1. Introduction and overview

Hamid Etemad

The overall theme of this volume is emergence: the emergence of international entrepreneurship (IE), the emergence of small and medium-sized enterprises (SMEs), and the emergence of smaller firms from emerging economies in international markets. This introductory chapter begins with a review of international entrepreneurship’s emergence and proceeds to examining the factors that have influenced the emergence of smaller firms and those from the emerging markets in particular. I suggest that evolutionary change has been highly influential in stimulating the internationalization of smaller firm and markets and propose a theory to characterize these developments.

I refer to this theory as the contextual theory of international entrepreneurship, which suggests a dynamic, interactive and evolutionary relationship amongst the three main pillars (or components) of the theory. This theory suggests that the process of evolutionary change in industrialized countries and emerging economies (formerly developing and transitional economies), affected by massive technological innovation, if not revolution, have removed historical barriers to trade investment resulting in increased mobility of goods, services, capital and establishments, which have augmented firms’ competitiveness across the board and provided increasing levels of information to buyers and suppliers. Consequently, these developments have increased the demand for exceedingly higher competitiveness in terms of higher-quality goods and services at falling prices. The proposed theory concludes that the higher competitiveness of the emerging firms and emerging economies have heightened the process and are even driving it, in some cases. The theory also serves as a framework in this chapter for both housing and reviewing the chapters of this volume by pointing out their intent, the nature of their contributions to and support for the theory, as well as identifying various interlinkages amongst the chapters and their interrelationships with the theory.

Structurally, this volume comprises four parts. Following this introductory chapter, Part I, entitled “Theoretical Foundations of SMEs’
Internationalization”, contains the first three, relatively theoretically oriented, chapters. Part II, entitled “Factors Impacting Internationalization of SMEs in Emerging Markets”, houses the next five chapters, Chapters 5–9, covering the interaction amongst entrepreneurship, firms and their evolving emerging markets and environment. Part III, entitled “Internationalization in the Southern Hemisphere and Emerging Economies: The Impact of the Environment, Firm Characteristics and Institutional Heritage”, contains Chapters 9–13, and finally Part IV, entitled “The Impact of Public Policy and the Home-Country Environments on Internationalization of Smaller Firms”, consists of Chapters 14–16, which present the impact of policy-induced initiatives on further internationalization of firms and their home environments. The last chapter is a brief reflective conclusion to the volume.

THE EMERGENCE OF INTERNATIONAL ENTREPRENEURSHIP

The Re-emergence of International Entrepreneurship in the Last Half of the Twentieth Century

The re-emergence of international entrepreneurship (IE) as a field of scholarly inquiry goes back to the 1980s and 1990s, and the early signs of the practice of IE by smaller and younger firms can be traced to business and consulting reports in the 1970s and 1980s. Reportedly, a survey for the Australian Manufacturing Council conducted by McKinsey Consulting Company (McKinsey & Co. 1993) found that some 9 percent of smaller Australian firms were engaged in international activities soon after their founding. These results were not noticed outside Australia and were ignored for some time. Retrospectively, this is understandable. Smaller and younger firms were expected to grow at home before internationalizing, mainly because of the lessons of the internationalization theories at the time and the dominance of international business by large firms such as multinational enterprises (MNEs) overshadowing the international activities of smaller firms. Prominent theories of internationalization, such as the life-cycle theory (Vernon 1966), process theories (Johanson and Weidersheim-Paul 1975; Johanson and Vahlne 1977), the innovation diffusion-based theories (Bilkey and Tsar 1977; Cavusgil 1984, 1980), the internalization theory (Buckley and Casson 1976) and the eclectic theory of multinationals (Dunning 1980, 1988), among others, preoccupied scholars at the time.

It was during the late 1980s and early 1990s that various indications of
Introduction and overview

a newly emerging phenomenon – entrepreneurial internationalization, or international entrepreneurship (Etemad 2005b) – attracted attention. For example, Morrow (1988) pointed to the international activities of new entrepreneurial ventures and suggested the emergence of international entrepreneurship as a new field of study. Jolly et al. (1992) noted that small technology firms had set their sights on the global markets. Similarly, business and consulting reports hinted at intensive export activities of smaller American Companies and business magazines featured smaller American firms that “surged” into international markets and focused attention on these firms in contrast to the older and larger firms. The survey of Australian manufacturing firms in the early 1990s by McKinsey Consulting (McKinsey & Co. 1993) painted a similar picture. It pointed to two types of firms in Australia: the majority of larger firms that had solidly established themselves in the Australian home market before exporting incrementally and in stages (following the traditional patterns and theories), and a second type of smaller firms (average sales of $16 million) that on average had generated more than 76 percent of their revenues from exports in less than two years after their foundation, since the 1960s. Using the same 1993 McKinsey survey, Rennie (1993) pointed out that an increasing proportion of the younger and smaller Australian firms had engaged in substantive exporting (76 percent) in the very early stages of their lifespan (in about two years from foundation) and called them “born globals”. Apparently, this proportion has been steadily growing from the 1960s and points to an emerging trend countering the theoretical expectations.

Retrospectively, two related trends might have signaled the ushering in of a new era: (1) the rapid ascendance of smaller firms mainly in the lower-cost and rapidly growing countries and regions of South and East Asia (Bangladesh, Hong Kong, Japan, Malaysia, South Korea, Taiwan, Thailand), and to a lesser extent in Southern Europe (Italy, Spain, Portugal) and the Americas (Argentina, Honduras, Mexico), supplying larger firms (e.g., MNEs) for their home and international markets; and (2) the beginning of increasing outsourcing of the larger (and mainly Western) firms from firms in the more competitive countries and regions in order to control their rising costs and declining competitiveness. The former pointed to the systematic forward-internationalization (indirect exporting) of smaller firms from the lower-cost regions through the larger firms; and the latter was the mirror image of the former, where larger (and mainly Western) firms were internationalizing their supply chain (Jones 2001) through lower-cost operators outside their home countries (i.e., backward or inward internationalization). These reported trends (Baldwin and Gu 2003) were not chance occurrences (such as unsolicited orders
from the international market to younger and smaller Australian firms) as they broadened and strengthened over time.

These reports make it difficult to accept that these trends were isolated phenomena specific to a few regions (e.g., Australia and East Asia). Unfortunately, these developments escaped scholarly attention. However, in an editorial piece in the *Journal of International Marketing*, Cavusgil (1994) referred to the “born global” phenomenon as a “quiet revolution”. Based on 24 case studies of smaller firms in 11 countries, Oviatt and McDougul (1994) reported on start-up enterprises that had internationalized early in their life span, if not from inception, and called them “international new ventures” (INVs). Bell (1995) found that the internationalization path of smaller computer firms differed from that suggested by the Uppsala model. Knight and Cavusgil (1996) reported on technologically oriented United States (US)-based born globals. Madsen and Servais (1997) and Madsen et al. (2000) reported on similar phenomena in Europe. The scholarly contributions have continued, including those of Bell et al. (2001, 2003), Knight and Cavusgil (1996), Knight et al. (2004), Lu and Beamish (2001), Loane and Bell (2006), McDougall (1989), McDougall and Oviatt (1994, 2000), Oviatt and McDougall (1994, 1995, 1997, 2000, 2005a, 2005b), Madsen and Servais (1997), McNaughton (1996, 2002, 2003), McNaughton and Bell (2001), Zahra et al. (2000) and Zahra and George (2002). These scholars, among others, fully confirmed the international presence of entrepreneurial firms and thus pointed to the formal arrival of IE as a young field of scholarly inquiry. Scholarly IE is still a very young field, if not in its embryonic stages, relative to other scholarly fields; but that is not the case for the practical side of IE.

