



SMEs and entrepreneurship in the era of globalization: advances and theoretical approaches

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Abstract Scholars have long studied small- and medium-sized enterprises (SMEs) and recognize the need for SMEs to postulate strategies to compete and succeed in the global market. In the current ultra-competitive business environment, SMEs face several internal and external challenges. In this introduction to the special issue (SI), we review the theoretical models and frameworks in this stream of research and outline some research questions that could be potentially used in future research in this era of globalization. The six papers selected for inclusion in this SI analyze this field from different angles, offering interesting overviews on the present situation of research in the field, as well as relevant new findings and perspectives for future research.

Keywords SME · Entrepreneurship · Globalization · Competitiveness · Internationalization

JEL classification F23 · F60 · L26 · M13

1 Introduction

Coined by Levitt (1983) in his article *The Globalization of Markets*, the term “globalization” refers to the integration of national economies into a comprehensive world market, facilitated by eliminating trade barriers in goods, services, and capital (Acs and Preston 1997; Kansal 2009). Globalization has brought about several challenges, steering a transition toward a global market (Teagarden and Schotter 2013). The growth of global markets stimulates competition and increases the interdependence of national economies (Knight 2000), forcing governments to adopt market-oriented policies, both domestically and internationally (Acs and Preston 1997). Globalization involves economic and industry integration with the rest of the world, removing restrictions on imports and foreign investment (Paul 2015a). Globalization has created a knowledge-intensive economy (Teagarden and Schotter 2013), making firms’ search for the foreign market opportunities necessary in order to survive (Brenes 2000). However, the pace of globalization is different across markets (Buckley and

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Ghauri 2004; Jormanainen and Koveshnikov 2012). Technological and management skill advancements have furthered blurred political and economic boundaries (Acs and Preston 1997).

Globalization's rationale is the mutually beneficial gains that liberalized international trade promises. The establishment of the World Trade Organization (WTO) encouraged economies to open up more and stay open to international trade and investment (Scherpenberg 2003; Anderson 2001; Paul 2015a). Although the widespread presumption is that globalization is strengthening, its impact is unclear (Fariselli et al. 1999). Some researchers argue that globalization and new technology have resulted in cultural and consumer preference convergence (Czinkota and Ronkainen 1997; Levitt 1983), leading to standardized consumer products. Standardization could be possible due to telecommunications and data processing advancements that allow for research, marketing, and production coordination worldwide (Acs and Preston 1997).

Regardless of whether globalization is truly beneficial, there is a popular view that large and small firms alike will have access to the global market, facilitated by e-commerce and associated e-payment systems (Fariselli et al. 1999), as technology has greatly reduced the cost of information and the capabilities of participating in the global economy (Dunning 1993; cited in Acs and Preston 1997). Nevertheless, the main drivers of globalization are multinational corporations and the governments of advanced countries, and globalization may benefit some while hurt others (Paul 2015a, 2015b). Globalization, together with the liberalization of trade ushered in by the new WTO regime, has created a new business environment. As a result, customers have more choices of products and services and a paradigm shift has taken place on what counts as success. Comprehensive foreign competition with respect to almost every product all over the world now exists (Govil and Rashmi 2013). This heightened competition means that no market is forever safe from competition and no company can afford to stake its future on the assumption that it owns its home market (Ghanatabadi 2005).

This intensified competition will lead to the survival of the fittest (Govil and Rashmi 2013). According to Helleiner (2000), standardized rule systems such as the WTO may aim to protect the weak from the strong, but be rendered useless in practice if the rules are constructed and the terms are dictated by the strong to protect their own interests. Furthermore, large private

corporations may purchase influence in international negotiations as the international activities of business lobbies are not subject to registration requirements or regulations (Helleiner 2000).

