INTERNATIONAL ENTREPRENEURSHIP

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Question 1: Many entrepreneurial SME's do not follow a planned, strategic approach to the issue of internationalisation. Most do so by means of an evolutionary strategy based on a combination of methods and options. Using relevant illustrative example for each approach, review the various options that can be used, the advantages and disadvantages these options and how the probability of success can be maximised.

Entrepreneurial SMEs adoption of Evolutionary strategies

The focus on entrepreneurial SMEs' internationalization strategies is imperative since SMEs role in the economies is very crucial. Among the OECD countries, SMEs represent 95% of all enterprises and generation of more than half of employment of the private sector (cited by Kumar, Antony and Douglas 2009). According to the OECD's statistical findings, SMEs from the most industrialised countries have of late accounted for substantial export proportions (Knight 2001). These internationalisation trends of SMEs are anticipated to gain increased momentum owing to the increased integration of the global economy coupled with the continued technological advancement and the decline of government-imposed trade barriers (Lu 2001).

Business internationalisation according to Welch and Luostarinen (1988) is the process in which organizations get involved directly or indirectly in international operations. It is the process of bringing together resources and strategies and adapting them to international environment (Calof and Beamish 1995, cited by Javalgi and Todd 2011). It is considered as the process is been considered to combine different resources within the enterprise (Gankema, Snuif and Zwart 2000). Research has shown that SMEs have adopted different approaches to approach internationalisation. These approaches include; network approach, stage and international

entrepreneurship approach. It is studied that for these approaches to be effective, they should be resource based to sustain establishment of firm's international activities (Ahokangas 1998). The incentive to venture into international markets through exportation and creation of subsidiaries helps firms increase rents as well as increase access to technology with an ultimate goal of remaining competitive

According to Bell, Crick and Young (2004), there are three main factors that affect the internationalisation of SMEs. Among these, management and ownership issues take precedence. This is due to the fact that ownership influences a firm's business strategies as well as their international focus. Second, market and product development strategies affect SMEs' internationalisation. Further, the introduction of new technology processes direct SMEs' re-examination of their strategic directions.

Internationalisation takes different entrepreneurial options to warrant efficiency and competitiveness. As an internationalisation option, joint venture is said to be an agreement between parties to develop a new entity by contributing equity where parties exercise control over the enterprise and share rents as well as benefits, costs and expenses subsequently (Ippaso 2002).The main purpose of joining ventures is to bring a combination of expertise and wealth resources to converge to one entity with joint management in a synergistic manner. In addition, other benefits include profit and loss sharing as well as joint proprietary interest. An example of this option is Microsoft and GE joint venture as well as Cadbury Schweppes PLC Carlyle Group joint venture. Joint ventures are considered to help entrepreneurial SMEs grow and expand into new markets although they can be complex and may require reliable relationships within (Ippaso 2002).

Some of the advantages identified for this option include: joint ventures can help enter previously barrier bound entries, they can also provide a platform to access expertise without hiring more staff, and they can leverage on existing technologies and share the risks of uncertainly high-risk venture (Inkpen and Crossan 1995). In addition, joint ventures can help establish SMEs presence in new and untapped markets and especially in the international level. Although the benefits and merits of joint ventures make it much desirable an option, some of the pitfalls can be so detrimental. Joint ventures can be grounds to setting unrealistic business objectives that may not be aligned to common goals and poor tactical decisions can be made when the member companies' roles are misunderstood as well as complexities in the adoption and integration of differing cultures, styles of management and working relations.

On the other hand, franchising as an internationalisation option is the use of a firm's model of business and its brand for a subscribed period (Abecassis-Moedas, Ben, Dell'Era, Manceau and Verganti 2012). An example of this option is the Cream British Luxury franchise. This internationalisation business venture requires less capital making it advantageous and strategic. Other advantages of the franchising include it guarantees rapid expansion since it allows multiplicity of units, this also facilitate market dominance due to multiplicity of location presence. In addition, it places the business owner in charge as well as increasing name recognition. Although the option gives the franchisee the management position to run the business on day-to-day basis, the independence of the franchisee is challenged. This is because the franchisee operates upon the franchisor's discretion.

