

# Internationalization of SMEs: Relevance of the Theories and Antecedents

## ABSTRACT

Scholars have paid close attention to developing several theories and models for the internationalization of small and medium-sized enterprises. These theories and models explain the firm strategic directions and gradual process of international expansion. This theoretical literature review aims to comprehensively examine the wide array of literature relating to theories and models of SME internationalization and the antecedents of internationalization. This study looks at the connections and contrasts between various internationalization theories and models, discusses their shortcomings, and provides theory-based insights to SMEs in understanding the internationalization process. Further, this paper examines the different antecedents of SME internationalization and prior empirical validations of those antecedents. According to the literature analysis, it has been identified that most SME internationalization studies are done in developed countries. Moreover, most of the internationalization theories and models are built in developed countries by observing the behavior of large firms. Hence, most of these theories and models may be insufficient to explain SME success in developing and emerging markets. Further, companies currently use more strategic approaches (such as joint ventures, and strategic alliances) to internationalize their operations. As a result, it is argued that the existing internationalization literature and theories are insufficient to explain the internationalization of SMEs in developing countries in the modern world.

*Keywords: Small and Medium Enterprises, Internationalization, Capabilities, Resources*

## 1. INTRODUCTION

The role of small and medium-sized firms (SMEs) has received considerable attention across the world, and their contribution to economic development and national output is equally critical. Market globalization, technological advancements, government backing, and policy support have all accelerated the internationalization of small and medium-sized businesses [1]. Many researchers have identified that internationalization benefits SMEs, including better survival prospects, growth revenue, better innovative capability, and upgraded productivity than non-internationalized SMEs [2,3,4]. Most of the studies primarily looked at the internationalization of SMEs in developed countries, but less attention has been given to SMEs in developing countries [5,6,7]. Moreover, there is a lack of studies that review SME internationalization literature to provide a holistic view of SME internationalization. The purpose of this study is to critically review the main theories and models of internationalization and subsequently, the antecedents. Finally, the study intends to propose an integrated framework for SME internationalization by combining theories, models and antecedents. The present research enlarges the body of knowledge by

synthesizing and organizing previous research into a central integrative framework that gives a comprehensive understanding of SME internationalization. Moreover, this study will benefit non-internationalized SMEs and small and medium startups by allowing them to capitalize on the important factors favoring international expansion.

## 2. REVIEW OF THE LITERATURE

### 2.1 SMALL AND MEDIUM ENTERPRISES

Small and medium businesses have been highlighted as a key strategic sector for boosting economic and social development. This is due to SMEs' widespread recognition as a major source of employment, revenue, poverty reduction, and regional development over the years [8]. The active SME sector is critical for emerging countries' economic success in today's competitive and demanding global conditions. The definition given to small and medium enterprises varies from region to region, country to country, or even institution to institution in the same country. Table 1 presents the variety of definitions for SMEs provided at the global and local levels.

**Table 1. Summary of the Global and Local Definitions**

| Institution                              | Definition  |
|--|---|
| <b>Global context</b>                    |   |
| European Union                           | Small firms employ fewer than 50 people and have annual sales of less than EUR 10 million or a balance sheet total of less than EUR 10 million. Medium-sized firms employ 50 - 250 people and have annual sales of less than EUR 50 million or a balance sheet total of less than EUR 43 million. |
| World Bank                               | Enterprises with up to 300 employees and total annual sales of up to US\$15 million.  |
| International Monetary Fund (IMF)        | An enterprise with fewer than 50 people and capital investment less than 5 million.   |
| World Trade Organization                 | Firms employ between 10 and 250 people. Firms with up to 10 employees are usually referred to as micro-firms.   |
| <b>Local context</b>                     |   |
| Central Bank of Sri Lanka                | Enterprises with 300 employees have an annual turnover not exceeding Rs. 750 million.   |
| Industrial Development Board (IDB)       | An organization with a capital investment in equipment and machinery of less than Rs.4 million and a total number of regular employees of less than 50.   |
| Export Development Board Sri Lanka (EDB) | The number of employees does not exceed 300 employees and revenue does not exceed 750 million LKR.  |
| Ministry of Industry and Commerce        | Annual turnover between 16 million to 200 Million and employees between 11-200.   |