It is suggested that scholarly IE appears to be the intersection of two research paths of international business (IB) and entrepreneurship (E) (McDougall and Oviatt 2000); but Etemad (2004a, 2008) suggests that IE is different from the older fields of IB and E, with a distinct evolutionary path of its own that has very old roots (I will return to this topic in a later section). As discussed earlier, IB’s traditional focus has been on the internationalization process in relatively larger and mature firms (such as MNEs), and its theories dominated scholarly inquiry for some time. It has also relied on both theory and practice in international trade and investment, with a pedigree going back to international trade a long time ago. On the other side of scholarly ledger, the relatively younger scholarly field of entrepreneurship’s focus has been on the efforts of entrepreneurs and entrepreneurial enterprises in creating and growing domestic start-ups. The emerging field of international entrepreneurship is neither primarily concerned with the type of institutions that characterize MNEs, nor strictly occupied by creating start-ups and ensuring their survival.
Introduction and overview

and growth. However, IE may have to deal with both topics, respectively at the early and the maturing stages of a firm’s internationalization as it grows and internationalizes overtime. Simply stated, internationalization of entrepreneurship, entrepreneurial internationalization or entrepreneurship beyond national borders, amongst many basic characterization of IE, differ in their operating pillars, and even in their essence, from those of IB and entrepreneurship. However, the evolutionary path of IE’s development may embrace many aspects of both fields.

Traveling Back in Time in Search of Early IE Practices

Abstracting from the scholarly side, Etemad (2004a, 2008) suggests that international entrepreneurship, and especially international entrepreneurial activities, can be traced back for three to five millennia to 2000 BC, when the historical equivalent of modern international trade missions travelled transcontinentally. For example, one such mission travelled from the ancient Middle Kingdom (current China) through the Russian Steppes, Central Asia, or alternatively through ancient Tibet and India, to the ancient Persian Empire, Babylonia, Assyria, Asia Minor and Mediterranean countries and to the outer reaches of the Greco-Roman Empire. These international traders traveled over land on a long (more than 6000 km) trade route which later on came to be known as the “Silk Road”, exchanging, buying and selling lucrative commodities such as spices, precious and semi-precious stones and silk. Obviously, these activities predate the appearance of modern MNEs and their predecessors (the East India Company, the Hudson Bay Company, and so on). Dana and Etemad (2000), Etemad (2004a) and Dana et al. (2004) suggest that the historical trade missions, going back to the first millennium BC, traveled along the old trading routes, carrying their merchandise with them for major trade and exchange, from one grand bazaar to the next. The arrival of a traveling caravan in a city transformed the caravan saray (Persian word for grand house, or grand hotel, for caravans) into the historical counterpart of the modern international trade fairs, where there was intensive buying, supplying, trading and barter exchange between the locals and the traveling caravans. Thus caravans introduced an international dimension to the local economy and also supported local entrepreneurial activities in terms of buying from (the equivalent of modern imports) and selling to (the equivalent of modern exports) the traveling international entrepreneurs. The documents chronicling such international entrepreneurial activities predate the concept of the firm embedded in a local environment, and thus start-ups, and certainly that of MNEs – respectively the principal agents of entrepreneurship and IB.
The documents of the early modern practices of international entrepreneurship are easily traceable back to the early work of Jean Baptist Say (2001 [1803]) at the turn of the eighteenth century. Therefore, the re-emergence of IE as a field of scholarly inquiry in the latter part of the twentieth century, focusing on early internationalization efforts of younger, smaller and entrepreneurial firms, must be viewed as the rediscovery of an old and ongoing practice of traveling entrepreneurs and their local support system. These practices, which had somehow lost their scholarly attraction, if not eminence, for a long while, before rediscovery in the nineteenth century. This brief review suggests that the well-defined concepts of the modern socio-economic system, such as a “firm” based in a “nation state” engaging in “international trade and investment” with counterparts in another nation state, may have caused rigidities incapable of addressing and modernizing the older, if not the historical, practices.

Back to Modern IE

It is noteworthy that modern internationalization efforts have been based on the interrelations between three distinguishing factors from the very beginning: (1) firms of all sizes striving for further growth by expanding their markets resulting in increased geographical reach beyond the home market (related to the space dimension with a disregard for timing and rate of growth), which has been going on for millennia; (2) firms’ efforts to overcome the liabilities of “foreignness” (Hymer 1976) and “outsidership” (Johanson and Vahlne 2009) in crossing borders (i.e., the essence of internationalization); and (3) the firms’ age, timing and rate of growth and internationalization.

The first and second aspects are parts of continued growth and they have been covered by the traditional IB theory. The third aspect, however, distinguishes international entrepreneurship from international business, and highlights the growing need to explore factors above and beyond traditional IB that explain time, timing, age and rate of growth (all time and timing aspects) that relate to the internationalization of smaller and younger firms at or near inception (or their founding) and possibly at higher speeds. The question of why internationalization has slowly gravitated towards firms’ younger age and what the corresponding impact might be is within IE’s domain and needs further attention. Traditionally, growth and expansion of younger and smaller firms have taken place at home and have been endogenously based (Solow 1956; Romer 1994), while internationalization has also been a part of the broad field of international trade and investment bridging across time and space. It does seem, therefore, that we have come full circle in combining space and time aspects by emphasizing firms’ early
growth in international markets concurrent with, or instead of, growth in the home markets, at an exceedingly younger age and higher rates.

The questions facing us are: why IE lost its eminence, and what has accounted for its re-emergence in the latter part of the twentieth century, through the efforts of younger, smaller and more entrepreneurial firms. I suggest that the dynamic interaction of three unprecedented developments can in part explain the re-emergence of IE phenomena in the latter parts of the twentieth century, and internationalization of smaller and younger firms at or near inception and possibly at higher speeds. They are: (1) the evolutionary socio-economic and political developments of the last half of the twentieth century, reducing and removing barriers to mobility across borders; (2) the tsunamis of technological innovations bridging traditional barriers to conducting international trade and facilitating internationalization, and thus enabling smaller and younger firms to internationalize earlier and faster; and (3) the emergence of rapidly developing nations as international players (also called the emerging nations) experiencing rapid change and high growth due to their higher competitiveness based mainly on the entrepreneurial response of their younger, smaller and internationally competitive firms to the developments unfolding around them. I further suggest that the above developments are the three principal components of a theory, to which I refer as the “contextual theory of international entrepreneurship”.

In reviewing the above components, I aim to develop the theory as a framework for the various chapters of this book and to point out their interrelationships, with each chapter demonstrating at least one particular aspect of the theory. However, the primary emphasis of the volume will be on the internationalization of emerging firms and emerging nations, as stated earlier.

TOWARDS THE CONTEXTUAL THEORY OF INTERNATIONAL ENTREPRENEURSHIP

As discussed above, I will review the three main components for developing the proposed theory that have significantly contributed to the internationalization of smaller, younger, entrepreneurial firms, as follows.

The Socio-Political Evolutionary Process of the Last Half of the Twentieth Century, Altering the International Business Environment

The emergence of the Single European Market and the European Union

The unfolding of an evolutionary process in Europe following the Treaty of Rome in 1957 encompassed various socio-political and economic
dimensions. Consider for example an evolution process that started with the Single European Act (SEA, 1957), popularly known as the Treaty of Rome, which laid the foundations for further economic and political cooperation among the European nations that had fought two World Wars. Highly protective of their national interests, the six European founding nations (Belgium, France, Germany, Italy, Luxemburg and the Netherlands) agreed initially to set up three supra-national communities which evolved into the European Economic Community (EEC) later on, with a common internal market, external borders and the political super structures of the European Commission, the European Parliament, the European Council of Ministers, the European Court of Justice and the associated machineries to run, and thus govern, the evolving European Community (EC) of nations. Four more nations – Denmark, Ireland, Norway and the United Kingdom (UK) – applied for membership and were admitted to the community in 1972, and the expansion trend continued to include 27 European nations (as of 2007). The 1986–87 SEA updated the 1957 SEA and its continual incremental revisions since 1957. The Treaty of Maastricht in 1991 provided for the formation of the Single European Market (SEM) on December 31, 1992, thus transforming Europe into a single European Community (EC, 1992). The Maastricht agreements removed almost all physical and legal barriers to the mobility of people, capital, goods, services and establishments (commonly known as the five freedoms) amongst mainly Western European nations. For all practical purposes, these five freedoms transformed European Union into a single European market of nearly 350 million people in 1992, and close to 500 million in 2009. Such integration has been unprecedented in the modern history of mankind and it empowered smaller, younger and relatively resource-poor firms to look beyond their home markets. The previously insurmountable challenge of internationalization was no longer such a challenge for the SEM and smaller firms, especially from smaller markets such as Finland (with a population of about 5 million), who set their sights on Europe as a whole. This was perhaps the first influential signal to the European smaller firms to consider internationalization seriously.