Internationalisation is said to take different forms including; export, import, international collaboration and foreign direct investment (Jones and Leo 2008). In either of these forms, export expansion as a characteristic of internationalisation needs to adopt and follow some

export structures in order to fit into the existing and the potential international market opportunities, which are bound by formalised administrative arrangements with the view to help them conduct trade internationally and ultimately, achieve export performance (Reid 1983). Unlike the traditional model where SMEs focussed on strategic approaches that are planned and monitored, most entrepreneurial SMEs prefer evolutionary strategies through a combination of options and methods, transformative organisational strategies for handling internationalised trade.

In addressing the issue of internationalisation and performance of 'born-global SMEs,' Zhou and Luo (2007) argued that social networks that are home-based play a significant role in coalescing inward and outwards relationships that relate to the firm's performance and internationalisation. This mechanism of mediation is attributed to the benefits of information that arise from social networks – experiential learning, international market opportunities and knowledge as well as solidarity and referral trust. Business executives therefore are expected to consider social networks as efficient modes to help SMEs go 'international' rapidly and profitably (Zhou, Wu and Luo 2007).

Of great concern is the analysis of firms approach and strategies towards internationalisation. SMEs today face critical issues on ways to sustain their competitive advantage in a situation where there are increased complexities between international trade and business links. The double pressure of international competition and trade liberalisation plague firms. This has seen SMEs either falling out or adopting different strategies. Most entrepreneurial SMEs have realised the need for evolutional modes and strategies as opposed to planned strategic approaches. In determining the strategy of internationalisation some factors need to be taken into consideration. These include: Uncertainty and dynamism in the firm's

environment, nature of the home market, industry and segment, knowledge availability, entrepreneur and management previous experience, firm's innovativeness and innovation skills, and network links (Gianpaolo and Fabio, 2008).

Evolutionary strategy according to McDougall and Oviatt (2000, p. 903) is termed as the combination of strategies which include proactive, and innovative behaviours beyond the national borders. This embarks on the concept of entrepreneurship that is characterized by discoveries, evaluations, management and opportunity exploitations (McDougall and Oviatt 2005). It is a modality where entrepreneurs through their entrepreneurial skills see international markets and through innovation, risk taking philosophy commit invest in resources and capabilities in order to seize the market (Armario, Ruiz and Armario 2008). This evolutionary model is what is termed as born- global internationalisation approach.

Firms adopt the 'born global' approach where companies enter international markets from conception to growth. Other than following a set of plans and strategies, these firms enter different countries at once (Kocak and Abimbola 2009). This is made available due to some external factors including technological advancement in production, knowledge of foreign markets and the advancement of transport and communication. In addition, liberalisation is creating a desirable environment for SMEs to go global (Lim and Kimura, 2010).

Planned Strategic Approach

Some of these contemporary planned and strategic approaches adopted to align companies to internationalisation include the stage theory approach, incremental approach and holistic approach (Fletcher 2001).

Stage theory approach requires firms to start by selling products at home before looking for external markets. Among the models identified with this approach include the product life

cycle theory where firms introduce new products only in their markets (Segerstrom and Dinopoulos 1990). Such firms can eventually go global and maintain an international involvement through the Uppsala International Model (Vahlne and Johanson 2013).

i. Product Life cycle Model

This model is also known as the Vernon´s life cycle model that was coined by Vernon (1966). According to the model, firms' internationalisation does follow the product life cycle development where products are developed at a home country and exported at external markets. These products in most case become standardized and used to meet the local demand. An example of this is the Coca-Cola Company that is broadly used in many countries as a standard drink.

ii. Uppsala Model

The incremental characteristic of firms' international involvement is used to describe the Uppsala Model (Johanson & Vahlne, 2006). Through the model, firms often begin their internationalization from markets considered to be psychologically near. Through constant involvement with market interconnections, these firms ultimately gain experience and skills to broaden their markets to those considered having greater psychological distance.