*Source: Authors Compiled*

Based on the definitions presented in Table 1, it can be recognized that there is no commonly agreed definition of a small or medium-sized business. SMEs can be defined

using multiple factors, including the number of employees, the amount of capital spent, the amount of revenue generated, or a combination of a few factors. Even though SMEs account for an enormous contribution to economic development, their involvement in international business activities is reported to be significantly low. Furthermore, most of these firms are limited to their local geographical area because of the various challenges they need to face in the process of internationalization [9].

## 2.1 Internationalization

Because of its evolving and impending behavior, the internationalization of SMEs has piqued the interest of numerous academics. Over the last few decades, research on the theories and key determinants of SME internationalization has sparked a surge of interest in the literature. This is mainly due to small and medium-sized businesses' importance in export income generation and impact on employment [10,11,12,13]. The authors went on to propose a variety of definitions for internationalization from the past. Table 2 illustrates a summary of the definitions given by various scholars.

**Table 2. Definitions of Internationalization**

| Author/s                   | Definition   |
|----------------------------|--|
| Johanson and Vahlne [14]   | The systematic and methodical process of greater international participation and accompanying organizational changes.  |
| Turnbull [15]              | Firm's outward expansion in worldwide activities.  |
| Johanson and Mattsson [16] | Collective process in which relationships are continuously formed, maintained, developed, broken, and dissolved to meet the firm's objectives.   |
| Fernandez and Neito [17]   | Internationalization is a complex strategy that any company may pursue and provide opportunities in abroad markets to exploit firms' competitive advantages in domestic markets.                                       |
| Ruzzier et al. [18]        | The geographical spread of economic activity outside national borders.   |
| Sun [19]                   | The degree to which a firm's sales revenue or operations are conducted outside its home country.   |
| Singh [20]                 | Partnerships, branches, joint ventures, and subsidiaries that operate beyond national borders.   |
| Onkelinx et al. [21]       | Internationalization is the 'process of mobilizing, accumulating and developing resource stocks for international activities.  |
| Ngoma et al. [22]          | The process of serving the domestic markets (pre-export) and moving through various processes until they are committed to serving geographically dispersed markets beyond the boundaries of their countries of origin. |
| Liu and Ko [23]            | Internationalization is a procedure of organizing and utilizing global economic resources, such as capital, raw material, labor, information, market, and management.  |
| Costa et al. [24]          | Internationalization is a strategy that allows companies to reach other markets, generate new business activities, and achieve extraordinary profits.  |

Eduardsen and Marinova [25]      The strategy that allows firms to grow also exposes them to heightened risks, which may negatively influence their performance.

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*Source: Authors*

By looking at the variety of definitions presented in Table 2, it implies that inward, outward, and cooperative activity can all be classified as internationalization. A corporation engages in internationalization when it sells its goods to foreign markets, purchases goods from abroad, or starts collaborating with a foreign company on a project [26]. According to the World Trade Organization [WTO] [27], internationalization can arise in several forms. Those forms include (1) Direct exporting; (2) Exporting through intermediaries; (3) Non-equity contractual agreements; and (4) Foreign direct investment (FDI) and other forms of equity agreements. According to the WTO [27], direct exporting and indirect exporting can be regarded as the starting stage of internationalization. Researchers employed the term "export strategy" or "exporting strategy" for the same concept of internationalization due to the above concerns [28]. Small and medium-sized businesses face several roadblocks when attempting to enter foreign markets. These obstacles can be segregated into two clusters: endogenous and exogenous factors. Endogenous factors include a lack of managerial capabilities, a lack of cultural experience, a lack of human resources, insufficient knowledge and information about foreign markets, psychological distance, etc., while complicated export procedures, inadequate financial resources, and technical barriers can be considered exogenous factors [29,30,31]. Similarly, Pinho and Martins [32] determined that non-exporters and exporters face different obstacles. According to this study, non-exporters, for example, are concerned about a lack of market intelligence, a lack of foreign-experienced employees, inadequate technical capabilities, and insufficient government support and financial assistance. These reasons could make a significant difference in the internationalization process of SMEs in developed and developing countries.