The Treaty of Maastricht removed the risk of foreign exchange within the SEM by introducing the common European currency, the euro (€), to the European Union (EU), and consequently many local currencies (the German mark, French franc, Italian lira, and so on), and the exchange risks in the community, ceased to exist. For the first time in the history of Europe, goods, services, capital, people and, more importantly, establishments (i.e., firms) could move freely across the markets of the EU's member States without serious concerns for the adverse impact of the nation states’ socio-political, legal and economic differences. These two
transformations must be viewed as highly influential developments in opening up market opportunities and expanding them across the EU. Retrospectively, the combination of the single currency and SEM were official license for smaller firms’ exploitation and thus expansion within the SEM (or EU), especially for entrepreneurial smaller firms which looked for opportunities to exploit (Choi and Shepherd 2004) but did not have the requisite resources to overcome the liabilities of “foreignness” (Hymer 1976) and the liabilities of “outsidership” (Johanson and Vahlne 2009) to grow beyond their home markets to benefit from such expansion (Loane and Bell 2006; Lu and Beamish 2001). Given the newly found ease of access, these firms began to look for much larger international (European) opportunities to exploit as they were very similar to their own domestic markets (Nummela et al. 2004).

In the meantime, the ongoing socialization process that had started with the SEA and was stimulated by the five freedoms was lessening psychic distance (Johanson and Vahlne 1977) and was removing most of the operational risks that inhibited smaller firms from entering European markets previously. As a direct result, the smaller, younger and entrepreneurial firms, especially from smaller markets and nations (such as Finland, Denmark and Ireland), began to look at growth and expansion opportunities in the rest of the EU as they would in their home markets. Undoubtedly, without the conducive and friendly environment of the EU, such firms could not have internationalized at such a young age and with the high speeds that characterize INVs, born globals (BGs) and rapidly internationalizing firms (RIFs). Naturally, once the firms overcame the initial fears and reluctance about leaving home, further internationalization became a part of the normal course of growth and expansion strategies. The reduction and removal of barriers to internationalization was not limited to the European Community alone, as other nations and continents already had similar processes. I will review one other similar development here, in North America.

Canada–US Free Trade Agreement of 1989
A similar socio-economic evolutionary process to that in Europe, but at a slower pace, and not as broadly based as that of EU, started in the 1980s and has been ongoing in North America for some time. In fact, Canada and the United States have been one another’s largest trading partners for a long time. The Canada–US border is one of the longest unprotected boundaries in the world and the volume of trade and investment crossing it is still among the largest in the world. The Canada–US Free Trade Agreement of 1989 (FTA) was indeed a formalization of the two nations’ well-established trade and investment relations and long-standing mutual
interdependency. The FTA created the machinery for harmonizing formalities, legal requirements and technical standards as well as provisions for easier resolution of disputes. The reduction and removal of such barriers opened new opportunities to both the Canadian- and US-based smaller and younger firms that would not previously have considered international markets (US markets for Canadian firms, and vice versa). In response to the increasing demand for movements of goods and services across the vast territories of Canada and the United States, the transportation and logistics industries grew rapidly. The increasing demand and rapid growth led to the introduction of specialized technologies that further assisted with the ease of operations across country borders. Smaller and younger firms have benefited from these facilities more than others. For example, a technology-savvy customer (or firm) in one corner of Canada or the United States’ vast territory can buy (or sell) small quantities of goods and services from (to) another far corner with ease and at reasonable cost. Such an attempt was formerly almost impossible due to the difficult and rigid border formalities, high costs and the time required for completing cross-border transactions. Many online buyers and sellers are now engaged in such transactions routinely.

**The Emergence of NAFTA**

In a rapid progression, Mexico, which had a limited FTA with the United States, joined the Canada–US FTA in about two years, and the North American Free Trade Agreement (NAFTA) among the three North American nations become operational in 1991. Not only has NAFTA been updated over the past decades, but also all the three nations have continued to conclude FTA-type agreements with the other nations. These agreements have removed cumbersome rigidities and empowered, if not enabled, smaller, younger and at times resource-poor firms to explore the wider and the richer opportunities beyond their own home markets, directly and indirectly. Smaller firms have directly benefited from the streamlined formalities, harmonized technical standards and legal requirements and, more importantly, the non-discriminatory provisions of FTAs, offering national treatment to the firms of the other two nations, thereby removing much of the disadvantages of “foreignness”. Indirectly, however, most firms have also benefited from the scale economies associated with larger production, expanded logistics, shipping, transportation and easier customs operations, among others. In some cases, buying and selling within the intra-NAFTA boundaries is likely to be cheaper, easier and more efficient than within provinces in Canada and Mexico due to interprovincial barriers. As a result, a typical North American firm’s supply chain is likely to have suppliers from all three nations and be more
Introduction and overview

internationally competitive than any domestic firm, mainly due to FTAs’ direct and indirect benefits and impacts.

Two other aspects of a typical FTA need further discussion. First, the ease of access to, and operations in, the other FTA partner members encouraged the more competitive firms to enter the neighboring markets quickly. This ease combined with the decreasing costs of transportation and transactions enabled firms to gain further scale efficiencies, allowing for lower costs and prices compared to the local goods and services and consequently increased their market share. In fact, it encouraged many entrepreneurial, smaller and younger firms to explore the expanded opportunities in the neighboring markets, which further contributed to their competitiveness due to the increased scale-related economies, among other efficiency-related benefits. As a result, the associated markets become more competitive and the firms that did not gain sufficient competitiveness in time suffered.

Second, growth-oriented and entrepreneurial firms began to think of the expanded opportunities of the neighboring-country markets routinely, if not that of NAFTA as a whole, much earlier on than they would have otherwise, in order to benefit from scale economies, learning from other national firms and geographical diversification. As a result, each of NAFTA’s national markets was implicitly internationalized, resulting in higher and increasing competitiveness. Predictably, the less competitive firms that could not take advantage of the new NAFTA facilities in time were forced either to exit or to outsource from lower-cost nations (i.e., internationalize their supply chain), which enabled their suppliers to learn indirectly and enter the NAFTA market at an opportune time later on. Others either gained competitiveness on their own at home or expanded to other markets to benefit directly at least from the larger scale economies, if not from anything else. Therefore, one can logically argue that typical firms based in Canada and Mexico were forced to assess opportunities in the larger markets of the United States for gaining competitiveness to survive in NAFTA and eventually internationalize. This realization must have contributed to earlier and faster internationalization of smaller and younger firms and might have played a role in expediting the born global, INV and rapidly internationalizing enterprise (RIE) phenomena.

It is only logical to expect that firms in other FTA regions (e.g., Mercosur, the Association of Southeast Asian Nations – ASEAN, the Australia–New Zealand FTA, Golf Cooperation Council) experienced similar conditions that involved similar stark challenges: either to become regionally, if not internationally, competitive; or to accept a slow demise at home. Therefore, one can logically conclude that smaller, younger and entrepreneurial firms that are not yet well established in their home
markets need to take advantage of two complementary internationalization strategies: (1) to internationalize their downstream value-creation activities (i.e., forward or outward internationalization) at or near inception, to benefit from the expanded opportunities in their internationalized environment in order to improve upon their chances of survival and growth; and (2) to internationalize the upstream activities of their supply chain operations (i.e., inward or backward internationalization) to gain competitiveness through collaborative arrangements, strategic alliance, contract manufacturing, and so on. Naturally, a firm may as well combine the two strategies. As a consequence of deploying the former strategy of forward internationalization, we are more likely to observe a large population of BGs, INVs and RIFs emanating from FTA- and SEM-type regions. This strategy is consistent with the trend in the real world.

As a result of utilizing the latter strategy (i.e., inward or backward internationalization), local firms would be gaining incremental competitiveness at home, while contributing to the indirect internationalization of their supplying firms. This is also consistent with the trends observed in the real world as increasingly more firms outsource from other more efficient firms, mainly in the lower-cost and emerging economies. Naturally, firms may combine both strategies simultaneously. Similarly, internationally competitive supplying firms that had successfully internationalized indirectly could also decide to enter international markets directly on their own, thus increasing the level of competition at home and in international markets. Therefore, we may very well observe such patterns of forward and backward internationalization activities, some at near inception, deployed by firms in order to gain competitiveness as early as possible. The results of such processes are higher competitiveness and more extensive internationalization at exceedingly higher speeds. These processes are shown schematically in Figure 1.1, where the local firm (LF) internationalizes forward (or outward) by entering international markets (pushing forward the flow of goods and services – or F_FI), taking advantage of larger market opportunities; and when necessary, it would also internationalize inwardly (or backward) by receiving the flow of parts and supplies (or F_BI) from supplying firms and countries in the rest of the world to upgrade the local firm’s (LF) competitiveness at home and abroad. However, the internationalization of the supply chain will necessarily require the local firm to inform its suppliers of the demand conditions in its home and international markets (shown as a feedback in Figure 1.1); thereby acting as a conduit for its suppliers’ learning about its final international markets.

