’”. Several studies have focused on the identification of the process of SMEs internationalization, rather than globalization (Oviatt and MacDougall, 1997; McDougall, Shane and Oviatt, 1994; Etemad and Wright, 2003) and the conditions that facilitate it (Etemad and Wright, 2003). However, other studies have identified an increasing number of SMEs doing business in many countries (Etemad and Wright, 1999; Julien, Joyal, and Deshaies, 1994; Julien, 2000; Simon, 1996), that is, a trend toward globalization. Despite the interest in the place of SMEs in the global marketplace, the concept of global SMEs is, with few exceptions, confused with that of international SMEs (Graham, 1999; Palich et al. 2003). This leads us to consider two categories of SMEs operating outside their home county: the international and global (Birkinshaw, Morrison, and Hlland, 1995: 638 for further discussion).

Academics and practitioners also observe that little has been done to help the managers of SMEs to move successfully from the local to the global marketplace (Agmon and Drobnick, 1994). Yet, in the new integrating global environment, Etemad and Wright (1999: 4) affirm: “entrepreneurs and emerging businesses must learn about global business to thrive alongside larger firms already in the international marketplace.” SMEs need sound conceptual frameworks that may facilitate decision making for successful actions in the global marketplace.

In the last two decades, the concept of a global multinational has been examined and re-examined in the context of large firms in numerous studies (Tallman and Fladmoe-Lindquist, 2002). Topics frequently scrutinized include typologies based on the value chain, configuration and coordination issues, role of overseas assets, and the development and diffusion of knowledge (e.g., Bartlett & Ghoshal, 1989; Porter, 1986). Some typologies have even been empirically tested and determinants of their different categories have been identified.

Despite this development however, the majority of scholars of SMEs seem uncomfortable with these typologies and are either using only the concept of “international business” or other concepts such as “world class SME” (Julien 1994), “globally oriented SME” (Nkongolo-Bakenda, 2003a), “SME under globalization” (Knight, 2000), “hidden champions” (Simon, 1996), “small and medium sized transnational corporation” (Wong and Ng, 2002; Fujita, 2003) and so forth. All SMEs operating on the international market do not have the same behavior or scope of activities (Julien, 2000). This suggests a need for clarification and classification of SME’s international strategies, and a need to identify the dimensions and driving forces of SMEs which are not only international, but are operating in multiple markets, sometimes in competition with large global and transnational firms.

This study contributes to closing this gap by identifying the major dimensions and driving forces of SME globalization. In addition to this introduction and the conclusion, the paper has five parts. The first presents states the methodology. The second offers the conceptualization of global multinationals. In the third part, empirical studies related to SMEs that have extended international activities are examined. Drawing on findings in these studies and referring to frameworks for large global multinationals, a conceptual framework for a globally oriented SME is presented in the fourth part along with related propositions. Finally, the fifth

part discusses the strategic actions that can facilitate wealth creation in these globally oriented SMEs.

## **METHODOLOGY**

This conceptual research is based on an extensive literature review pertaining to large global firms and SME's with significant international or global activities. These two groups of studies identify similarities and differences of major characteristics of global firms. Their analysis allows us to identify patterns or clusters of processes/characteristics that differentiate global SMEs from large global firms and from SMEs whose international activities are not global in scope. A framework of competitive determinants of globally oriented SMEs is developed and propositions for success are presented.

To identify papers examined on SMEs globalization, the following databases are employed: PROQUEST, ASAP expanded, JSTOR, and EBSCO on October-November 2003. We used successively the following search keywords for full texts from refereed journals: "globalization and strategy", "globalisation and strategy", "globalization and small firm", "globalization and small enterprise", "globalisation and small firm", "globalisation and small enterprise". After each search, the abstract of each paper was examined to determine if it dealt with the conceptualization of the concept of globalization. Papers related to large firms were retained only if they examined conceptually or empirically the definition of the global firm. Papers related to SMEs were retained if they were concerned with the impact of globalization on SMEs, even if the main focus was the internationalization process. From papers identified, we used a snowball process of identifying other papers referenced and for which it was possible to access to full text.

Identifying studies dedicated to globalization of large firms was facilitated by the existence of recent and extensive reviews. That is why only papers dealing with conceptualization of global firms have been chosen and examined. This facility did not exist for studies related to SMEs.

### **Conceptualization of globalization in large firms**

In the two last decades, some studies have presented typologies and prescriptions for multinational firms facing market globalization. The majority of typologies were published in the 1980s. Those most frequently mentioned in literature include Perlmutter (1969), Porter (1986), Prahalad and Doz (1987), and Bartlett and Ghoshal (1987, 1989). Two extensive literature reviews have been carried out on the typologies suggested by scholars (Zou and Cavusgil, 1996; Harzing, 2000). According to Harzing (2000: 103), "all authors implicitly or explicitly refer to a continuum of integration/coordination/globalization advantages versus differentiation/ responsiveness/localization in describing their strategies". Bartlett and Ghoshal (1987, 1989) for example distinguished four types of large international companies: multinational, global, international and transnational. Harzing (2000: 103) observed that three types of multinationals were found in every study examined, even if the labels used were different: multidomestic, global, and transnational. A multidomestic strategy combined low integration and high responsiveness whereas a global strategy combined high integration and

low responsiveness and a transnational strategy combined high integration with high responsiveness. Like Harzing (2000)'s study, other studies have identified the characteristics and empirically tested the determinants of these types of large multinationals (Roth and Morrison, 1990; Kobrin, 1991; Meng Leong and Tiong Tan, 1993; Johansson and Yip, 1994; Birkinshaw, Morrison and Hulland, 1995; Zou and Cavusgil, 2002; Wasilewski, 2002 ). The following determinants have been identified for the global type of multinational: intensity of international activities, product standardization, marketing standardization, country comparative advantage, organizational structure, managerial practices, and strategic actions. These determinants are presented in Table 1 with a few comments related to SMEs.

**Intensity of international activities:** The intensity of international activities is the first determinant identified among characteristics of global firms. It has been frequently measured by the diversity of foreign countries in which is conducted business and by the quantity of foreign sales. Some studies have used qualitative indicators to measure the diversity of foreign countries. Ohmae (1985), for example, has suggested that the firm should be able to compete successfully in the triad area (North America, Europe, and Asia) where the level of competition is high. Other studies have considered only the number of foreign countries where the firm is doing business (McNaughton, 2003).