## **2.2 THEORIES AND MODELS OF INTERNATIONALIZATION**

Internationalization has gained much and intense attention in various research fields, including international business management, organization theory, strategic management, small business management, and marketing. Most practitioners and researchers study the various internationalization theories to make their internationalization strategies more effective and beneficial. Internationalization theories provide practical guidance for more complex firms than ever before [33]. This section of the study critically evaluates and synthesizes the different theories and models of internationalization and their validity.

### **2.2.1 Classical Trade Theory**

Absolute advantage theory by Adams Smith and comparative advantage theory by David Ricardo became the fundamental theories for international trade in the eighteenth and early nineteenth centuries. According to classical theories such as absolute advantage and comparative advantage, countries enter foreign trade to benefit from specialization and economic advantage [34]. The absolute advantage theory emphasizes a country's ability to produce the same product at a lower cost than its competitor using the same amount of resources [35]. According to this theory, each country should specialize in the good that possesses an absolute advantage for them, simply the product they can produce at a lower cost with high efficiency. However, researchers argued that Smith's theory needs to provide more justifications for specialization. For example, some nations still produce goods according to their interests even though they do not have an absolute advantage [34]. Many countries sometimes do not possess an absolute advantage in both commodities. On these

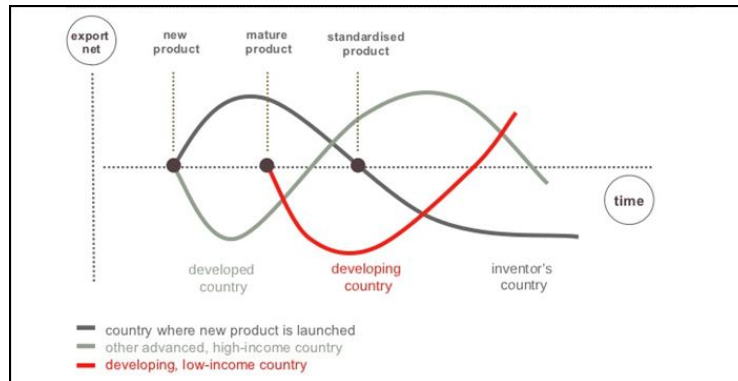
grounds, Ricardo's comparative advantage theory can be considered an improvement over Smith's fundamentals in absolute advantage theory. According to comparative advantage theory, a nation having an absolute advantage in all products should specialize and import the product with the smallest absolute advantage while exporting the product with the highest absolute advantage [36]. This theory differs from Smith's theory of absolute advantage, as Ricardo's theory is wholly based on the concept of opportunity cost. Both of these classical trade theories effectively described the trade between two nations. These advantages and disadvantages can be caused by differences in resource endowments, technology, and entrepreneurship [37]. However, classical trade theories failed to provide any explanation of the causes of differences in relative advantages [37]. Further, these classical trade theories dealt with only one factor (especially labor) and did not consider protectionist measures and transportation costs [38].