In the next section, I will argue that the continuous waves of technological innovation have further removed barriers to access international
markets and operations in them, and have also augmented the impact of internationalization flows on competitiveness and competition. Stated differently, unending waves of technological innovation have further contributed to the extent and speed of internationalization of firms; and thereby enhanced implicit internationalization’s impact on firms both at home and in the host countries.

**The Unending Waves of Technological Innovations Facilitating and Enabling Internationalization**

The continuous introduction of massive volumes of technological innovations – the “tsunamis” – in the latter half of the twentieth century with their pervasive impact on international business conduct well justifies the analogy of a tsunami, impacting the landscape rapidly and strongly. Consider, for example, the direct impact of the following:

1. The rapid introduction of facsimile (fax), replacing the slow and unreliable telegram, telex and postal mail, facilitating instantaneous communications that required hard copy documentation.
2. Digitization and miniaturization technologies enabling and expediting the introduction of a vast range of information and communication technologies (ICTs) with rapid developmental trajectories, and thereby replacing large, heavy and immobile equipment with small, light, powerful, efficient and very mobile counterparts (e.g., cellphones...
replacing regular telephones; mobile technologies replacing their stationary analogs; laptops replacing desk top computers, which are in turn being replaced with tablets and smaller “personal assistant” devices; amongst a host of others),
3. The advent of the Internet in the early 1980s, changing long-distance communication. It enabled the introduction and pervasive use of instantaneous and unlimited communication – with no regard to time and distance – and with documentary attachments that could provide for transfer of information, ownership, insurance and shipping documents, among others.
4. The advent of online websites, especially when complemented with interactive technologies, revolutionized access to, dissemination of and unlimited use of information from the far corners of the world.
5. The potential of Web 2.0 technologies, which are enabling the use of user-generated information, are yet to be fully understood and realized. Their impact on global communication and feedback, especially on how business is to be conducted in the very near future, are yet to be assessed and utilized.
6. In a parallel fashion, innovations in the fields of air (e.g., palletized cargo), ground (e.g., integrated multimodal) and marine (containerization) transportation, logistics and courier services have provided for rushing cargo, even smaller packages, to all far corners of the world at reasonable and ever decreasing costs, which has had a strongly positive impact on internationalization, especially for smaller and younger firms which were relatively resource-poor and could not absorb the previously higher costs.
7. The increasing deployment of waves of never-ending ICT innovations have also impacted the cost of doing business internationally (e.g., logistics, transportation, documentation, financial transactions) and the coordination of moving goods and services across nations in a timely manner.
8. Similarly, the configuration, meaning and expectation of ultimate value, in terms of managing supply chains and value nets for higher competitiveness, have assumed influential evolutionary paths that were unimagined a few decades ago, and their ultimate evolutionary ends are not yet in sight.
9. Naturally, ultimate consumers are demanding higher value and increasingly pushing for more technological innovation, thereby further motivating suppliers and service providers to advance the state of the art.

Therefore, it should be evident that these waves of technological tsunamis, becoming progressively more powerful and even more ferocious
than the previous waves, are thus reaching the farthest corners of the world. They have redefined ways in which global business is conducted by smaller, younger and entrepreneurial firms. Many smaller, younger and entrepreneurial firms that previously could not possibly think of buyers or suppliers beyond their home markets have taken advantage of technological facilities to expand their markets and strategic horizons beyond home-country markets – for example the global sales of handmade arts and crafts, only sold locally in limited quantities previously, are now commonplace realities. Most of such transactions are consummated online with almost no concerns for time and distance. With the assistance of modern ICTs, Internet-based technologies and exceedingly more efficient logistics for shipping to international markets, the far corners of the world are as close as the next-door buyer or supplier. Without doubt, the impacts of these technologies on the internationalization of younger, entrepreneurial and smaller firms have been deeper and more pervasive than on their larger counterparts. Etemad (2005a) and Loane (2006) report that smaller entrepreneurial firms achieved rapid internationalization and growth through the Internet, and Etemad et al. (2010) suggest that “Internetization” is the prelude to internationalization in local, small, younger and technology-savvy firms.

The impact of technological innovation on facilitating and augmenting the internationalization flows of Figure 1.1 are schematically shown in Figure 1.2, where the forces representing technological innovation are enhancing and strengthening $F_{II}$ and $F_{FI}$ flows (symbolically shown by thicker respective flows). In the next section, I will argue that the

---

**Figure 1.2** Inward ($F_{II}$) and forward internationalization ($F_{FI}$) flows enhanced by rapid technological advances
participation of emerging nations in international trade and investment, and especially the increasing competitive gains by the firms from these nations, have further enhanced the competitiveness of firms through outsourcing from them and thus have enabled their pervasive internationalization, as discussed earlier.

The Arrival of Emerging Nations, Industries and Internationalizing Firms

Similar to the two trends discussed earlier, the impact of emerging firms, and even industries, especially from developing and industrializing nations, has been pervasive. They emerged slowly and sparsely at first and their arrival accelerated over time. Consider for example that the decades of the 1960s and 1970s witnessed only the entry of Japanese emerging firms – such as Sony, Sharp, Panasonic and Toshiba, among others – to global markets in an industry that came to be known as consumer electronics which is well established and dominated by global firms mainly from the previously emerging economies now. The predecessors of these firms were European and American before Japanese firms displaced their pre-eminence. As the so-called “tiger” nations of Asia followed the Japanese path of rapid development and industrialization, their consumer electronics firms – such as Lucky Gold Star (LG) and Samsung² based in South Korea; Acer, BenQ, eMachines and HTC based in Taiwan; to name a few – followed suit and began to enter international markets and assume global prominence. This trend has not been limited to consumer electronics. For example, firms in the automotive industry – such as Daewoo, Hyundai and KIA of South Korea – followed the path of their Japanese counterparts in the industry. Today, firms such as Honda, Mitsubishi, Nissan (formerly Datsun), Subaru, Suzuki and Toyota are global leaders in the automotive industry. They entered international markets and claimed prominent positions in less than three decades. Ironically, these two industries had their origins in the United States and Europe and the US- and European-based firms had previously dominated global markets for a long time before the appearance of firms from the emerging countries. Undoubtedly, firms from other emerging markets such as Brazil, China and India are not far behind. It is noteworthy that Japanese large general trading houses (Mitsubishi, Mitsui, ITOCHU, Sumitomo, Marubeni, Nissho Iwai, Nichimen, Tomen, Kanematsu), followed by their counterparts from South Korea, Taiwan, Hong Kong and Singapore, have been trailblazers at both the upstream and downstream ends of the value-creation activities. These firms have directly and indirectly augmented the internationalization of their client firms (regardless of size), industries and their associated nations.
Naturally, other emerging firms, industries and countries are bound to borrow pages from the recent history of their predecessors and follow the trajectories established by those early leaders, as did firms from Hong Kong, South Korea and Taiwan in following Japan. One can easily anticipate the arrival of already large and successful firms from other emerging markets, including Brazil (e.g., Petrobras, Telelema, Telefonica), China (e.g., Sinopec, China National Petroleum, China Mobile, Hutchison Whampoa, Sinochem, First Automotive Works, Jardine Matheson), India (e.g., Tata Steel, Tata Consultancy, Tata Motors, Infosys, Bharti Airtel, Wipro), Malaysia (e.g., Petronas, Maxis Communications), Russia (e.g., Yukos, Norilsk, Novatek, Severestal, Gazprom, Evraz, Baltika) and South Africa (e.g., Sasol, Telcom, Royal Caribbean) on the global scenes.