The quantity of foreign activities has been measured by the percentage of the company's foreign sales (Johansson and Yip, 1994). However, some researchers consider that a global strategy is based not only on the export, but also on the high level of foreign investment with extensive coordination among subsidiaries (Young, 1987). Kobrin (1991), for example, considered the degree of transnational integration as the relative volume of intrafirm resource flows and assumed that "the greater the proportion of intrafirm trade of all of a MNC's international sales, the greater the degree of transnational integration". This conception of international activities of the global firm leads to the determinant of structure discussed hereafter and raises some concerns for some SMEs as they concentrate manufacturing and major managerial activities in the home country and export their products in multiple countries using different types of networks (Holmlund and Kock, 1998; Chetty and Campbell-Hunt, 2003a). For example, Holmlund and Kock (1998: 54) found that agents and own salesmen were the two far most important operational modes chosen by Finnish SMEs to export to the 15 most important markets.

**Standardization of product and market:** The second and third determinants identified for a global firm are tied together and are related to the standardization of the product and the market. The main idea behind these determinants is that global firms take advantage of relatively homogeneous needs in different countries. Thus, these firms sell relatively the same product with minor adjustments in different countries and use relatively similar promotional and advertising campaigns across countries (Baalbaki and Malhortra, 1993; Zou and Cavusgil, 2002). With respect to SMEs, the product and marketing standardization raises the question of hypercompetition between players (Harvey, Novicevic, and Kiessling, 2001). SMEs have to compete with firms with greater resource endowments. Thus, survival of these firms will depend on the possession of a proprietary product or service that large firms are missing, or on the fact that they concentrate on small market size that are not profitable for large firms.

**Country comparative advantage:** The fourth determinant is related to the comparative advantage of the country such as the sophistication of home demand, the presence of factor-creating mechanisms, the abundance of resources, the image of world-class related and

supporting industries (Dunning, 1997; 1998). Birkinshaw, Morrison, and Hlland (1995) found statistically significant the impact of the differential comparative advantage on global integration. Johansson and Yip (1994) also found strong support for their hypothesis of national impact on globalization. This suggests for example that SMEs receiving support from the government will likely be more globally oriented than those that do not receive such support (Christensen, 1991).

**Table 1: Determinants of global firms identified in literature**

Determinant	Kobrin (1991)	Johansson and Yip (1994)	Zou and Cavusgil (1995, 2002)	Birkinshaw, Morrison, and Hlland (1995)	Comments for an SME
1 Intensity of international activities	Internationalization (control)	Market drivers (industry globalization)	Global market participation		Increasing intensity of export activities by SMEs observed in recent years.
2. Product standardization		Product/service standardization (globally integrated strategy)	Product standardization	Market standardization (-)	Standardized product and marketing well adapted for a low manufacturing cost and low requirements about information. But the likelihood for a large market attracts more competition.
3. Marketing standardization	Advertising intensity	Cost drivers (industry globalization)	Uniform market program		
4. Country comparative advantage		Nationality		Country comparative advantages	Support by the home country is a key.
5. Organizational structure	Manufacturing scale (less important)	Organizational structure	Concentration of value adding activities	Scale economies	Centralized structure with production in the home country. Less opportunities for economies of scales.
6. Managerial practices		Management processes	Co-ordination of value adding activities		Flexibility, use of new organizational forms, and innovation observed is some SMEs.

7. Strategic actions	Technology intensity		Integrated competitive moves	Global competitive actions	SMEs have to find out new ways of doing business to face new competitive challenges.
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Organizational structure: The organizational structure of a global firm, the fifth determinant, is characterized by the existence of one global head office (centralized authority), a concentration of value adding activities in some countries to take advantage of scale economies, and low costs or high quality of labour (country comparative advantage discussed earlier). Kobrin (1991: 21), for example, has measured the index of global integration as the “proportion of international sales that are intrafirm” or the relative volume of intrafirm resource flows. However, Kobrin (1991)’s findings indicated that economies of scale were not a determinant of the global integration. Nevertheless, Birkinshaw, Morrison, and Hulland (1995) have observed in a more detailed study that economies of scale were a significant driver of global integration only in three industries (out of the seven observed), namely the mining machinery and equipment, the semiconductors and related devices, and aircraft engines and parts. The two studies by Kobrin (1991) and Birkinshaw, Morrison, and Hulland (1995) have found a very strong positive relationship between technological intensity and transnational integration. With respect to SMEs, the existence of centralized direction is a natural characteristic of organization, due to relative size. Also, instead of necessarily establishing subsidiaries abroad, some SMEs prefer using partnerships with other firms (Forrest, 1990; Hara and Kanai, 1994, Kaufmann, 1995). But these partnerships need to be managed with caution as they put at risk the autonomy of an SME (Olleros and Macdonald, 1988; Larson, 1992; Oakey, 1993; Nkongolo-Bakenda, 2001).

Managerial practices: The sixth determinant of the global firm is related to innovative managerial practices such as global budgeting, global group meetings, cross-country coordination devices, global performance review, and global country coordination. Small and medium-sized firms have been found to have strengths in their close relationships with consumers, their shared vision, their low bureaucratic organization, and their high level of entrepreneurial and dynamic spirit (MacMillan, 1975; Rothwell and Zegveld, 1982; Rothwell, 1986; Nooteboom, 1994). However, conflicts may sometimes rise between the teamwork management style and a one-man orchestra style frequently adopted by some SMEs’ owner-managers.

Organizational processes: The seventh determinant of a global firm is related to strategic processes that firms undertake to face the challenges of the global marketplace. A firm’s flexibility is considered one of the most consequential factors for worldwide success or failure in the global environment. Kogut (1989) contends that the firm’s operating flexibility rests not only on exploiting differentials in factor, product, and capital markets, but also on the transfer of learning and innovations throughout the firm. Kiernan (1993) identified the following elements as being key determinants of competitive success, and therefore flexibility, in the twenty first century: organizational learning, innovation and experimentation, constructive contention, empowerment, optimized value potential, sustainability strategy, and strategic reframing. Hitt et al. (2001) and Ireland et al. (2001) have identified the following six domains as critical to a firm’s effort to create wealth in the new business environment: organizational learning, innovation, external networks, internationalisation, top-management team, and growth. Although growth may be considered as an indicator of performance, the two other remaining aspects are part the other determinants, namely, the intensity of international activities and the managerial practices of the global firm.

In addition to factors already mentioned, one should also consider environmental scanning. According to Vernon-Wortzel and Wortzel (1997), in the information age, scanning the business environment has become an important component of competitive advantage. Some studies have asserted that the strategic flexibility of a firm is dependent upon its abilities in scanning, organizational learning, networking, and innovation (Porter, 1991; Hitt, Keats, and DeMarie, 1998). Scanning deals with the search for and use of information about the business environment. Organizational learning focuses on the acquisition and use of competencies by human resources. Networking addresses the way the firm establishes inter-firm ties to increase efficiency. Innovation is related to the firm's ability to introduce or adopt new technologies, new products, and new managerial practices to keep its edge over the competition.