### **2.2.2 The Heckscher-Ohlin Theory (or Factor Proportion Theory)**

H-O theory, developed in 1933 by Eli Heckscher and Bertil Ohlin, provided a better explanation than classical theories for differences in economic advantage. The H-O theory emphasized that the differences between trading nations arise from different factor endowments and production techniques. Moreover, a country can import the goods and services that require the relatively scarce resources of that nation. The H-O theorem isolates the difference in relative factor abundance, or factor endowments, among nations as the basic cause or determinant of comparative advantage and international trade [38]. According to Heckscher-Ohlin theory, countries produce and export goods and services that can be produced by an abundant factor in them (ex. capital or labor). Moreover, a country can import the goods and services that require the relatively scarce resources of that nation. Nevertheless, negative results were proven during the early fifties of the last century [39], and they were reconfirmed by several studies carried out by Maskus [40], Bowen et al. [41], and Treffer [42]. The first attempt by Leontief [39] empirically tested the Heckscher-Ohlin theory using data obtained in the United States in 1953. Based on his study, it has been revealed that even though the United States was a more capital-intensive country, it exported more labor-intensive products and imported capital-intensive products from other nations. It is considered that the fundamental assumptions of Heckscher and Ohlin's theory are altogether inappropriate or too strict in explaining trade behaviors [43]. Nevertheless, the Heckscher-Ohlin model effectively predicts trade patterns between rich and developing nations [36].

### **2.2.3 Product Life Cycle Theory**

Vernon's product life cycle theory can be considered a useful model that explains the trade between developed and developing nations. Vernon, in his product life cycle theory, articulates that the production of a good starts in the developed countries and gradually moves to the imitating country (the developing countries), where it has a lower cost than the inventing country [37]. Under Vernon's product life cycle theory, a new product passes through a few stages of a cycle from innovation to standardization [44]. Those few stages can be identified in Figure 1.



**Fig. 1. International Product Life Cycle Theory**

According to Figure 1, in the initial phase, a new product is developed and introduced by a developed country, which then gradually expands the product's availability in other countries. Vernon's product life cycle theory has given rise to many critiques, including Vernon's arguments. According to Kotler et al. [45], product life cycle theory does not apply to several types of products. Those include products that are introduced and die quickly, products that stay at the mature stage for a long time, and products that start at the declining stage and, with solid promotion and repositioning, cycle back to the growth stage. Vernon's product life cycle theory and his arguments mainly focus on developed and innovating countries. More attention should be paid to technology transfer and development in developing countries [44].

#### **2.2.4 Internationalization Theory**

The internationalization model by Johanson and Wiedersheim-Paul [46] emphasizes that internationalization involves four incremental processes. Each incremental process involves increasing the degree of international participation and commitment and acquiring more understanding and experience. Four stages in the process includes: (1) No regular exports; (2) Exporting via agents; (3) Establishment of the subsidiary; and (4) Overseas manufacturing units and production. To avoid the risk of their investments, firms first operate in familiar markets with less psychic distance [47]. Although the innovation-related internationalization theory explains how new firms engage in internationalization, the theory does not focus on how born global firms do so [48]. Another major weakness of this theory is that it ignores the contractual entry modes and the joint venture model, which do not fall under these stages [49].

#### **2.2.5 Uppsala Internationalization Model**

By expanding this incremental process in the internationalization model of Johanson and Wiedersheim-Paul [46], Johanson and Vahlne [50] framed a dynamic model of the internationalization process called the "Uppsala model". Based on this model, firms use a gradual, step-wise process to proceed with international markets, starting with no foreign activities to greater commitment to overseas destinations. Johanson and Vahlne [50] emphasized that internationalization is based on learning and continuous knowledge development about global markets. However, as an extension to their theory, Johanson and Vahlne [51] significantly contributed to the original theory introduced in 1977 by discussing

the liability of outsiders. This study incorporated market networks and their links to each other in the original Uppsala model. Johanson and Vahlne [51] emphasized that business networks are a critical factor in the modern age of internationalization. The Uppsala model was criticized for several reasons. Cumberland [52] argued that the experimental survey method that was used in the Uppsala model was not well explained. As a result, the logical connection between the actual investigation and the theory is questioned. According to Andersen et al. [47], the Uppsala model emphasizes that experiential knowledge is an outcome of the learning process, and it is also believed that firms generally avoid risk.