The noteworthy point is that it is not only the competitiveness of these firms in their implicitly internationalized environments, their large size and the dominant roles that these national (or international) firms play in their national (or internationalized) economies that drives their internationalization (that readily meets the eye); but rather, the conducive industrial policies of their national governments (of their associated emerging economies) fostering rapid change in their environment and thus encouraging their national champions to assume influential roles at home and also in international markets resulting in successful internationalization of these firms. In turn, they have assisted a large number of their local suppliers indirectly by taking them along to international markets as they themselves entered global markets. In turn, these suppliers have become capable and competitive candidates for supplying foreign firms (outsourcing), and even internationalized themselves after some time.

Of note, one can point to two other classes of firms (besides national champions) that have played a highly influential roles in the internationalization of smaller, younger and entrepreneurial firms in the emerging markets: MNEs and international trading houses. Through their global supply chain (i.e., outsourcing and offshoring) and value net (exporting, licensing, franchising and distribution) activities, and also through the activities of the networks of their sister subsidiaries, MNEs have bridged, assisted and even enhanced the internationalization of indigenous firms directly and indirectly. Traditionally, MNEs have been attracted to national environments that offered them attractive economic conditions, including efficient local suppliers. Similarly, the main activity of international trading houses has been buying supplies from international suppliers and selling to international buyers on behalf of their international (but mainly national) clients, as discussed earlier. They have become prominent instruments in indirect internationalization of the supply chain (the upstream) and value net (the downstream) of the smaller, younger and
entrepreneurial firms that have been incapable of internationalizing on their own, especially in the progressive emerging markets.

The combined impact of all three influential factors is shown schematically in Figure 1.3, where the emerging nations and their firms further enable the internationalization of firms in the FTA-type regions (or trading blocs) on their upstream (supply-side) activities. Through access to the knowledge of international markets via their collaborative arrangements with the outsourcing firms, supplying firms increase their competitiveness. In turn, this enables their buyers (the local firms, LFs) to receive higher benefits through the supply chain, and thus by outsourcing the LF attains higher competitiveness. Naturally, the learning feedback can help the supplying firms to adapt to the ultimate customers in the international markets and also augment their capabilities at home and abroad. They can, in turn, pass on the benefits of the feedback to their buying firms (i.e., feeding forward to add to LFs’ competitiveness as well). By benefiting from scale economies, knowledge of the market and indirect access to international markets, the emerging-market firms will be positioning themselves to enter the international market directly when the opportunity
presents itself, and benefit from the feedback and feed-forward loops by internationalizing directly.

The added capabilities of supply firms based in emerging economies are bound to enhance their chances of success in their direct internationalization and their success in international markets. A casual observation confirms these implications. Many of the prominent international firms based in previously emerging economies began their growth through outsourcing activities that laid the foundation for their internationalization later on. Samsung of South Korea is a typical example.

As stated earlier, the above contextual theory of internationalization provides a framework for the chapters in this volume, and also positions their contributions to the overall thesis of the book in relation to one another.

BRIEF HIGHLIGHTS OF THE CHAPTERS: THEIR POSITIONS WITHIN THE THEORETICAL FRAMEWORK, THEIR INTERRELATIONS AND CONTRIBUTIONS TO THE VOLUME

Following this introduction, Chapter 2, entitled “Internationalization theories and international growth of smaller firms from emerging markets”, is presented. Chapter 2 is the first chapter of Part I of the volume. Part I is mainly concerned with the theoretical foundations of SMEs’ internationalization and covers selected aspects of the pertinent theory. In Chapter 2, Hamid Etemad reviews the extant international business theory from the perspective of small, young and entrepreneurial firms, especially from the emerging economies. The chapter also expands on the scope of traditional theory by introducing other pertinent theories, including the resource-based view (RBV), the learning organizations or learning-based view (LBV), amongst a host of others. It suggests that the extant theory is too general to respond to the specific needs and challenges of the growing and internationalizing SMEs in different stages from inception to maturity. It formalizes its examination in terms of the three families of propositions with a view to the stages of SMEs’ life cycle. The further discussion of these propositions results in clear implications for managers, public policy formulation and scholarly research.

In Chapter 3, entitled “Broadening the domain of international entrepreneurship: towards the consolidation of the field”, Tamara Galkina examines international entrepreneurship (IE) as an emerging field of scholarly inquiry. The chapter reviews nearly three decades of IE’s existence and theoretical development. Using three criteria of a discrete
academic field, it valuates whether IE has, and can indeed maintain, the characteristics of a distinct scholarly research area with a delimited scope. The chapter comes to the conclusion that IE does not fully satisfy these criteria as yet. As a young scholar of the field, Tamara Galkina is completing the last stages of her Doctoral studies and has been concerned with theoretical developments in the field, and thus is in a position to suggests some directions for consolidating IE’s position both in order to make it a fully fledged theory, and also to assist those who need to practice it – that is, the entrepreneurial, smaller and younger firms, especially those from emerging economies which prefer to learn from a well-developed and tested theory in order to avoid experimentation with the possibility of committing fatal mistakes. This chapter directly leads to the next, which is mainly concerned with the state of emerging economies and IE in these economies.

In Chapter 4, entitled “The internationalization of small and medium-sized enterprises from emerging economies”, Christian Keen conceptualizes the topic of an internationalizing firm in, and from, an emerging economy and examines the meaning of related concepts. Based on his extensive work experience with international firms in emerging economies, and contrary to the popular conception, he suggests that the topic is complex and requires multidisciplinary perspectives and approaches. He observes that some unavoidable imperfections in emerging markets will remain for some time, including those in resource endowments and governmental intervention, among others. As a result, traditional international business theories and models are relevant, and will remain so in the near future.

This chapter examines the importance of having an entrepreneurial or top management team committed to internationalization, and to exploiting the advantages (and potential disadvantages) of the firm belonging to pertinent networks, while being embedded in the broader context of emerging economies. Ideally, the network structures would enable both the buyers and sellers to exchange goods, services and information more effectively and efficiently, which in the broader context of emerging markets is likely to be partial, incomplete and insufficient prior to exchange. Overall, this chapter suggests that SMEs need to have a sense of urgency in acquiring and developing resources and capabilities in dynamic environments such as those of the emerging economies. In such economies, a firm’s internationalization may be linked with the characteristics of its network. Contrary to the literature’s suggestion that companies may benefit more from networks that are composed of non-redundant contacts, Keen suggests that SMEs may benefit more from networks with redundant contacts and resources. In such economies, accessing resources
is a necessary condition for long-term internationalization, but ultimately a firm’s success depends on its managers’ objectives and strategic choice.

While Chapter 4 concludes theoretical discussions of the volume in Part I, Parts II and III relate to the actual practice of international entrepreneurship by emerging firms embedded in the emerging economies. Specifically, the four chapters of Part II present empirical examinations of typical entrepreneurial internationalization in specific environmental contexts, including international entrepreneurial initiatives in Iran (in Chapter 5), internationalization of Estonian firms through the network of Swedish entrepreneurs with Estonian roots (in Chapter 6), the efforts of emerging firms from Bangladesh, Bolivia, Ethiopia and Vietnam to enter international markets (in Chapter 7) and the impact of Russian environment on the growth and internationalization of entrepreneurial firms (in Chapter 8). I now turn to highlighting each chapter in Part II.

In Chapter 5, entitled “Impact of entrepreneurs on the process of internationalization of small and medium-sized enterprises in Iran”, Firouzeh Ghanatabadi empirically examines the impact of entrepreneurs on the process of internationalization of SMEs in Iran. Her empirical research aims at examining influential factors in the internationalization efforts of entrepreneurial firms in Iran, and her findings point to the influential impact of entrepreneurs’ interaction with their environment in the internationalization of Iranian-based SMEs. The chapter reports that the internationalization process in entrepreneurial, younger and smaller firms begins with the perception of new opportunities for economic success, and economic development at home and abroad is eventually realized when entrepreneurs follow an internationalization strategy.

This chapter’s methodology adopts an exploratory examination of 16 case studies during the pilot-testing phase of the research and advances to the analysis of information compiled through a more substantive questionnaire. Following the findings of the pilot study, complemented with the literature review and integration of three theoretical perspectives (i.e., internationalization, entrepreneurship and social networks), five research questions were formulated. These questions set the stage for deploying combining qualitative (personal interviews and case studies) and quantitative (through a questionnaire) methods to collect the required information empirically for further analysis. The findings of the cross-case analysis are complemented with descriptive statistics and t-test of difference of the means. The findings suggest that entrepreneurs generally have two distinct impacts on the internationalization of SMEs: one impact reflects their cognitive orientation, or their “way of thinking”, and the other impact arises from their actual behavior and “action-oriented functions”. Combined, they lead to the conception of international market opportunities and
the consequent efforts to realize such opportunities through successful internationalization of smaller and entrepreneurial firms in spite of all the environmental difficulties adversely impacting them at home and abroad.