In this era of globalization, small- and medium-sized enterprises (SMEs) are crucial to any country's development (Amini 2004). Changes in the global economy have brought about challenges and opportunities for SMEs (Dominguez and Mayrhofer 2017). It is widely recognized that small firms make a substantial contribution to an economy. Despite their small-scale output and relatively high production costs, SMEs contribute significantly to the employment growth and the economy (Pavitt and Robson 1987). SMEs appear to have an edge over large firms due to their quick and flexible decision-making processes. Nevertheless, SMEs face competition from large local and foreign firms. Small firms' relative strengths are mostly behavioral, including entrepreneurial dynamism, flexibility, efficiency, and quick decision-making. By contrast, the strength of large firms is economies of scale, scope, marketing skills, and financial and technological resources. Large firms, equipped with more resources, respond better to trade barriers than SMEs, which gives them a competitive advantage in international markets (Beamish 1990; Wolf and Pett 2000).

2 Impact of globalization on SMEs: challenges and opportunities

As part of their growth strategy, many small firms go global and orient themselves more and more internationally in the era of globalization (Paul and Gupta 2014). SMEs need to adopt strategic decisions to try to succeed in international markets. However, in this adoption, the role of the individual entrepreneur is salient for most SMEs. Therefore, personal motivation and intention to internationalize is also a relevant field of study (Gómez-Gras et al. 2009; Sommer 2013; Sommer and Haug 2011). Acs and Terjesen's (Acs and Terjesen 2013) born-local theory states that most small firms need support in the form of intermediated internationalization as they typically lack previous global exposure. Understanding the entrepreneur's decision to "go global" involves the need to study the cognitive elements of the entrepreneurial decision-making process (Fayolle and Liñán 2014; Liñán and Fayolle 2015). At the same time, the influence of contextual variables (be

them cultural, institutional, economic, or geographic) is also relevant, as the individual decision is surely affected by these elements (Liñán and Chen 2009; Liñán and Fernandez-Serrano 2014).

Some argue that SMEs have the flexibility to adapt easily to changes in the business environment because of their more manageable size, and they can compete perfectly with large firms through specialization and networks provided by new technology (Ribeiro and Roig 2009). According to Audretsch and Thurik (2001), SMEs do not become obsolete as a result of globalization, but rather they need to change their role as the world has shifted toward knowledge-based economic activity. This has occurred for two reasons. First, large enterprises in manufacturing industries have lost their competitiveness in producing in high-cost locations/countries. Second, small entrepreneurial enterprises take on new importance and value in a knowledge-based economy (Ribeiro and Roig 2009).

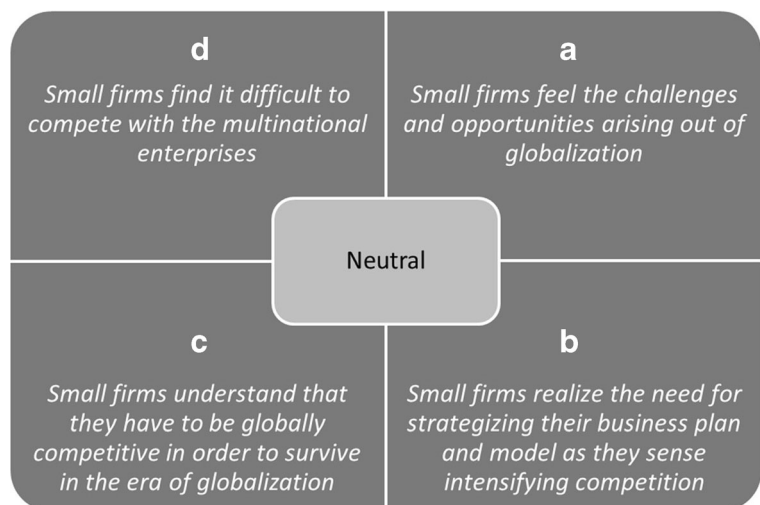
Julien et al. (1994) examined the impact of globalization on SMEs in the Quebec region of Canada. They showed that SMEs have developed different ways of overcoming the challenges arising out of globalization. For example, most of the firms studied used at least one computer-controlled machine or advanced technology. It was also found that more and more SMEs agree that international competitiveness depends on factors such as innovation, product differentiation (often by ad hoc innovation), and on the use of new production technologies and distribution channels. However, this does not mean that all SMEs are able to face the challenges of international competition.