Scanning, organizational learning, innovation, and external networks present particular challenges for an SME with respect to the worldwide area of activities and the relatively limited resources.

### **Empirical evidence of globalization in small and medium-sized firms**

Studies on small firms facing globalization challenges are most often concerned, with few exceptions (Chetty and Campbell-Hunt, 2003a; Matlay and Fletcher, 2000), with the impact of the new environment on SMEs. As indicated by Audretsch (2002: XIII-XIV), globalization has affected SMEs by facilitating transnational activities and by increasing the firm's role related to the shift in the source of competitiveness toward knowledge-based economic activity. The main topics covered in these studies are related to SME's internationalization intensity, opportunity to decrease the time frame to export, opportunities to overcome their relatively limited resources, and their relative competitive strategies and position in the new environment. Table 2 presents concepts related to globalization in studies identified after the procedure explained above<sup>1</sup>.

Do extended international activities lead to higher profitability of SMEs?

Two studies (Lu and Beamish, 2001; Majocchi and Zucchella, 2003) that focused on internationalization intensity observed that the SME's export intensity (ratio of export sales to total sales) has a negative and linear relationship with performance unless certain conditions are met. The relationship was found to be positive when the mode of entry has been appropriate to the nature of the SME and to its product requirements. These two studies found that initial FDI (foreign direct investment) had a negative relationship with the firm's performance, but that a higher level of FDI had a positive relationship with performance. Further, the relationship between FDI and profitability was positive when FDI followed a high level of exports (Majocchi and Zucchella, 2003) or when the level of FDI was increased to five countries or more (Lu and Beamish, 2001). A positive relationship between internationalization intensity and profitability was also found higher when the scope

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<sup>1</sup> We have limited our review to studies, which address the concept of globalization or equivalent. For an extensive review of studies on the internationalization of SMEs, see Coviello and McAuley, 1999 and Fillis, 2001.

of country diversification was oriented to global markets rather than to neighboring countries.

Also, Chetty and Campbell-Hunt (2003a) found that globally oriented firms manufactured their products in the home country and exported through direct representation when the product was highly technical. But when the product required after sale service and site-specific customization, New Zealander SMEs preferred exporting using networks of indirect representation through local distributors. Brouthers and Nakos (2004) found that SMEs preferred equity modes of entry when assets specificity was high or when the firms had internal control mechanisms. Otherwise, the firms used non-equity modes of entry. This research has also found that the use of an appropriate mode of entry with respect to asset specificity and internal control mechanisms led to higher performance. These findings could explain why Preece, Miles, and Baetz (1998) did not find a significant relationship between alliances and export intensity or global diversity of early stage technology-based firms, as they did not take into account the technical or service requirements of the product.

The knowledge and competencies of owner managers and skills and development of human resources were mentioned by the majority of respondents as one of the internal forces in a survey designed by Matlay and Fletcher (2000) to identify the driving forces affecting the globalization tendencies of small business managers. Many other studies have also identified the manager's international skills and experience as important factors of an SME in its international activities (Reuber and Fischer, 1997; Westhead, Wright, and Ucbasaran, 2001; Manolova et al., 2002).

It should be noticed that it is not just knowledge in international business that is important, but also social and professional networks acquired in different parts of the world. Such competences can also come from the personal itinerary of the manager as in the case of Chinese immigrants observed by Wong and Ng (2002). These authors have examined transnational smaller firms created by Chinese immigrants in Canada. These firms were different from traditional ethnic enterprises. According to these authors (p. 509), these firms were:

“a mixture of types of businesses including those with Asian production and North American distribution, retail chains and the traditional import-export. Their spatiality and interethnic organization often includes co-ethnic family partners in two to three geographic sites spanning national borders. Thus, transnationalism itself is an ethnic business strategy connecting Canada with places such as Hong Kong, China and Taiwan. While de facto there are strong Asian connections in terms of business associates for these transnational small businesses, they rely considerably less on co-ethnic Chinese as business contacts and as clientele when compared to non-transnational small Chinese businesses in Canada.”

**Table 2: SME's studies related to the conceptualization of a global firm**

Topic	Concepts of interest	Sample of studies	Aspects examined
Internationalization intensity	<ol style="list-style-type: none"> <li>1. Export intensity (ratio of export sales to total sales)</li> <li>2. Export diversity (number of countries)</li> <li>3. Networks and alliances</li> <li>4. Foreign direct investment</li> <li>5. Global niche approach</li> <li>6. Proximity niche approach</li> <li>7. Regional approach</li> <li>8. Value creation (performance)</li> </ol>	Preece, Miles, and Baetz (1998); Lu & Beamish (2001); Majocchi & Zucchella (2003); Chetty and Campbell-Hunt (2003a&b)	Internalization intensity and profitability. Globalization and profitability. FDI and profitability, Alliances and profitability.
Scope of the market	<ol style="list-style-type: none"> <li>1. Proximity versus global niche approach</li> <li>2. Regional versus global approach</li> <li>3. Domestically-oriented versus globally-oriented</li> <li>4. Small transnational enterprise</li> </ol>	McDougall (1989); Roth (1992);Julien (2000); De Chiara and Minguzzi (2002); Wong and Ng (2002); Majocchi & Zucchella (2003); Chetty & Campbell-Hunt (2003a); Nkongolo-Bakenda (2001; 2003)	Identification of alternate configurations. Coordination patterns. Attributes of globally-oriented SMEs.
Time frame to export	<ol style="list-style-type: none"> <li>1. Born-global</li> <li>2. Global-start-up</li> <li>3. Instant exporter</li> <li>4. International new venture</li> <li>5. Born-again global</li> </ol>	Rennie, 1993; McDougall, Shane and Oviatt, 1994; Knight and Cavusghil, 1996; Madsen and Servais, 1997; McAuley, 1999; Harveston, Kedia, and Davis, 2000; Bell, McNaughton, and Young, 2001; Rasmussen, Madsen, and Evangelista 2001; Moen and Servais, 2002; Moen, 2002; Spence, 2003; McNaughton, 2003; Bell et al., 2003; Andersson and Wictor, 2003.	Identification of born global firms. Identification of born-again firms. Attributes of born-global firms. Drivers of born global firms. Conceptual frameworks of born global firms.
Competitive strategies and	<ol style="list-style-type: none"> <li>1. Networks</li> <li>2. Scanning</li> </ol>	Simon (1992); Julien (1993); Julien, Joyal & Deshaies	Importance of networks. Appropriate practices to

relative competitive position	<ul style="list-style-type: none"> <li>3. Organizational learning</li> <li>4. Global focused strategy</li> <li>5. Lean firm</li> <li>6. Hidden champion</li> </ul>	<p>(1994Lindell and Karagozoglu (1997); Karlsson and Ahlstrom (1997), Julien, 2000; Nkongolo-Bakenda (2001; 2003); Chetty and Campbell-Hunt (2003a&amp;b)</p>	learning, networking, scanning, and manufacturing.
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In short, findings in these studies suggest that the intensity of internationalization (in terms of export sales and number of foreign countries where the SMEs sell products) can lead to higher performance under some conditions. Among the conditions, these findings highlight the experience and skills in international business, the availability of tangible or intangible distinctive resources, and a judicious choice of mode of entry appropriate to the type of product or service to be exported. But globalization is not only exporting, it is also related to the scope and the level of competition in the markets where the firm is exporting (Ohmae, 1985).