In Chapter 6, entitled “Internationalization facilitated by Estonian roots and Swedish knowledge: sixteen cases”, Tiia Vissak chronicles a unique process in internationalizing SMEs in Estonia. Vissak’s empirically based chapter draws on the critical details of 16 cases of internationalization of smaller and younger firms into and from Estonia, deploying networks and collaborative arrangements amongst the firms and networks of people with Estonian roots. This chapter provides vivid and diverse case examples of the need for Estonian smaller firms to internationalize to benefit from international markets, as well as for foreign firms to take advantage of existing opportunities in Estonia (at both the upstream and downstream ends of the value chain). This chapter also points to the critical need for and the role of knowledge of the foreign market (Johanson and Vahlne 1977) and knowledge of the internationalization process (Welch and Luostarinen 1988, 1993) in supporting the firm’s foreign market entry and successful internationalization. Such needs and roles are even more crucial in emerging economies, such as Estonia, which have not been very active internationally and have not acquired the experiential knowledge or developed the required capabilities. As a result, neither the firms nor the support system in the country could easily provide the required knowledge sets. On the other side of internationalization, foreign firms wishing to enter a rapidly changing economy, such as those in the emerging economies, face similar voids of knowledge, uncertainties and problems. However, the access to, or ties with, key customers and suppliers, as bridges covering the knowledge and information gaps and chasms, can facilitate the acquisition of market knowledge. Similarly, arrangements with intermediaries with expertise in international business processes can provide knowledge of the process before and during internationalization.

Similar to other smaller and younger enterprises in emerging markets, Estonian firms did not have the opportunity to acquire the required knowledge sets and also lacked the contacts to provide them with such knowledge. It could, therefore, take a considerable time before a firm established the necessary relations. However, the assistance and active involvement of people with “Estonian roots” and foreign knowledge expedited the process and made it easier. The chapter selects cases of such people that have played key roles in the process of firms’ inward and outward internationalization regarding Estonia. For example, the network of people with Estonian roots has given advice; helped Estonian companies to find Swedish investors, buyers or suppliers; participated actively in negotiating with, or for, Estonian firms; and helped them to market their products or
services in Sweden and other countries (e.g., by setting up or managing subsidiaries in Sweden or elsewhere).

As both the expertise and the knowledge acquisition can be accomplished in several different ways, this chapter focuses on the people who can act as bridges between the home and potential host economies to provide for a smooth path of international developments. Such a personal bridging function may have developed through different means, for example, having lived in the potential foreign market, or alternatively having established close ties there for providing all the necessary information, knowledge and contacts. As compared to other ways of advancing internationalization, the chapter points out that the role of migrants has received relatively little research attention, and this chapter documents instances where people with Estonian roots (for example, those who had moved from Estonia to live in Sweden, or returned to Estonia from Sweden) have considerably facilitated the management of outward and inward internationalization processes for both the Estonian firms entering Sweden and the Swedish firms entering Estonia. Due to the availability of pertinent knowledge and expertise, some of these internationalizing firms followed the international new venture and born global routes instead of internationalizing slowly in the “Uppsala style”. The case firms benefited from migrants’ advice and connections. As a result, they found foreign suppliers and investors, or accomplished exporting or investing abroad, faster and more easily than otherwise would have been the case. Although the social network of people with roots in a national market and ties abroad can facilitate, and even improve upon the chances of success, such people do not necessarily succeed; and thus, involving them is not always the best choice if a company needs to internationalize successfully. Performing due diligence is always recommended. Although firms from only two countries (Estonia and Sweden) were studied, the lesson of this chapter points to a potent strategy for local firms aspiring to enter other markets.

In Chapter 7, entitled “Explaining the international entry and expansion of firms from developing countries from a capability point of view: test results from Ethiopia, Bolivia, Vietnam and Bangladesh”, Utz Dornberger and Md. Noor Un Nabi focus on the analysis of two fundamental questions relating to firms’ capabilities in relation to their internationalization. First, what enables the firms to enter the international market? Second, what enables the firms to expand further in the international market in the post-entry period? The chapter proposes a conceptual framework with two sets of organizational capabilities – the basic operational and higher-order capabilities – for answering these, and related questions. Firms’ basic operational capabilities are task-specific and functional capabilities largely constituted of the tangible and semi-tangible resources of the firms.
Higher-order capabilities are non-task-specific capabilities mainly in the form of complex organizational routines, which evolve inside the firm resulting from the interactions among the firms’ tangible and intangible resources within the operational contexts of the firms.

Based on this conceptual framework, basic operational capabilities may be sufficient for firms’ entry into the international market. However, such basic operational capabilities need reconfiguration in the post-entry expansion phase, which requires higher-order capabilities. This proposition has been tested with survey data from pharmaceutical exporters from Bangladesh, leather goods exporters from Ethiopia, wooden furniture exporters from Vietnam and jewelry exporters from Bolivia. Statistical test results support the proposition. Therefore, the conceptual proposition and empirical research results presented in this chapter can be used as guidelines for both investment and internationalization decisions by managers in similar industries and environments of the emerging market. The discussion of this chapter can also assist public policy formulation and firms’ decision-making in pointing to the support packages of facilitating institutions that can assist, if not augment, the required capabilities for internationalization of firms from such emerging economies.

In Chapter 8, entitled “Growth factors in Russian entrepreneurial firms”, Galina Shirokova, William Coyle and Alexander Shatalov examine factors in the Russian business environment that potentially promote, or inhibit, the growth and internationalization of entrepreneurial firms in Russia. Given the paucity of empirical research and analysis of the Russian business environment’s impact, especially on entrepreneurial firms, this chapter fills a large gap. The findings are based on the analysis of data collected from some 240 Russian entrepreneurial firms, and this sample size enabled statistical analysis with higher reliabilities. Based on the existing literature, eight separate influential families of growth factors, both internal and external to the firm, were identified and their potential impacts on growth were carefully hypothesized and then tested. The results provide a detailed and extensive picture of the attributes of Russian entrepreneurial firms and the business environment in Russia for such firms, which extends our understanding beyond the existing literature. Although potential reasons for, and explanation of, the results are outlined in the discussion section, the chapter as a whole provides a rich basis for further discussion, examination and analysis, and suggests potential avenues for future research concerning the peculiarities of Russian entrepreneurial firms in particular and the impact of the Russian business environment on growth and internationalization of firms in general. Part III of the volume follows this chapter.

Part III is concerned with the manifestation and treatment of inter-
nationalization in various environments. It examines selected aspects of internationalization initiatives in the emerging economies in the southern hemisphere and addresses the interactions of the environment, firm characteristics and institutional heritage in terms of their enabling and inhibiting impacts on internationalization. I now turn to highlighting each chapter of Part III.

In Chapter 9, entitled “Internationalization and post-IPO performance”, Kin Kwok (Sam) Leung and Rod B. McNaughton report on an exploratory study of the relationship between internationalization and the post-initial public offering (IPO) share price of a sample of Australian firms. This chapter explores the important topic of how markets value internationalization in terms of post-(IPO) stock prices that in turn impact the firm’s internal decision regarding the timing, extent and speed (or rate) of internationalization. The extant literature has yet to examine extensively the impact of extent and rate of internationalization from the perspective of external decision-makers (the markets) that has a direct impact on a publically held firm’s finances and acquisition of resources. While the slow and methodical Uppsala internationalization model allows for mitigating internationalization’s potential risks, the more recent models (e.g., INVs, born globals and rapidly internationalizing enterprises) suggest a more extensive and faster international development, with a near disregard for internationalization’s real or perceived risks and their corresponding impact on a firm’s market value and domestic operation. Naturally, these issues assume higher importance for smaller firms in emerging markets, and this chapter points to their potential impacts.