Levy and Powell (1998) suggest that SMEs do not focus on managing their expertise scientifically and effectively. They normally ignore long-term strategic planning. Survival is the central characteristic of SMEs and most of them have taken corrective steps to ensure their continuing existence. For example, SMEs invest heavily in information systems which help them to be proactive in this era of globalization. Nevertheless, multinational enterprises have been able to prosper in this period of global competition by combining four basic building blocks: focusing on their core competencies, using new information technologies, forming best strategic alliances, and eliciting more pro-activity from their managers (cited in Acs and Preston 1997). Prior research shows (Fariselli et al. 1999; Paul and Sánchez-Morcilio 2018; Kahiya 2018) that in practice: (a) smaller firms tend to face more challenges in international business because of their difficulty in capturing export markets and (b) markets throughout the world tend to be dominated by the multi-national corporations. We show the difficulties faced by SMEs in this era of globalization with a four-dimensional matrix in Fig. 1.

2.1 SMEs' market entry modes

The literature on SMEs' internationalization establishes exporting as the most popular entry mode into foreign markets. SMEs tend to move into foreign markets mainly as exporters because exporting is the easiest, low-cost, simplest, and quickest way to achieve internationalization. According to D'Angelo et al. (2013), most SMEs are engaged in international activities within their

Fig. 1 Four-dimensional matrix for SMEs based on difficulties, challenges, and opportunities



own continent or regional markets as a result of free trade policies which have created “intra-regional” integrated markets. For example, various geographic areas have experienced a process of gradual regional integration (the European Union, the North American Free Trade Agreement, and Southeast Asia countries with ASEAN). This has in turn developed a favorable environment and an ongoing process of SME intra-regional internationalization. This kind of integrated market without institutional (administrative) distance is called the predictable market in the conservative, predictable, and pacemaker model (Paul and Mas 2019). In contrast, many SMEs are still reluctant to export outside their regional market because they perceive that in order to face a more unfamiliar environment, they need to bridge a bigger resources gap (D'Angelo et al. 2013). Lu and Beamish (2006) argued that SMEs should analyze the advantages and disadvantages of various market entry strategies including exporting and choose the optimal combination according to their organizational goals.

3 Review of theoretical models

In this section, we provide theoretical insights and perspectives on the internalization of firms from the perspective of SMEs. The popular theories and models widely used in SME internationalization research can be specified as the: (i) the Uppsala model; (ii) the network approach; (iii) the born global model; (iv) the resource-based view (RBV); (v) the innovation-oriented internationalization model; (vi) the conservative, predictable, and pacemaker (CPP) model; and (vii) the 7-P framework for internationalization. These theories and models can be summarized as follows.

3.1 Uppsala model

The Uppsala model postulates that SMEs go through a gradual internationalization process (e.g., Johanson and Vahlne 1977; Johanson and Wiedersheim-Paul 1975). Johansson and Vahlne (Johanson and Vahlne 1977) suggested that firms tend to begin their internationalization in markets that have a short psychic distance. This perception has evolved since the business environment has changed, becoming a complex network of relationships, rather than a neoclassical market with many independent suppliers and customers (Johanson and Vahlne 2009).

3.2 Network approach

Johanson and Mattsson (1988) argued that network relationships help firms to internationalize. Other researchers have also shown the importance of the network approach as a critical strategy that facilitates the SME's internationalization (Debrulle and Maes 2015). Similarly, Mitgwe (2006) proposed the network approach, which states that firms' networks facilitate quick internationalization.

3.3 Born global/international new ventures model

Certain firms internationalize soon after inception. Such firms are referred to as international new ventures (INVs) or born global. Oviatt and McDougall (1994) defined INVs as businesses that, at the outset, derive significant competitive advantage from resources and sales in several countries. Coviello and Munro (1997) reported that INVs result from managements' international awareness and the ability to use foreign resources to meet international market demands. Firms can be classified as born global firms if they internationalize and generate at least 25% of their revenue from foreign markets within the first 3 years of their inception (Knight et al. 2004).