How important are scope and level of competition for SMEs? A few studies have examined the scope of the market of SMEs in the global context. Knight (2000: 29) found that "SMEs that respond to globalization and prepare in advance to enter the foreign markets tend to enjoy better performance." Chetty and Campbell-Hunt (2003a) have compared New Zealanders SMEs using a global approach (active in multiple countries up to 60) to those using a regional approach (activities not extended far beyond Australia and New-Zealand). This research found that the globally oriented SMEs adopted one of three approaches or a combination. Some developed an innovative product with a global potential and some of these SMEs had abandoned other lines of products in order to focus energies on the global product. Other SMEs were focused on the needs of particular market segments in order to serve these markets wherever found in the world. Still others focused on a particular stage in the value chain where they developed distinctive advantages. The product manufacturing was concentrated in the home country and the firms used direct, indirect or mixed strategies to expand the markets. By contrast, regionally oriented firms had a broad line of products, used offshore and home country manufacturing strategy and expanded their markets through direct investment.

Roth (1992) identified five clusters of medium-sized firms competing in global industries. The first cluster included firms in which primary and support activities were maintained within a single country while the marketing and sales activities were located in multiple countries. The second, third, and fourth clusters were characterized by the dispersion of almost all of the activities in multiple countries, but coordinated, either globally (e.g., product and process innovation in cluster 3), regionally (e.g., product innovation, marketing, sales, finances, and accounting in cluster 4), or nationally (e.g., product and process innovation and finances in cluster 2). The fifth cluster included firms whose support activities were concentrated while the primary activities were dispersed and coordinated globally.

Julien (2000) has also identified five categories of SMEs facing globalization challenges. The first category included locally competitive SMEs operating in a very specific local market or protected from international competition because of its location. The second category included SMEs that imported inputs but targeted local or national markets. The third category was that of SMEs whose inputs were locally made, but the outputs were dedicated to foreign markets. The fourth category included SMEs importing inputs and exporting outputs to foreign markets. The fifth category was composed of SMEs importing inputs and exporting outputs to foreign markets using networks.

In conclusion, studies related to the scope of the market found that globally oriented SMEs had a specialized product that was generally but not necessarily

manufactured in the home country and sold in foreign countries through partnerships, representations and, sometimes, subsidiaries. As a result, dispersion of subsidiaries in different countries and the intra-firm flows of services generally observed in large firms are not necessarily required (Kobrin, 1994). Globally oriented SMEs use more focused strategies for their outstanding products or services and use less foreign direct investments than regionally oriented SMEs and large multinationals (Dunning, 1998). Therefore, what are the major characteristics of SMEs doing business in multiple countries that this paper calls “globally oriented SMEs” (GOSMEs)?

Attributes of GOSMEs can be deduced from results of some studies. Preece, Miles, and Baetz (1998) found significant relationships between the availability of resources and the export intensity and market diversity of the SME. Findings in a study by Matlay and Flecher (2000: 441) on international SMEs indicate that “the ability and willingness to be simultaneously active in a number of countries in different parts of the world (...) and a commitment to the transnational management in these markets” increased in proportion with their size (2% for firms with 10 employees or less and 48% for those with 250 employees or more). However, Matlay and Flecher (2000) had also observed that being global is not a matter of size, even if the larger firms were more likely to be global than the small ones. This observation was confirmed by studies in the arts and crafts sector where the size of exporter firms is generally small (Aucley, 1999; Fillis, 2002). Therefore, one can say that the size matters, but not always. Some industries require a more larger size than others (Calof, 1993; Mittelstaedt and Harben, 2003).

Fujita (2003) found that the majority of globally oriented SMEs gained their market power thanks to the ownership or the specific advantage related to their product or intangible assets such as an advanced technology, a brand name, marketing skills, and an efficient organizational structure providing flexibility. Julien, Joyal and Deshaies (1994) found that SMEs that were more likely to face globalization challenges, had an innovative and differentiated product and used new product technologies. Piscitello and Sgobbi (2003) found that firms presenting the strongest interest towards advanced communication tools, possessing Internet connections and already activated e-commerce projects, also displayed the highest motivation to expand abroad in search for new markets. It is interesting to note that studies have generally found that the adoption of technology facilitated networking and the globalization of SMEs (Fontes and Coombs, 1997; Fariselli et al., 1998; Lituchy and Rail, 2000; Tagliavini, Ravarini, and Antonelli, 2001). However, other studies such as that of Piscitello and Sgobbi (2003) have found that the use of the Internet can sometimes be incompatible with the tacit knowledge sharing that dominates SMEs’ social interactions.

Chetty and Campbell-Hunt (2003a) have identified the initiating role played by a proprietary innovation in the globalization of an SME. Wolff and Timothy (2000: 45) have observed that with an appropriate type of resource (quality rather than breadth or quantity), an SME “can execute competitive patterns also used by larger firms and perform as effectively.” These attributes seem consistent with some characteristics of globally oriented firms identified in other studies (Fujita, 2003; Nkongolo-Bakenda, 2003). Fujita (2003) found that small and medium-sized transnational firms had a restricted range of products targeting narrow market

segments. They operated in competitive industry where the technology intensity was high and tended to be relatively independent from large multinationals. Nkongolo-Bakenda(2003) observed that, among Canadian SMEs exporting to two or more foreign markets, 69% faced a standardized demand, 87% had a specialized product, 80% targeted industrial customers, and 60% faced a higher level of technological intensity. However, De Chiara and Minguzzi (2002) found that service SMEs with a higher propensity to export were more interested in customized services while those with a lower propensity to export were more interested in standardized services. These results can be explained by the size of the industry service surveyed. As observed by Chetty and Campbell-Hunt (2003a), globally oriented SMEs focus on a global niche. In the service sector, niche segments will be more likely found in customized service rather than in standardized ones. In general, it has been observed that: “service firms tend to internationalise in a different way than their manufacturing counterparts”. (Lovelock and Yip, 1996; O’Farrell and Zheng, 1998; Bell et al., 2003: 339).