The Uppsala Model sought to bring improvement of the Vernon model. In adopting an integration approach of the two models within the stage approach, entrepreneurial SMEs will be in a position to explain the evolution of a company within a domestic setting as well as better explain the internationalisation process (Contractor, Kundu and Hsu 2003).

Advantages and disadvantages of planned strategic approach Versus Evolutionary

Unlike the modalities of the contemporary internationalisation, the evolutional strategies of firms do not really face out the SMEs in the competition landscape. However, the firms

ultimately are plagued with struggles to professionalise their activities in terms of procedures of strategic planning, organisational structure, decision-making systems as well as systems of information technology and accounting systems. The following addresses the advantages of the planned strategies that make them preferable to evolutionary as well as their disadvantages that make firm continue relying on the evolutionary strategies.

	Advantages	**Disadvantages**
Evolutionary Approach	1. The 'born global' approach helps to diversify global market since it has the potential to reach a diverse audience although the challenges associated with this include the time to create a foundation that can be unstable since the venture requires fast paced market entry strategies (Vincze 2004). 2. In addition, the attempt to go global requires additional capital especially if the market option is FDI in nature (Luo and Tung 2007).	1. Since the approach is global in nature, it lacks a domestic market to rely on as a point of leverage. For this reason, most entrepreneurial SMEs opt for evolutionary strategies.
Stage Theory Approach (Products' Life Cycle	1. It helps entrepreneurial SMEs to identify the loops within their	1. It is 'deterministic' in nature: With a rapid decline of

and Uppsala Model)	product designs and evaluate them before they get to the international market (Fletcher 2004). 2. It gives time for the firm to first seek its legitimacy and set its foundation before going global (Axinn and Matthyssens 2002).	operations cost (communication and transport) firms no longer consider the theory relevant and hence are prone to skip some stages (Oviatt & McDougall, 1994). 2. It oversimplifies the complexities of the process as well as ignoring the impact of the exogenous variables (Fletcher 2004).

Conclusion

Internationalisation possesses significant advantages as well as challenges to entrepreneurial SMEs. It is considered as the process of bringing together resources and strategies and adapting them to international environment. Among some of the advantages include: Market diversification and internationalisation can be made effective through various approaches including the stage theory approach as well as the ‘born global’ approach. The incentive to venture into international markets through exportation and creation of subsidiaries helps firms increase rents as well as increased access to technology with an ultimate goal of remaining competitive.

Different firms adopt different strategies to internationalise which include evolutionary strategies as well as born staged strategies. The ‘born global’ focuses on SMEs venturing into global market from their conception to growth while the stage theory approach focuses on a staged model of both the product life cycle model and the Uppsala model. One of the advantages of this approach is that it helps entrepreneurial SMEs to identify the loops within their product designs and evaluate them before they get to the international market. Further, it gives time for the firm to first seek its legitimacy and set its foundation before going global. However, staged model is considered to be too ‘deterministic’ in nature since firms often skip stages of growth. It is also accused to oversimplifying the complexities of the process as well as ignoring the impact of the exogenous variables.

Evolutionary strategy is therefore preferable used since it helps to diversify global market since it has the potential to reach a diverse audience although the challenges associated with this include the time to create a foundation that can be unstable since the venture requires fast paced market entry strategies.

Question 2: The OECD suggests that SME’s have a tendency to move to markets that are geographically or psychologically close to them. Again, using relevant illustrative example for each approach, address the following two questions:

a) What are the advantages of this approach?

b) What are challenges that are presented by moving to markets that are geographically or psychologically distant and are these more of an issue for the service or the manufacturing sector?

Over the years psychological and geographical distance has been used to explain and describe the international trade trajectory (Eriksson and Sharma 2000). It has been studied that political, environmental and cultural distance has been used to describe the concept of psychological distance (Johanson and Wiedersheim 1975). Distance has been used as a factor in determining market information and knowhow.