3.4 Resource-based view

The RBV focuses on resources as central to understanding firm performance (e.g., Amit and Shoemaker 1993). In this domain, theoretical contributions regarding dynamic capabilities distinguish between capabilities and other types of resources available to the firm (e.g., Makadok 2001; Teece, Pisano, and Shuen, 1997). In the exporting context, resources constitute the raw materials available to the firm's export venture business units (e.g., Black and Boal 1994; Peteraf, 1993; Morgan et al. 2004).

3.5 Innovation-oriented internationalization model

Ripolles et al. (2010) examined the internationalization of SMEs and have shown that innovation orientation accelerates their speed of internationalization. Their empirical results based on Spanish SMEs show that there are two different models of internationalization of SMEs that help firms opt for high-control entry modes in foreign markets. The first model is gradual

internationalization and the second is innovation-oriented internationalization. Similarly, exporters derive knowledge-based advantages by examining the relationship between export strategies and innovative products and firms who export to developed countries will experience increased innovative productivity.

3.6 Conservative, predictable and pacemaker model

Paul and Sanchez-Morcilio (2018) developed the conservative, predictable, and pacemaker model to help SMEs to understand the legal and cultural distances between different countries and internationalize accordingly to achieve competitiveness. They call for classifying the markets and firms under three categories: conservative (those who just do business in a local market), predictable (for example, those who do business in a legally integrated regional market such as the European Union or North American Free Trade Agreement area), and pacemaker (those who do expand business globally at a fast pace). They also offer testable propositions for future research. They show that the higher the ratio of pacemaker and predictable firms to conservative firms in an industry, the greater the global competitiveness of that industry.

3.7 7-P framework for internationalization

Analyzing potential, path, process, pace, problems, pattern, and performance are critical for firms interested in achieving competitiveness through internationalization (Paul and Mas 2019). The abovementioned 7Ps serve as the fundamental constructs for SMEs to conduct feasibility studies before they decide on which markets to enter, how to enter, and the scale of entry. Put together, they are known as the 7-P framework for the internationalization of a firm. Firm performance is defined as a function of another 6 Ps in this framework.

Performance

$$= f(\text{potential, path, process, pace, pattern, problems})$$

4 A fresh start

The available review articles on different themes of entrepreneurship and SMEs in the era of globalization (Ruzzier et al. 2006; Jones et al. 2011; Terjesen et al.

2013; Fayolle and Liñán 2014; Paul and Sánchez-Morcilio 2018) have attracted considerable attention as reflected, for instance, in the number of citations. This shows the interest of this subject area as well as the relevance of review articles. Taking into account the importance of these two aspects, the objective of this special issue is to develop a better understanding of the extant literature and provide directions for future research in the area of the competitiveness, strategies, and internationalization of SMEs. This special issue focuses on papers that aim to develop theories, models and frameworks, and reviews on different topics, encouraging theory building in the broad area of the internationalization of SMEs and entrepreneurship. Studies that can provide new insights based on the home/host country factors by a comparison of differences with current models or theories are included. In this special issue, we go beyond the replicated studies and make efforts to propose frameworks and models for small firms by explaining how their internationalization affects their success or failure. We are also interested in the factors that influence a small firm's internationalization.

Collectively, the six papers included in this special issue offer an excellent reflection of the topics related to SMEs and entrepreneurship in the era of globalization and address the research questions mentioned above. The first paper, by Marina Dabic, Jane Maley, Leo-Paul Dana, Ivan Novak, Massimiliano Pellegrini, and Andrea Caputo, presents a timely and necessary review of the literature on the internationalization of SMEs through a bibliometric methodology, thus providing a systematic and comprehensive picture of what we know in this area. Thus, this paper extends the current dominant theoretical perspectives. It proposes the existence of heterogeneous nature of SMEs and entrepreneurship within countries, which helps explain outcomes at the firm (e.g., financial and export performance) and country (e.g., economic growth) levels, and antecedents at the country level (e.g., certain aspects of cultural differences). It offers an agenda for future research, bridging theories from the fields of management, international business, and entrepreneurship.