To sum up, the findings above suggest that globally oriented SMEs are generally technology intensive with a standardized product (except in the service sector) dedicated to a global market niche. These firms have distinctive resources or a competitive advantage such as a proprietary technology or product to satisfy the needs of the niche wherever in the world. This international expansion is facilitated, as mentioned above, by international business competences and skills that managers have accumulated in their previous careers or incrementally in the current firm.

Another stream of studies about globally oriented SMEs has focused on born-global and born-again global firms, which do not follow the traditional incremental process of internationalization through a series of evolutionary stages (for a literature review, see Madsen and Servais, 1997). Born global are firms that compete on the global marketplace from their inception or shortly thereafter (Rennie, 1993). Born-again global are firms “that have previously focused on their domestic markets, but which suddenly embrace rapid and dedicated internationalization” (Bell, McNaughton, and Young, 2001: 174). The majority of firms going global using these processes have been found to be SMEs (Knight and Cavusghil, 1996; Bell et al., 2003). Numerous studies have found them in different countries, namely, Australia (Rennie, 1993); Australia, UK, New-Zealand (Bell, McNaughton, and Young, 2001; Bell et al., 2003); Canada (Spence, 2003; McNaughton, 2003), Sweden (Andersson and Wictor, 2003); Scotland (McAuley, 1999); Danmark and Australia (Rasmussen, Madsen, and Evangelista 2001); Norway, France and Danmark (Moen and Servais, 2002; Moen, 2002), USA, UK, New Zealand, Switzerland, Germany, Czechoslovakia, France, Brazil, Singapore, and Israel (McDougall, Shane, and Oviatt, 1994).

These studies have identified factors contributing to the success of this phenomenon. Drawing upon previous studies, Madsen and Servais (1997) asserted that the propensity and further development of born global firms are determined by the founder (past experience, ambition level, and motivation), the organization (competence, routine, and corporate governance structure) and the environment (market internationalization, high/low technology, and specialization). After analyzing instant exporters in arts and crafts sectors, McAuley (1999) identified four groups of factors influencing their rapid internationalization. These

were the product (good design, quality, price, delivery and country image), personal and psychological (business attitude, family, personality, education and training), cognitive (networks, access to know how, customer-focused, business skills) and industry (sector and global market). Andersson and Wictor (2003) have outlined the following factors in a conceptual framework: globalization trends, entrepreneur's attributes, use of networks, and industry characteristics. Despite the omission of the outstanding quality of product or service in this framework, it contains the majority of factors mentioned in numerous studies. Factors identified for born-global and born-again global seem consistent with those identified in studies previously examined for any SME doing business in multiple countries. Therefore, one can wonder what is specific to global born SMEs and what they share in common with other globally oriented SMEs.

The most commonly mentioned trends for an earlier globalization are related to advances in communications and process technology, standardization of marketing demand, increasing demand for specialized products, and knowledge accessibility by all firms (Knight and Cavusghil, 1996). Prior competencies and skills of entrepreneurs in international business are also mentioned as facilitator of born-global phenomenon as they replace the necessity to pass through the traditional internationalization stages (McDougall, Shane, and Oviatt, 1994). Furthermore, entrepreneurs of this category of firms have been found with a special mindset and vision for international market (McDougall, Shane, and Oviatt, 1994; Harveston, Kedia, and Davis, 2000; Andersson and Wictor, 2003). Networks and alliances allow managers to overcome a firm's resource limitation (McDougall, Shane, and Oviatt, 1994; Andersson and Wictor, 2003). Some industries that are technology-intensive, specialized or niche oriented, have more potential for born global firms than others (Bell et al., 2003; McNaughton, 2003). To factors retained by Andersson and Wictor (2003), it seems important to add outstanding competency related to product/service quality or to a proprietary technology that allow the SME to "have an advantage over local foreign firms" (Rennie, 1993; Knight and Cavusghil, 1996; Bell et al., 2003).

A few studies have examined this question. Moen and Servais (2002) have examined born global and gradual global SMEs in three countries. Results of their study suggest that the SMEs globalization is not influenced by the firm's year of establishment or first year of exporting activity, but rather by the presence of outstanding competitive resources, experience and skills in international business, and proactive personality of managers. Likewise, Moen (2002) found that born global SMEs in two countries possessed similar characteristics with the old global SMEs and that the newly established domestically oriented SMEs resembled SMEs that were older with a low level involvement in exports. Harveston, Kedia and Davis (2000) also found that managers of born global firms had an extensive international experience than managers of gradual globalizing firms. However, in a study of Canadian SMEs, McNaughton (2003) did not find support for the hypothesis suggesting a negative relationship between the number of geographic markets served by a firm and the length of time elapsed between its inception and the beginning of export activities. Spence (2003) identified the following initial triggers for Canadian born global and born-again global pursuing an international strategy: availability and use of networks, serendipitous encounters, and niche market existence. Entrepreneurs of these companies had global mindsets, but their internationalization process was not formalized.

In conclusion, on the attributes of global-born SMEs and other globally oriented SMEs, findings of the studies above suggest that the two categories of firms are akin in many areas such as their technology intensity basis, the intensive use of networks to export, the standardized product, the availability of proprietary technology or specific competitive advantage, and the experience of their managers in international business. The main difference between the two categories of firms lies in the fact that managers of global-born firms have acquired their experience and social ties during their career prior to the current business while managers of other globally oriented firms have acquired their experience and ties incrementally in the current firm. What strategies can lead these firms to a success in the global marketplace?

Strategies adopted by globally oriented SMEs have retained the attention of researchers as we have already seen in some studies aforementioned. In his study on SMEs enjoying a worldwide leading position in their sectors of activities, Simon (1992; 1996) found that these firms, which he called "hidden champions", combined strategic focus with geographic diversity. They emphasized factors like customer value, blended technology and closeness to customers, relied on their own technical competences, and created mutual interdependence with their employees. Lindell and Karagozoglu (1997) found that, to meet international competition, U.S. and Scandinavian SMEs had developed external networks with customers and suppliers and internal technology strategies and quality control program. Also, they had shortened times of product development, increased the number of new products, and put more emphasis on R&D efficiency. Chetty and Campbell-Hunt (2003a) found a positive relationship between networking activities with performance. However, this relationship was stronger when networks were made with local firms in targeted foreign countries rather than with firms in the home country. These results were consistent with those found by Kaufmann (1995) and Lu and Beamish (2001). Chetty and Campbell-Hunt (2003b) asserted that business networks were the only vehicle for internationalization when the internationalization process was sudden, globally-oriented, and based on specialized product. These findings suggest that partnerships are used as means that allow globally oriented SMEs not only to supplement to their relatively limited resources, but also to focus on their core competencies and specialty (Chetty and Campbell-Hunt, 2003a).