The chapter suggests that there are many empirical tests of the relationship between measures of organizational performance and internationalization, but the uniqueness of this study is its measurement of performance from the perspective of external investors. At the outset, it is not quite clear if investors see internationalization as a source of uncertainty, or as an opportunity for growth in sales and profitability. While the sample is too small to be conclusive, it appears that investors are not particularly enthusiastic about internationalization, and firms are not rewarded with share-price increases as the firms reach high levels of internationalization. However, growth in share price is positively related to internationalization for firms that generate at least 50 percent of their revenues from the domestic market. While acknowledging that more research is required, Leung and McNaughton argue that their results suggest that internationalization is primarily valued as a means of growth in firms that are already well established in their domestic markets. This chapter also paves a conceptual pathway for a better understanding of the impact of financial and governance structures on internationalizing firms (see Chapter 11).
on the one hand, and a cautionary note for relatively resource-poor firms attempting internationalization on the other hand.

In Chapter 10, entitled “Fair trade and alternative food networks in the internationalization of small-scale rural entrepreneurs in South Africa”, Etienne Nel, Tony Binns and David Bek report on remarkable developments between the North and the South, where innovative, community-based and ecologically friendly products from underprivileged regions of South Africa were successfully assisted to enter the highly competitive consumer markets of the United Kingdom and beyond. In an increasingly competitive global economy, small and emerging entrepreneurs frequently struggle to secure market access for products of rural regions – not made in modern world-class factories and not supported by large marketing budgets to generate information and potential demand.

This chapter examines how entrepreneurial initiatives in rural South Africa with some external assistance have organized to produce the so-called “alternate” food products, such as rooibos tea, and have successfully marketed their products through ethical trading networks including that of the Fair Trade system. The chapter indicates that internationalization of entrepreneurial business activities, even when they are small scale and rurally based, can generate important benefits for both the home entrepreneurs and their host communities. Due to the relatively low marketing and business capabilities of these entrepreneurs, the success is often dependent on external support and augmentation of capabilities, especially for entering highly competitive international markets. In the case of the examples discussed in the chapter, such support has come through two unexpected and unconventional sources: (1) the support of aid agencies and non-governmental organizations (NGOs); and (2) the helpful support and active engagement of the corporate sector, through corporate social responsibility (CSR) programs. This chapter also documents the extent to which that success in underprivileged regions is dependent on the coalescence of a combination of local entrepreneurial initiatives, unique “alternate” products, long-term vision (or goodwill) and the active support of external institutions, such as NGOs, aid agencies and CSR programs engaging in specific marketing and trading systems. In short, this chapter is a vivid portrayal of entrepreneurial (from the emerging South) and intrapreneurial (of the corporate North) bridging across the traditional chasms of underdevelopment, constrained resources and inadequate capabilities in the face of intensive global competition. The chapter is also an exceptional example of how cooperation between entrepreneurial initiatives in, and from, emerging economies and a network of NGOs and the CSR initiatives of corporations of industrialized economies enable access to the rich markets for the benefit of all parties that the traditional com-
petitive systems had not addressed before. Such emerging entrepreneurial initiatives, regardless of their origin and size, present potentially new innovative ways to achieve internationalization, especially those in emerging firms and economies.

In Chapter 11, entitled “Firm and ownership structures and internationalization: two case studies of firms in the New Zealand seafood industry”, Kelley Brydon, Léo-Paul Dana and Hamid Etemad examine the impact of governance and industry structure on firms based in a small country while competing in a highly competitive globalized industry. The chapter highlights the extent of internationalization’s interaction with, even dependence on, the firm’s internal decisions, industry structure and market environment. Specifically, the chapter first reviews the literature on firm structure, ownership structure and concentration, diversification and use of networking related to the extent of internationalization, before engaging in specific case studies of internationalization efforts of two firms in the New Zealand seafood industry with different internal and financial structures. The main aim of the study was to determine the extent to which the extant literature was applicable to the firms in their specific contexts. The two case studies, one of a smaller family firm and one of larger firm with block ownership, strongly suggest that the literature relating to ownership concentration is only partly applicable, providing an opportunity to expand and contribute further to this literature on the one hand, and raising caution about unqualified application of the theory to the smaller family-owned firms from smaller economies on the other hand.

In light of New Zealand’s small domestic market in a large and globalized industry, these case studies also suggest that the industry characteristics play a fundamental role in the firm’s decision to internationalize, and the firm structure and governance only influences the extent and the rate at which each firm expands into foreign markets. Although a conceptual model highlights the key relationships between variables studied in this chapter, the topic of the chapter points to the complex relation amongst the broad family of influential factors such as: (1) firm size, governance and structure; (2) the influence and the dynamics of domestic environment (especially the regulatory aspects); and (3) the extent of the industry’s global orientation and activities.

In Chapter 12, entitled “Socio-cultural dynamics, entrepreneurial values and client–provider partnerships in the outsourcing industry”, Joseph A. Sy-Changco, Chito F. Agapito and Ramendra Singh examine the uncharted areas of intensive interactions between the socio-cultural dynamics of service providers in a complex society such as the Philippines, and their client partners mainly in the West, in the context of highly competitive business process operations (BPOs) industry globally. This
chapter is a vivid portrayal of complex interactions between two dynamic interrelated relations – that is, the relatively more intensive involvement of people in providing services, regardless of their location; and the close relationship between a typical BPO service provider and its clients generally located in two different countries as outlined in the contextual theory of internationalization and depicted in Figure 1.3 – which are critical to producing efficient and timely compliant BPO services. The latter is the necessary and enabling condition without which outsourcing of BPO services from the emerging economies (i.e., the backward internationalization of demanding firms’ value creation) would be almost impossible. In turn, such outsourcing paves the way for forward internationalization of service providers from the emerging markets, each driven by the socio-economic and competitive pressures of its own environment. As the two relations have their own dynamics, continuous coordination (between the service providers and clients) and strong partnerships would be critical to the upgrading of providers’ skills and capabilities necessary for sustained relations. These are schematically represented by the feedback and feed forward loops in Figures 1.2 and 1.3.

Specifically, this chapter investigates the socio-cultural dynamics in the providers’ local environment (i.e., the Philippines) and then maps them into the client–provider relationships in satisfying the requirements of BPO outsourcing partnerships. In so doing, the chapter highlights the findings of semi-structured interviews with first-generation entrepreneurs in the Philippines and examines them in relation to their international clients’ expectations and requirements. The chapter comes to the conclusion that the success in the BPO industry depends more on coherence and alignments between socio-cultural dynamics of entrepreneurial values in the providers’ environment, and those of clients’ requirements that result from coordination and a strong sense of partnership, than just cost reduction. The chapter also points to the importance of “partnerships” as the key foundation to the stability and success of the internationally sourced business services, which underscores the importance of service providers’ full cognizance of clients’ increasing need for higher standards and requires continuous investments in local human resources through upgrading and training. Naturally, such upgrading of human resource capabilities requires the full support of the government, and thus ongoing coordination between the private and public sectors are necessary to ensure the continued international success of the BPO industry.

In Chapter 13, entitled “Exploring the ambience of ‘international entrepreneurship’ among SMEs in India”, Dinesh Khanduja examines the state of entrepreneurship in India. This chapter argues that emerging and developing nations in general, and India in particular, urgently need
to encourage their SMEs to engage in international entrepreneurship in order to sustain economic growth. This, in turn, requires an ambience, or perception, of turbulence in the domestic environment to encourage competitiveness. The exposure to international competitors may simulate that condition and prepare local SMEs for competition in the light of increasing liberalization and globalization of world markets. The chapter reports that SMEs’ participation in international business currently constitutes a very important segment of India’s economy: it accounts for nearly 40 percent of the gross value of output in the manufacturing sector and about 50 percent of the total exports from the country. Although India is reportedly placed second among all nations in total entrepreneurship activity, there is a prevailing feeling that entrepreneurs in emerging, dynamic and highly competitive global environments, such as India, need to become more aggressive, opportunistic and internationally oriented, and systematically and actively engage in invention, innovation, incubation and strategic cooperation. With that information in the background, the chapter reports on the findings of a national survey of 500 successful entrepreneurs in India. The findings exhibit significant inclinations of aptitude for international entrepreneurship while pointing to the weakness, if not the absence, of the requisite skills and capabilities for international entrepreneurship, such as quality management, awareness of rules and legalities, international communication, marketing and management skills. The perception of the complexity of international requirements (e.g., documentation, information and reporting) and difficulties of making transactions seem to have heightened the fear of insolvency and taxed the Indian SMEs’ confidence in dealing with international markets. A model involving personal, educational, vocational and crisis counseling is proposed, to monitor sustainability for international entrepreneurship and to alleviate the fears and myths of international entrepreneurship. The last part of the volume follows this chapter.