### **2.2.6 Network Approaches to Internationalization**

Motivated by the Uppsala model, Johanson and Mattsson [53] examined the internationalization process, focusing on the network perspective. Under the network approach, firms were considered actors in building business networks as a starting point of the internationalization process (53,54). Network approaches consider business networks as a set of interconnections a firm maintains with its customers, competitors, governments, distributors, and suppliers [53]. Johanson and Mattsson [53] argued that as firms internationalize, the strength of the relationships within the network also increases. With these networks, firms can form relationships with different counterparties in other countries, leading to new opportunities. According to Andersen et al. [47], native country networks are the starting point of the internationalization process. Interconnected interactions between organizations form networks as a result of mutual understanding and confidence. Thus, this results in greater relationships with foreign partners in other markets [53]. Even though network theory provides greater insights, it has been criticized by several researchers [47,55,56,57]. In their argument on network theory, Malhotra et al. [56] emphasized that the network theory does not explain the formation of networks. Sometimes firms tend to imitate or follow the internationalization strategies utilized by successful players in the market without having any direct communication with those successful players [55].

### **2.2.7 Eclectic Paradigm (OLI Paradigm)**

Considering Industrial Organization Theory, Location Theory, and Transaction Cost Theory, Dunning [58] established an integrated framework called "Dunning's Eclectic Paradigm." Dunning's primary consideration was to explain firms' internationalization using three conditions: (1) Possession of ownership advantages (O), (2) Location advantages (L), and (3) Internalization advantage (I).

**Table 3. Entry Modes of Dunning's OLI Theory**

|                      |           | Type of advantage |                 |          |
|----------------------|-----------|-------------------|-----------------|----------|
|                      |           | Ownership         | Internalization | Location |
| <b>Mode of entry</b> | Licensing | √                 | ×               | ×        |
|                      | Export    | √                 | √               | ×        |
|                      | FDI       | √                 | √               | √        |

*Source: Adapted from Dunning [58]*

According to Table 3, if a firm is experiencing only the ownership advantage, it uses contractual agreements like licensing as its entry mode strategy. However, if a firm has both ownership and internalization advantages but not location advantages, such firms can choose exporting as their entry mode. If a firm has the three advantages of ownership, location, and internalization, it can use foreign direct investment. In 2000, Dunning presented his eclectic paradigm as an envelope theory that joined various theories and different disciplines to explain multinational FDIs. Dunning's works are highly focused on firm-specific

competitive advantage as an integral part of the existence of MNCs [59]. The eclectic paradigm was developed after studying the behavior of MNCs in the United States and other developed countries. Some scholars have argued that the applicability of this theory for developing countries is limited [60]. Multi-national companies (MNCs) from developed countries can potentially access more resources during their international expansion. After Dunning's eclectic paradigm, most researchers focused on identifying the strategic resources providing a competitive advantage. This line of research is known as the resource-based view established by Barney [61], Wernerfelt [62], Penrose [63] and Peteraf [64].

### **2.2.8 Resource-Based Theory of Internationalization**

Motivated by a study done by Penrose [65], the resource-based view is a widely studied theory under SME internationalization [66,67,68]. The resource-based view focuses on the resources and capabilities that help SMEs internationalize faster [69]. Under the resource-based view, firms' unique resources are crucial for determining competitive advantages [70,71,72]. According to Barney [73], the resource-based view (RBV) ascertains that small businesses can achieve a competitive advantage in international markets by exploiting such resources and capabilities. Nevertheless, all the resources owned by a firm do not give it such an advantage. Only resources that have some specific characteristics can be considered unique resources with a competitive advantage [74]. To provide a competitive advantage, resources must be valuable, rare, non-substitutable, and difficult to imitate [73]. With the development of RBV theory, criticisms of RBV have also extensively emerged [75]. The RBV shows that resources specific to the firm drive firm performance, whereas studies have discovered that industry characteristics have a stronger impact [76]. Resource-based models were developed by observing large multinationals. As a result, Hashai and Almor [77] linked the RBV to SMEs' internationalization. On the other hand, it overlooks the importance of network interactions in generating competitive advantage, particularly for SMEs [30].