Partnerships have also been found important for production and security purposes in globally oriented SMEs. Karlsson and Ahlstrom (1997) found that global smaller firms used leaner manufacturing systems with minor adjustments. Thus, the knowledge necessary to maintain partnerships with suppliers was located towards the top of the organization rather than at the functional level. Compared to a large firm using a lean manufacture, a global smaller firm had an advantage in the higher likelihood to involve customers in product development and in the opportunity to build unique skills thanks to the partnership with specialized and complementary organizations. Nkongolo-Bakenda (2001) has found that globally oriented SMEs used diversified networks not only to have access to required resources, but also to ensure security of their proprietary products.

Some studies have also found that globally oriented SMEs used scanning and learning practices that fit with their relatively limited resources. For example,

Nkongolo-Bakenda (2003a) observed that globally oriented SMEs preferred more frequently external but more accessible sources of information such as customer contacts, trade shows, and reviews to scan their environment.

The learning process had also received attentions of scholars interested by SMEs with extended international activities. Anderson and Boocock (2002: 5) assert, with respect to a globally oriented SME, that: “the large firm model of learning is inappropriate, the distinctive culture and communication systems of small organizations require different approaches to the acquisition, transmission and interpretation of knowledge.” These authors observed that, in international SMEs, generative learning was not the primary approach to learning, rather the dominance of tacit over explicit knowledge, and the challenge of explicit knowledge for a firm with relatively reduced resources. Likewise, Gray and Gonsalves (2002: 33) found that, for an international SME, “the key to improved customer focus and innovation may lie in the social constructive and institutional constitutive of learning.” Nkongolo-Bakenda (2003b) observed that learning activities in globally oriented SMEs followed the Nonaka (1994)’s pollination model in order to obtain explicit and tacit knowledge. The content and the learning practices to be adopted were dependent on the position, tasks, and career needs of the beneficiary.

In short, globally oriented SMEs adopt competitive strategies that fit with their nature and do not necessarily behave as global firms to face the challenges of globalization. A better understanding of successful conditions necessary for an SME to go global can be facilitated by a sketch depicting conceptual framework where differences and similarities with large global firm could be ascertained.

## **Conceptual framework for a globally oriented SME and propositions**

Empirical studies in the preceding part of this paper have indicated that there are some SMEs that are doing business simultaneously in different countries. However, these firms do not necessarily behave in the same way as the large global firms. These firms share some characteristics with large multinationals, but they also have their particular attributes. This paper has labeled them “globally oriented SME”. A “globally oriented small and medium-sized enterprise” (GOSME) is an independent (no subsidiary) company with less than 500 employees and whose market operations extend at least to two foreign countries preferably located in two (or more) of the three primary and distinct highly competitive regional markets (North America, Europe, and Asia)<sup>3</sup>. This definition focuses more on the intensity of competition faced by the SME and the scope of the market where the firm is successfully operating rather than on the location of manufacturing and source of production factors (Julien, 2000). A sustainable competitive position of the firm in different markets is the ultimate objective pursued by a firm that diversifies locations of production for resource access, market increase, efficiency, and strategic asset access (Dunning, 1998).

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<sup>3</sup> We are aware of the limits of this definition as it uses only one dimension (the number of employees) and refers to a higher limit of 500 employees that is not universal. But it is a working definition that may be easily adjusted and is based on the definition adopted by the OECD (2002: 7) while taking into account results from the study carried out by Broosbank (1991) on this topic.

To portray similarities and differences between globally oriented SMEs and large multinationals, we present in Table 3 characteristics of GOSMEs together with statistically significant characteristics of the three types of multinationals found by Harzing (2000). It may be observed from this table that generally speaking, a GOSME is very similar to the transnational firm when considering its high level of integration. It seems very similar to the global firm when one considers its low level of responsiveness.

Finally, it is very similar to the multinational when the focus is its moderate level of interdependence. It should however be observed that the integration of activities and the interdependence in GOSMEs could be observed more between the firm and its non owned affiliates (partners) rather than between the firm and its subsidiaries. These similarities of small firms with extended foreign activities with the three types of large multinationals and their particularities favor the use of concepts specific to GOSMEs rather than those suggested for large multinationals.

Like large global firms, the success of GOSMEs is dependent on the interdependence between their activities in different markets, their worldwide learning, their international trade, the intensity of competition they face in the domestic and foreign markets, and actions they undertake to create sustainable competitive advantage. However, GOSMEs put less emphasis on economies of scales and on intra-firm flows than do large global firms and take more advantage of alliances and flexibility to compensate the low level of vertical integration and more limited resources<sup>4</sup>. Globally oriented SMEs rely on or respond to the following as drivers of global expansion: specialization, market standardization, global niche market, competitive pressure within the industry, and strategic actions to creating value.

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<sup>4</sup> Audretsch and Thurik (2001: 298) observe that: “In the entrepreneurial economy, the multiple dimensions of flexibility replace scale economies as the organizing principle for economic activity.”

**Table 3: Comparison between characteristics of large multinationals identified by Harzing (2000) and major features of GOSMEs**

	Multid. (M)	Global (G)	Transn. (T)	Harzing (2000)	GOSMEs
Corporate organizational design					
Decentralized federation	High	Low	Low	M>T>T	Low
Network structure	Low	Low	High	T&±M>G	High
Inter-subsidiary flows	Low	Low	High	T>M&G	Low
HQ's pipeline	Low	High	Low/High	G>M&T	High
Center of Excellence	Low	Low	High	T>M&G	High
Local responsiveness					
Local production	High	Low	Medium	M>T>G	Low
Local R & D	High	Low	Medium	M>G	Low
Product modification	High	Low	High	M&T>G	Low
Adaptation of marketing	High	Low/Medium	High	T&M>G	Low
Interdependence					
Total level of interdependence	Low	High	High	G&T>M	Low
Level of HQ dependence	Low	High	Medium	G>T>M	Low
Level of subsidiary dependence	Low	Low	High	T>G	High