Part IV, entitled “The impact of public policy and the home-country environment on internationalization of smaller firms”, discusses the influence of public policy on the extent and success of the internationalization of firms, industry and the country’s competitiveness, however indirectly. This part exemplifies how the home-country environment and public policy initiative can stimulate (or inhibit) the internationalization of firms and industries. It comprises three chapters that highlight specific examples of the topic. Specifically, Chapter 14 points to the difficulties that small innovative entrepreneurs face in Russia; while Chapters 15 and 16 discuss the impact of regional industrial clusters in Malaysia and Chile. I now turn to the highlights of Chapters 14 to 17, as follows.

In Chapter 14, entitled “Development of small innovative enterprises in
Russia: internationalization issues”, Elena Dmitrienko and Vera Minina examine issues related to innovative Russian enterprises and the environmental conditions that impact their growth and internationalization efforts. The chapter suggests that innovation is one of the most crucial factors in the development of firms and in the growth of their national economies in the modern world. Naturally, that is even truer in the case of small innovative enterprises (SIEs) which can contribute more significantly to the level of innovative activities of their nations. As innovativeness and internationalization are strongly connected, successful internationalization is dependent on the internal and external factors that impact innovative activities directly, and internationalization indirectly.

The case study approach in the chapter identifies both the core features of Russian SIEs and the adverse impact of Russia’s environmental factors on their growth and development, which effectively act as barriers preventing their efficient internationalization. Similarly, the results of case studies presented in the chapter also point to how the adverse impact of SIEs’ reduced ability to internationalize inhibits Russia from passing rapidly through its transitional processes.

From a general perspective, this chapter provides a clear portrayal of how the interactive impact of the context (i.e., that of the national and international environments) can be enabling, or inhibiting, SMEs’ internationalization, with a corresponding contribution to the economy’s competitiveness. It points to the specific case of Russia as an example of an emerging economy with a relatively slow pace of modernization (and internationalization) of its environment having an adverse impact on the innovativeness of SMEs in Russia, which has in turn inhibited Russia’s ability to internationalize its national economy and attain global competitiveness. As a case example of the contextual theory of internationalization proposed earlier in the chapter, Russian SMEs aspiring to internationalize find the pace of Russian transition (from communism and a closed system, to an open system) to be too constraining on their internationalization efforts, while their counterparts in other emerging economies enjoy more supportive policies to attain higher competitiveness through internationalization (e.g., as outlined in the next two chapters). Emerging SMEs and economies should find the lessons of this chapter highly instructive.

In Chapter 15, entitled “The impact of industrial clusters on internationalization: the case of SMEs in Malaysia’s Multimedia Super Corridor”, Christopher Richardson and Mo Yamin present a more specific example of the contextual theory of internationalization presented earlier. The chapter explores the interactive contextual impact of operating in an industrial cluster on the internationalization of SMEs in an emerging and
developing country (EDC). The chapter suggests that relatively little is known about the effects of industrial clusters on firm internationalization, particularly in the context of EDCs, and offers timely insights into the ways by which clusters can potentially influence the international growth of SMEs based in EDCs. The chapter adopts a case study of SMEs in information and communication technology (ITC) industries in Malaysia’s Multimedia Super Corridor (MSC) as the main unit of analysis. The Multimedia Super Corridor Cluster (or cluster) is the government of Malaysia’s policy-induced creation and is designed to encourage ITC SMEs to become more competitive and to internationalize by locating in the MSC. In order to gain a full understanding of the impact of firms’ co-location on internationalization, the chapter reports on 13 semi-structured interviews conducted with nine SMEs located both inside and outside the MSC cluster, as well as with a senior representative of a private organization that works to support local ICT firms. The findings suggest that, despite the potential advantages to internationalizing firms, there is minimal difference between firms located in the cluster and those located outside the MSC cluster.

In Chapter 16, entitled “Regional systems of innovation and knowledge entrepreneurship in natural resource-based clusters”, Christian Felzensztein and Jaime Olavarría further expand on the interactive impact of industrial clusters on the internationalization of firms by examining natural resources industries. In contrast to a public policy-induced incentive (the case of the previous chapter), this chapter examines the role of geographic proximity and social networking in triggering cooperation in marketing activities within a cluster, and its consequent impact on their participation in international markets. The chapter compares marketing practices and associated externalities in clusters of three key natural resource-based industries – the forestry product industry, the dairy product industry and the salmon fishery industry – in Chile, for which there is limited prior research on clusters in such industries. The findings of the research presented in the chapter indicate that both social networking and geographic proximity facilitate interfirm cooperation in marketing activities. However, these factors are considered differently in each of the three studied industries. Lessons for managers, trade associations and policymakers for enhancing interfirm collaboration and entrepreneurship at local and international levels are discussed.

The last chapter of this volume, Chapter 17 by Hamid Etemad, simply entitled “Reflections and conclusions”, offers some retrospectives and reflective insights. This chapter suggests that the empirical findings and the discussions of chapters included in this volume portray international entrepreneurship as a field that resembles, and may have already become,
a dynamic open complex adaptive system, or DOCAS for short (Etemad 2004c). In a dynamic adaptive system, subsystems, or elements of the systems, are adaptive and interact intensely with other parts of the system. Their active mutual interactions not only influence the behavior of subsystems, but also impact the system’s path of development over time. The open and dynamic nature of the system allows for many concerned agents to enter, exit and influence the system at some point, usually through a subsystem open to such interventions, with subsequent impacts on other related parts through a series of chain reactions before the system rests at a new state. Such agents’ influences may decay relative to those of others over time, and thus not all subsystems may be affected; but they add to system complexity as a whole, even in their decaying state (or dormancy).

Etemad (2004b) argued that at least three identifiable, open and dynamic subsystems – that is, the entrepreneurs or the top management team (TMT), the competing firms and their associated markets – are integral and active parts of international entrepreneurship, and their routine, or planned, actions and interactions impact subsystems and the system as a whole across time and space. Once a perturbation (planned, explicit or otherwise) causes change in one part of or the whole system, that part, and possibly the rest of the system, adapt before the system comes to rest at a new state.

This chapter points out that the potential components of such a system – for example, entrepreneurs, the top management team or the entrepreneurial firms – introduce new perturbations (through new initiatives, products and services, processes, procedures, and so on) to their markets at times, in response to new developments elsewhere (including changing consumer demands) or for their continuous quest for growth. Such perturbations may also influence the firm internally, impact its competitiveness and its immediate competitors, which in turn can collectively change the nature of competition in the market.

Similarly, globalization of industries and markets combined with advances in information technology and information transparency increasingly require (or force) the emerging economies, just like other economies, to adopt policies that would influence their own institutional environment and structure, which in turn impacts the nature of competition, entrepreneurship, resource acquisition and deployment at an even faster pace than those elsewhere. Combined, these three broad interactive layers, reflecting the dynamics of entrepreneurial actions and reactions, young and smaller firms, and the competitive markets of the emerging economies, have developed a highly intertwined dynamic resulting in continually evolving practices and interrelations (such as the evolving buyer–supplier relations in ever-changing constellations of collaborative arrangements).
Introduction and overview

Similar to the arguments presented in Chapter 1, the last chapter points out that a simple DOCAS, defined in terms of the major attributes of entities populating each layer in the framework, is capable of simulating both the necessary and the sufficient conditions for framing the relevant parameters for the management to formulate potent strategy, for scholarly inquiry to develop clear insights, and for public policymakers in the emerging economies to devise effective policies to advance the field.

NOTES

1. For a critique of the Uppsala Process Model, see for example Bell (1995).
2. Samsung Electronics is becoming a dominant firm in Consumer Electronics. As an example, it replaced Apple’s leadership in smart cellphones and sold more than 20 million smart cellphones while Apple and Nokia sold about 16 million and 10 million, respectively.
3. For an extensive discussion of the knowledge of the foreign markets and the knowledge of the internationalization processes see Chapter 2 of this volume.

REFERENCES

Bell, J. (1995), The internationalization of small computer software firms: a further challenge to stage suggests theories, European Journal of Marketing, 29 (8), 60–75.
Internationalization in emerging SMEs and emerging economies


Internationalization in emerging SMEs and emerging economies