The second paper, by Stephanie Mansion and Andreas Bausch, performs a meta-analysis to synthesize empirical evidence from 167 studies on the role of human and relational capital endowments in the different dimensions of export behavior. Their analysis finds that positive influences of intangible assets are context-

dependent. In particular, human resources appear to be especially pertinent for exporting SMEs in developing economies. Additionally, their consolidated research provides relevant hindsight on the interplay of innovation and SMEs' exports. Thus, while previous research provided mixed and often conflicting evidence on the innovation-export link, their findings reveal the export-enhancing effects of innovation, showing that innovation and exporting strategies are not only interrelated but actually complementary.

The third paper, by María Ripollés and Andreu Blesa, analyzes the role of network social capital as a relevant safeguard mechanism when ventures choose to internationalize using non-equity cooperative entry modes. This form of entry reduces the need for capital investment but also poses a risk to the venture's intellectual property and competitive advantage assets. Their results find that networks' social capital endows international new ventures with informational advantages and experiential knowledge. These resources are important to reduce the potential problems associated with the non-equity entry mode choice.

Massoud Karami, Ben Wooliscroft, and Lisa McNeill, in their paper, systematically review the SME internationalization literature to clarify the way effectuation theory helps international entrepreneurship scholarship. This review finds that the application of effectuation theory in internationalization studies is fragmented and that there are considerable gaps in explaining the antecedents, processes, and outcomes of the effectual internationalization of SMEs. Their findings point to limited resources, networking, and unplanned actions as central topics connecting effectuation with the extant internationalization research.

The fifth paper, by Alfonso Exposito and Juan Sanchis-Llopis, analyzes the role of different types of innovation on the internationalization process of SMEs. In particular, their work is novel in that it analyzes both the export and import activities of SMEs. The paper is comprehensive not only in considering both outward and inward internationalization, but also in including small firms in the manufacturing, service, and construction sectors. It also analyzes the existence of complementarities between alternative types of innovation (i.e., technical and non-technical) and SME international-trade decisions (i.e., exporting and/or importing).

Finally, Oscar Malca, Jesús Peña-Vinces, and Francisco Acedo focus their analysis on the joint impact of both external (such as export promotion programs

(EPPs)) and internal factors on the export performance of SMEs. The context for this analysis is the emerging economy of Peru. The firms in developing countries and emerging economies, such as Peru, seem to be more customer-oriented and reactive than those in more developed countries, and there is a strong predominance of exports from low value-added industries. Their findings indicate that EPPs are related to the resources devoted to international activity, but the effect on international performance is limited.

5 Agenda for future research

Based on the insights and findings from the contributions included in this special issue, it is worth noting that there are opportunities for exploring different aspects of the challenges and opportunities faced by SMEs in the era of globalization. There are opportunities for developing frameworks, strategies, and models to contribute to theory development. Researchers could derive their research questions, hypotheses, and propositions based on one or more of the topics listed below.

- i. What drives the competitiveness of SMEs in the era of globalization?
- ii. What factors determine entrepreneurial decision-making in the process of internationalization?
- iii. What kind of strategies do firms need to formulate while going global? How do SMEs from countries at varying levels of economic development differ in their strategies?
- iv. What are the opportunities for developing new theories, models, and typologies other than the well-researched models such as the born global and Uppsala models?

Parallel to this need for increased international competitiveness, the field of SME internationalization has expanded and gathered momentum (Ribau et al. 2016; Paul and Shrivastava 2016; Paul et al. 2017). The very existence of international new ventures (INVs) stems from opportunities to engage in the cross-border combination of resources and/or markets. Decisions have to be made regarding how its business activities in a foreign market should be conducted (Welch et al. 2008). In this context, Musteen et al. (2014) examine the factors influencing the internationalization of SMEs within the context of foreign market knowledge and network ties.