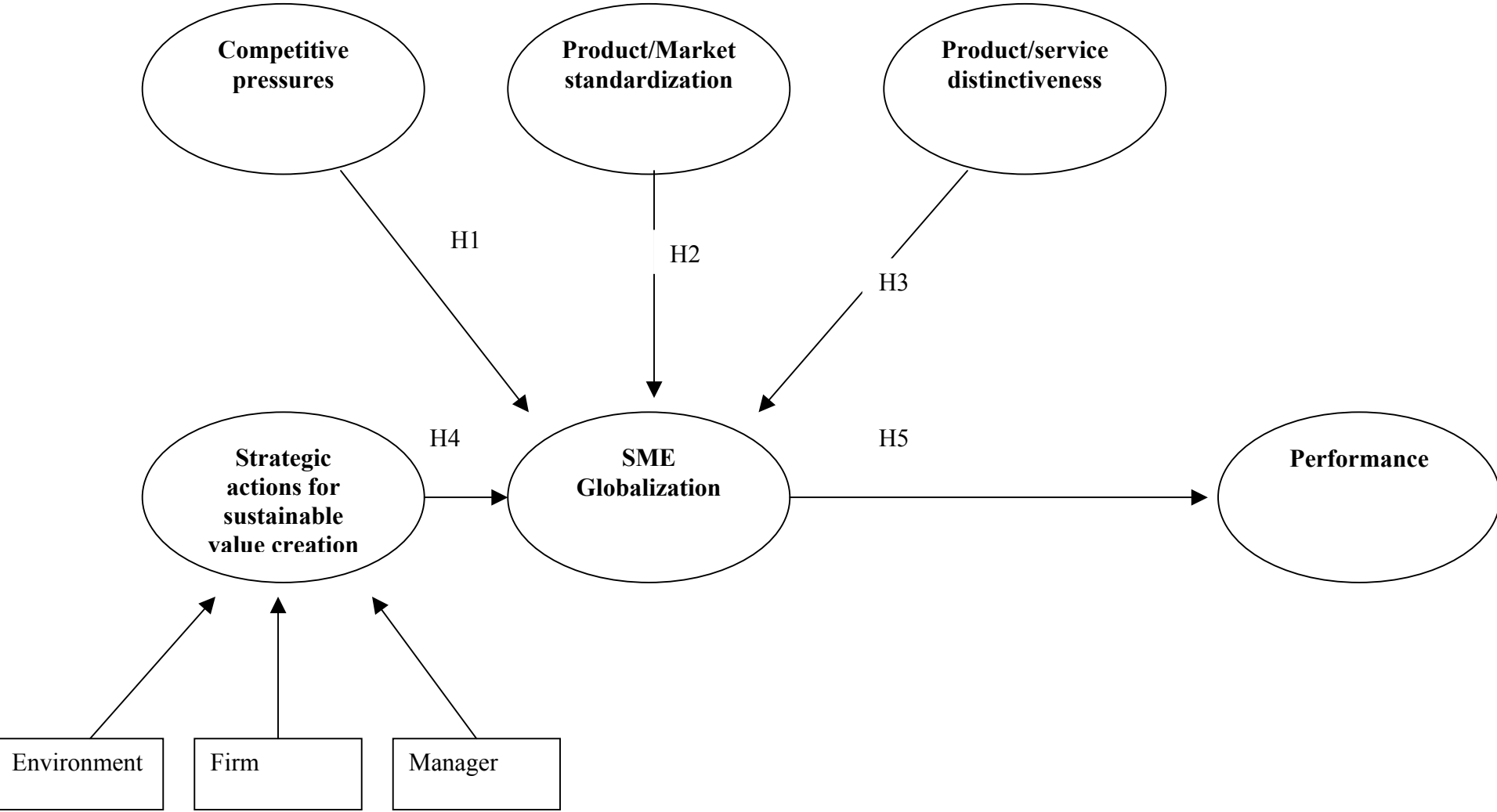
Empirical studies have also shown that, although globally oriented SMEs share some characteristics, there are also differences among them. For example, the level of technical nature of the product has led some to value the FDI mode of entry into a foreign country. Others use partnerships when they focus on customized products rather than standardized ones. But these exceptions that confirm differences should not hinder what globally oriented SMEs share.

Studies examined demonstrated that “not every small company can be or should strive to be a world market leader” (Simon, 1996: 257). Contrasting common characteristics of globally oriented SMEs with those of regionally oriented

successful SMEs can facilitate a conceptual framework building for globally oriented SMEs.

Therefore the conceptual framework for a globally oriented SME can include: product distinctiveness, market standardization, competitive action within the industry, and strategic actions to creating value (Figure 1).

**Figure 1: Framework for an SME's globalization**



Competitive pressures are related not only to the intensity of competition leading to higher quality of products, but also to the size of the market. Market standardization deals with the global scope of the market. Product distinctiveness refers to the uniqueness of the product or service that the SME offers to the global niche. Strategic actions are those that the SME can undertake to enjoy sustainable success in the global marketplace. From this conceptual framework, the following propositions can be drawn.

Proposition 1a: The higher the competition on the product/service of an SME in the marketplace, the more likely the firm will be globally oriented (Carter, Stearns, and Reynolds, 1994; Birkinshaw, Morisson, and Hlland, 1995).

Proposition 1b: The narrower the market, the more likely the SME will choose to operate in it. This relationship is moderated by the availability of a proprietary product/service that increase security of an SME against the invasion by large multinationals.

Proposition 2: The more the market demand for the product/service of an SME is standardized, the more likely the firm will be globally oriented. (Birkinshaw, Morisson, and Hlland, 1995; Baalbaki and Malhortra, 1993; Yip, 1996).

Proposition 3: The higher the product distinctiveness of an SME, the more likely the firm will be globally oriented. (Carter, Stearns, and Reynolds, 1994; Simon, 1992; 1996).

Propositions related to strategic actions for a sustainable value creation call for further explanations before their statements.

## **Wealth creation in GOSMEs**

Wealth creation has always been among the topics of studies in strategic management (Porter, 1991). Porter (1985)'s value chain framework for example has determined different areas of activities where wealth can be created. The resource-based view has identified resource attributes that result in wealth creation (Hoopes, Madsen, and Walker, 2003). However, what a firm must do to continually create wealth is the subject of ongoing debate (Porter, 1991). Indeed, this ongoing debate will not have an end because, as the environment in which the firm operates changes, previous winning strategies become common place and new innovative and creative ways to succeed have to be found (Schoemaker, 1990; Collis, 1994).

As already seen in this paper, some studies have identified strategic actions creating wealth in the global marketplace. Factors identified suggested to ensure flexibility and proactiveness through environment scanning, organizational learning, networking, innovation, and internationalization.

The SME has already been recognized for its ability to being flexible and close to customers (Frigenbam and Karnani, 1991; Nootboom, 1994). However, in the global environment, the SMEs will face challenges different from those faced by its traditional local market.

For example, it has to scan the global market and stay informed about changes in technology and customer needs at the global level despite its limited financial and human resources. It does continuously innovate to maintain its standing in the global marketplace even if financial resources dedicated to R&D are much lower than those in large multinationals. It should prepare its human resources to face challenges of the future despite the fact that its resources cannot allow the sort of educational investments such as corporate universities as is the case in large firms (Twomey et al., 1999; Fulner Gibbs, and Goldsmith, 2000). Finally it has to make sure that all international activities do not threaten the security of the firm and the trust of customer wherever they are located. The GOSMEs should take appropriate actions fitting with their relatively limited resources and the larger global marketplace.