### **2.2.9 Dynamic Capability Approach**

Modern businesses operate in a dynamic and uncertain environment where rules, regulations, technology, and competition change rapidly [78]. Organizations must continuously acquire and dispose of resources according to dynamic market requirements [79]. Dynamic capabilities differ from other resources in that they include an organization's routines and processes [80]. Teece et al. [80] defined dynamic capabilities as a "firm's capacity to integrate, build, and reconfigure internal and external competencies to address the needs of a dynamic business environment" (p. 516). Additionally, innovation and adaptation needed to be practiced quickly to achieve a sustained competitive advantage and generate more value in this dynamic environment [81]. Similarly, Gnizy et al. [82] argued that a company will only be able to keep its competitive edge if it has dynamic skills, especially given the changing environment. These thoughts lead to a new concept of dynamic capabilities that reflects how organizations develop and maintain specific capabilities in response to market dynamics [80]. According to a study done by Zott [83], a firm's various dynamic capabilities can affect its performance. The study also showed that even little changes in dynamic capacities among organizations may have a significant impact on performance. From the standpoint of international business, Peng and Luo [84] found that using dynamic capabilities may accelerate company expansion in foreign markets while enhancing firm performance. However, some scholars criticized the dynamic capability theory due to several reasons [85,86,78,87,88]. The definition given to the term dynamic capability and its nature, followed by its effects and consequences, is not clearly identified in the DC theory [86]. Moreover, although DCs are acknowledged as a significant source of

innovation and value creation in dynamic contexts, it is unclear how firms really yield dynamic capabilities [78].

### **2.2.10 Transaction Cost Theory**

In 1986, Anderson and Gatignon proposed the transaction cost (TC) theory or transaction cost analysis (TCA) model. These researchers sought to explain why a corporation would prefer to set up a manufacturing line or a service system in a foreign destination rather than licensing its technology or signing contracts with domestic firms [89]. They used Coase's [90] theory of a firm's nature and Williamson's [91] theory of markets and hierarchies to examine how US firms chose their entry mode [49]. Because of the similar assumptions about the significance of transaction costs in the internalization of company activities, the TC model and the internalization theory are frequently regarded as one theory [52,92]. Furthermore, some researchers regard Williamson as the inventor of transaction cost theory, owing to his contributions to the transaction cost economics (TCE) approach and vertical company integration [93,30,64,92]. The transaction cost hypothesis assumes that the market is perfectly competitive, in firm harmony, and that resources can be transferred among businesses, particularly if the information is fully transportable between the parent company and its overseas subsidiaries [89]. Baek [95] asserts that the transaction cost theory does not adequately account for additional transaction costs that enterprises may incur in order to identify and curtail the opportunistic conduct of their business partners. When companies evaluate transaction expenses against the costs of integrating activities within the company, they decide to internalize their overseas businesses. Because firms must also evaluate risks, rewards, and collaboration with business partners in varied institutional and cultural environments, focusing just on transaction costs is insufficient to explain an effective entry mode option [96].

### **2.2.11 International New Venture Model**

Businesses that aspire to gain a significant competitive advantage through using resources and selling outputs in various countries are classified as international new ventures (INVs) [69]. Rather than taking a step-by-step strategy for internationalization, such businesses immediately use foreign direct investments and hybrid entry-mode structures [97,69]. International new ventures create high-quality and valuable products and services that address international markets' current and future needs [98]. Academics have stressed the importance of innovation intensity as a fundamental driver of international new venture performance [99,97,100]. New enterprises frequently specialize and work with existing MNEs to expand internationally through a company's upstream supply chain, which bypasses these constraints [101]. International New Ventures (INVs) must collect verified learning about customers and produce breakthrough technologies to provide incremental changes over time. This demands simultaneously producing incremental and disruptive technologies [102]. Surprisingly, some businesses do not follow the reported pattern of technological involvement. These businesses lack a distinct technological advantage. The size of their native market [103], production capacity, and cultural and economic dynamics all impact their decision to internationalize as a new business [104].