However, the relevant issues of the internationalization of SMEs have not been sufficiently researched in the past due to several constraints and limitations. For example, there is little theoretical literature analyzing a firm's export potential, problems, pattern, and performance. There is a considerable gap in theory and framework development to explain and discuss the phenomenon of the internationalization of SMEs, and, in particular, those from developing countries. The available models and theories to explain this phenomenon need be expanded (Paul and Mas 2019). There are opportunities to develop frameworks and measures to analyze the path, process, potential, problems, pace, and pattern of SME internationalization (Paul and Mas 2019). Understanding antecedents, decision characteristics, such as foreign market entry modes and exporting challenges, are critical for the survival and success of SMEs. There are opportunities to establish a theoretical relationship between pertinent managerial characteristics, and different measures of export performance and internationalization. Similarly, we need typologies and useful paradigms that help the decision-makers to better understand the challenges of internationalization—the liability of foreignness, resource constraints, or cognitive biases, among others. In a nutshell, researchers could develop new models, use or extend the theories developed during the last two decades such as the born-local theory, or CPP model or 7-P framework in their studies, since the old theories have become obsolete and replete due to their repeated application in hundreds of studies.

6 Concluding remarks

On the basis of the literature review and the findings from the papers accepted, it has been found that the major barriers for small firms in the era of globalization include: financial constraints, insufficient information, the selection of reliable partners and distributors, cognitive bias, lack of negotiating power, insufficient resources, the liability of foreignness, little international experience, the lack of protection from the government, and demand insufficiency for the products of small firms. These findings corroborate those of prior research (Ghauri and Kumar 1989; Paul and Sánchez-Morcillo 2018; Kahiya 2018).

We are confident that the excellent research works included in this special issue have contributed to the advancement of knowledge in the field. At the same

time, they have opened new and most interesting novel avenues for further research. We call for internationalization and entrepreneurship scholars to work from their respective fields, probably integrating perspectives, theories, and models from each other, to continue advancing the field.

Acknowledgments The editorial process for this Special Issue has been intense and exciting. It has involved the processing and evaluation of 60 initial proposals. All of them were highly interesting. Therefore, we are very grateful to all scholars and researchers who submitted their proposals to this special issue. Through a very competitive selection process, the final accepted papers have gone through three rounds of reviews. This would not have been possible without the excellent and altruistic work of several highly qualified reviewers (in alphabetical order): Levent Altınay (Oxford Brooks University), Indri Apriliyanti (University of Agder), Jasmina Berbegal-Mirabent (Universitat Internacional de Catalunya), Giorgio Fazio (Newcastle University), José Fernández-Serrano (University of Seville), Tamara Galkina (University of Vaasa), Andreja Jaklic (University of Ljubljana), Rara Jeon (Y & PEOPLE), Paul Jones (Coventry University), Olli Kuivalainen (Lappeenranta-Lahti University of Technology), Melih Madanoglu (Florida Atlantic University), Giovanna Magnani (University of Pavia), Juan A. Martínez (University of Seville), Ulrike Mayrhofer (Université Jean Moulin Lyon 3), Jane Menzies (Deakin University), Øystein Moen (Norwegian University of Science and Technology), Nitin Pangarkar (National University of Singapore), José Carlos Pinho (University of Minho), Vincenzo Pisano (University of Catania), Francisco Puig (University of Valencia), S. M. Riad Shams (Ural Federal University), Stephen Roper (University of Warwick), Mitza Ruzzier, Sreevas Sahasranamam (University of Strathclyde), Karim Said, Maeyta Selli (Erasmus University), Susan Sissay (Birmingham City University), Tiia Vissak (University of Tartu), Zahid Yousaf (Hazara University), Florian Zapkau (Vrije Universiteit Amsterdam), and Antonella Zucchella (University of Pavia). We want to thank them and acknowledge their work.

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