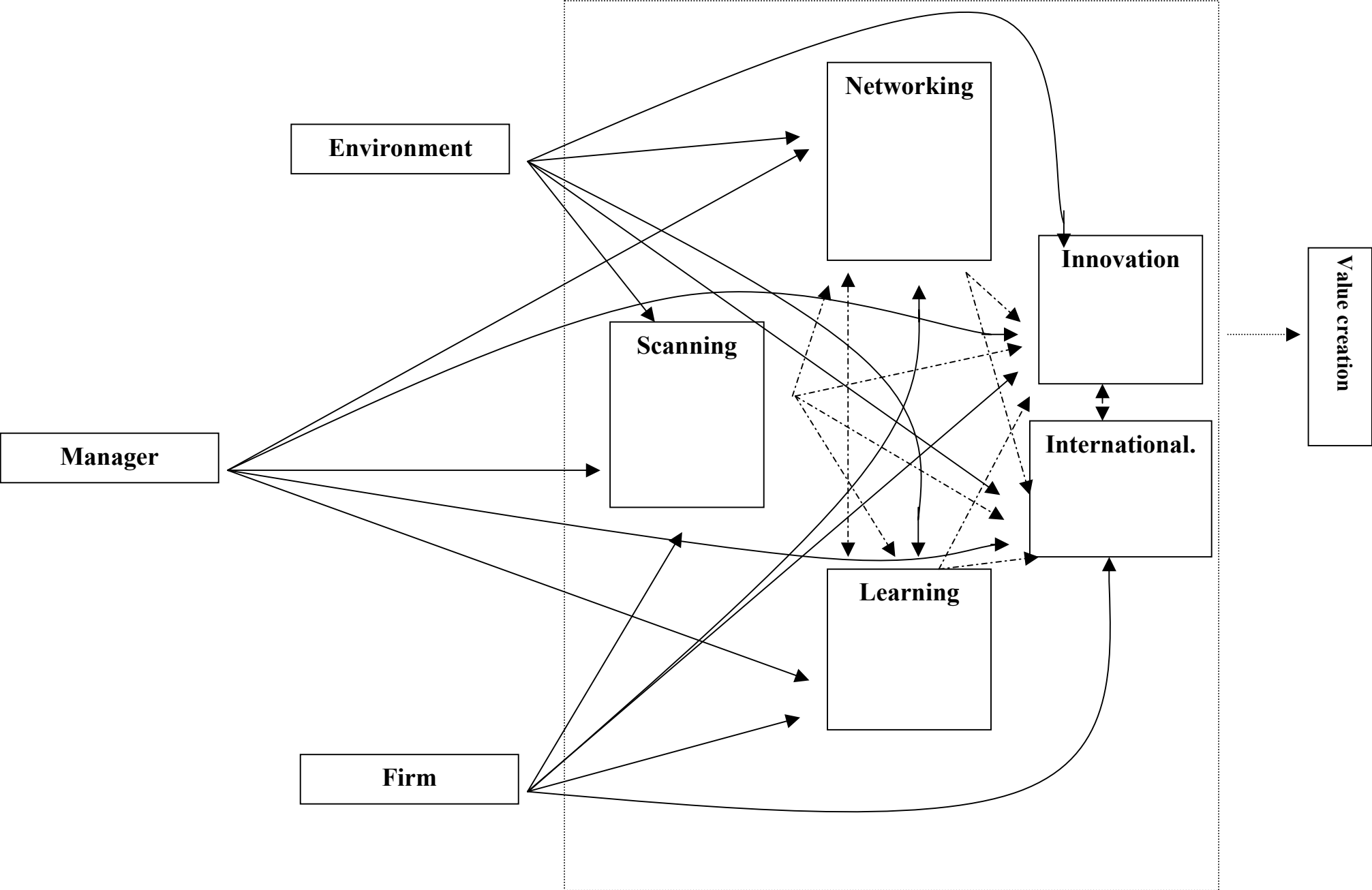
These actions will depend on the characteristics of the manager, the firm, and the environment in which it operates (Porter, 1991; Hitt and Tyler, 1991; Rajagopalan, Rasheed, and Datta, 1993; Hitt et al., 2002). Therefore, a framework to value creation in GOSMEs can be stated as follows: characteristics of the industry, the firm, and the manager's profile determine the environmental scanning, organizational learning, networking, innovation, and internationalization necessary to create successfully sustainable value in their worldwide activities (Figure 2 in annex).

Scanning, learning, networking, innovation, and internationalization are considered as mediating constructs leading to globalization and sustainable competitiveness (Wayne and Liden, 1995; Stimpert and Duhaime, 1997; Dhanaraj and Beamish, 2003). Relationships among these variables can lead to numerous propositions for wealth creation as shown in Figure 2.

Proposition 4: The higher the amount of strategic actions of an SME in scanning, learning, networking, innovation, and internationalization, the more likely the firm will be globally oriented. This hypothesis needs more comments and will be developed in the next part of this paper.

Proposition 5: GOSMEs with H1-H4 confirmed will perform better than those that did not. (Birkinshaw, Morisson, and Hulland, 1995).

**Figure 2: Conceptual Framework and relationships for a sustainable value creation**



## CONCLUSION

This paper explores whether or not an SME can be characterized as a global firm. At first glance, the examination of frameworks elaborated for large global firms could lead to a negative answer as SMEs lack some key attributes found in global large firms. However, numerous empirical studies have identified some SMEs doing business simultaneously in numerous countries, but behaving in some ways differently than large firms. Characteristics and behaviors of these globally oriented SMEs have allowed for the development of a conceptual framework for a globally oriented SME. Globally oriented SMEs face competitive pressures from local and worldwide-located firms. These firms produce standardized products for a global niche market. Successful GOSMEs are specialized and focused on a few products for which a competitive advantage exists. These firms undertake appropriate actions to sustain this competitive advantage. These actions tend to increase flexibility and continuous improvement by focusing on scanning, learning, networking and innovation.

This framework has implications for the strategies of firms planning on increasing their level of international business. For example, firms that produce non-standard products might forego globalization in favour of an enhanced locally or regionally oriented strategy. Likewise, domestically or regionally oriented firms willing to go global reduce their line of products and focus on the product or service with a huge potential of success in a global niche. The identification of drivers and requirements of SME's globalization can help managers to avoid making inappropriate decisions and enhance the potential for success in the global marketplace. Decision makers can find principles that could guide their actions toward SMEs. Researchers have propositions they may use as hypotheses in their future research.

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