On sustaining internationalisation of SMEs, OECD claims that entrepreneurial SMEs tend to focus on markets that are psychologically as well as geographically close to them. One of the studies of OECD-APEC that focus on 'Removing Barriers to SME Access to International Markets' identifies various challenges and barriers of SMEs' internationalisation (Fliess and Busquets 2006). Some of the identified challenges include SMEs' limitation of resources as well as international information and contacts coupled with the lack of requisite managerial knowledge. The study further identified the external environmental factors that stimulate SMEs to internationalise with the inclusion of supply chain links, global trade infrastructural improvement, social ties as well as immigrants links. Firms therefore often tend to concentrate on domestic markets and maximise their inputs and outputs in an efficient environment of knowledge management.

Advantages of Domestic Marketing by SMEs

Domestic marketing has been hailed due to its simplicity in market entry, lower financial requirements as well as less information to entry compared to foreign market venture. The marketing strategy offers a myriad of merits both to the owner/manager as well as to the employees. One of the identified advantages of domestic marketing is the fact that workers can easily communicate due to shared culture and language. Unlike the international markets where the management and the workers may be of different culture and speaking different language,

domestic market offers entrepreneurial SMEs the opportunity to understand one another and address issues based on a common ground (Perry 1990).

Another advantage of domestic marketing is the fact that it is easier for firms to predict consumer preferences and to understand the market niche (Aaker, Kumar and Day 2008). This is because the market is narrow as well as easily accessible and hence, easy to gather market information. The taxation of local and domestic SMEs is considered much lower than that of the foreign firms. In addition, local and domestic firms can benefit from tax cuts based on the employability alongside the sustainability attainment level.

Since information about the local and domestic economy is easily accessible, it is therefore easy for SMEs to predict the economic downtowns and in turn, adjust their strategies accordingly to maintain their competitive advantage as well as bolster their market performance. Since a broad based market venture poses a huge challenge when it comes to management and global trend management, domestic marketing presents the advantage of efficiency and effectiveness in resource mobilisation, market investment determination as well as quick consumer preference responsive strategies to entrepreneurial SMEs.

Challenges Posed by International Marketing

Although OECD seeks to drive SMEs' focus on the global market, the current SMEs still need to confront the external marketing challenges. One of the challenges posed by marketing beyond the SMEs' psychological and geographical locality is that it is an enormous task to build potential public relations in a new geographic area since it requires massive capital expenditure to create the necessary momentum as well as effective message localisation (Gillespie and Hennessey 2010). Another challenge posed by SMEs during international marketing is the attainment of an effective leadership team with the required knowledge base for a specific

geographical market. This is because different locations require different approaches and strategies under the type of management with attractive inter-cultural competence.

Maintaining high ethical standards in foreign markets poses a great challenge since the reputation of the firm is at stake (Carasco and Singh 2003). A firm like Nike lost its glory in developing countries owing to their low wage policy to their workers in the developing countries. The success and failure of a firm is linked to its ethical base, which can be easily shuttered anytime. The ability to efficiently bring on board new regions to fit into the firms' corporate structure and value chain poses another significant hurdle. Finding value-capturing strategies responsive to the organisational investment is rather challenging.

Conclusion

The impetus among many SMEs to enter new geographical markets has been considered as an act of entrepreneurship. This broadening of the customer base and the diversification of the market helps SMEs to achieve high production levels and growth. Further, it helps leverage on different market's resources and achieving high returns by maximising the capitalisation of market imperfections. However, the cost required to build a reputation, acquire international minded management teams, ensure ethical considerations as well as maintain operation costs are some of the major challenges affecting internationalised marketing.

Domestic marketing has therefore been hailed due to its simplicity in market entry, lower financial requirements as well as less information to entry compared to foreign market venture. Companies adopting the approach too do gain a range of benefits including: tax cuts upon achievement of a certain employee capacity level and the ability to predict the market capacity based on the local less costly information acquisition.

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