### **2.2.12 Network-centric Complex-Systems Perspective (NCCSI)**

Chandra and Wilkinson [105] suggested a model for company internationalization by drawing attention to the science of complexity. The network-centric complex-systems internationalization (NCCSI) models can aid in deciphering observed internationalization trends that are difficult to explain using traditional internationalization theories. Network-centric complex-systems models can be developed in three ways by employing social

physics and agent-based simulation models [105]. Table 4 demonstrates the characteristics and applications of network-centric, complicated internationalization systems.

**Table 4: Characteristics and applications of network-centric, complicated internationalization systems**

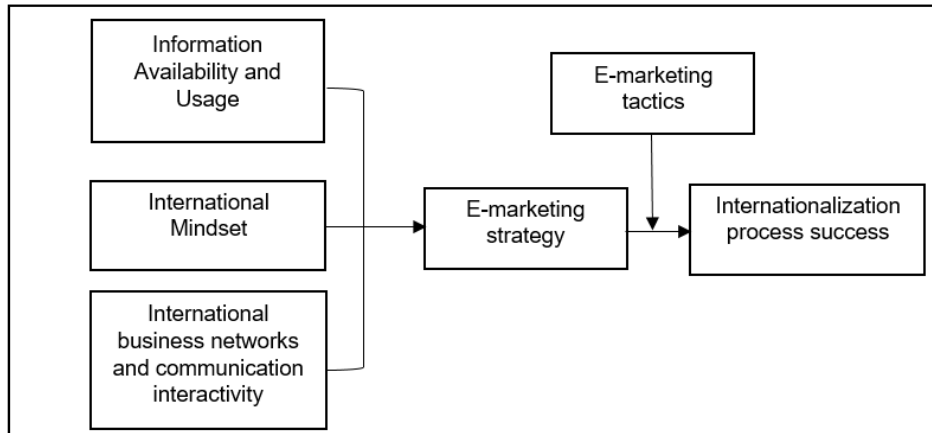
| <b>Feature</b>                     | <b>Application</b>  |
|------------------------------------|---|
| Networks of actors                 | Networks of interacting firms and other types of organizations.   |
| Self-Organization                  | Formation of international markets and business networks from individual actions and interactions.  |
| Emergence                          | The collective intelligence and collective ability of the network and associated aggregate patterns of firm internationalization.                     |
| Sensitivity to minor perturbations | Unsolicited orders, chance encounters, environmental shocks.  |
| Parallelism                        | Simultaneous interactions among firms across a business network.  |
| Conditional action                 | Firms respond to communication and observations of other firms and the environment in an if-then fashion – if condition X exists, an actor will do Y. |
| Top-down effects                   | Firms respond to known emergent aggregate patterns of internationalization across the network.  |
| Adaptation and evolution           | Firms learn and adapt their behavior and responses to changing environments, technologies and ideologies.   |

*Source: Chandra and Wilkinson [105]*

Under the NCCSI model, Chandra and Wilkinson [105] contend that this emphasis is incorrect and offer a network-centric, complex systems internationalization (NCCSI) approach to explain internationalization behavior that is difficult to understand using firm-centric theories. Looking at the major aspects of network-centric complex systems of internationalization (NCCSI), this model may be seen as an extension of Johanson and Mattsson's network approaches to internationalization. However, it can be considered that the NCCSI model is more complex for small firms to understand the logical connections between each feature of the model.

### **2.2.13 E-Marketing Approach to Internationalization**

It is a commonly agreed fact that the development of information and communication technology and Internet usage has significantly impacted many areas, including business activities. These changes have resulted in new opportunities, new modes of communication, and new customer-focused markets [106]. By drawing their attention to these e-marketing strategies, Skudiene et al. [107] proposed a framework emphasizing antecedents of internationalization, availability and usage of information, an international mindset, international business networks, communication interactivity, and an e-marketing perspective leading to the success of the internationalization process.



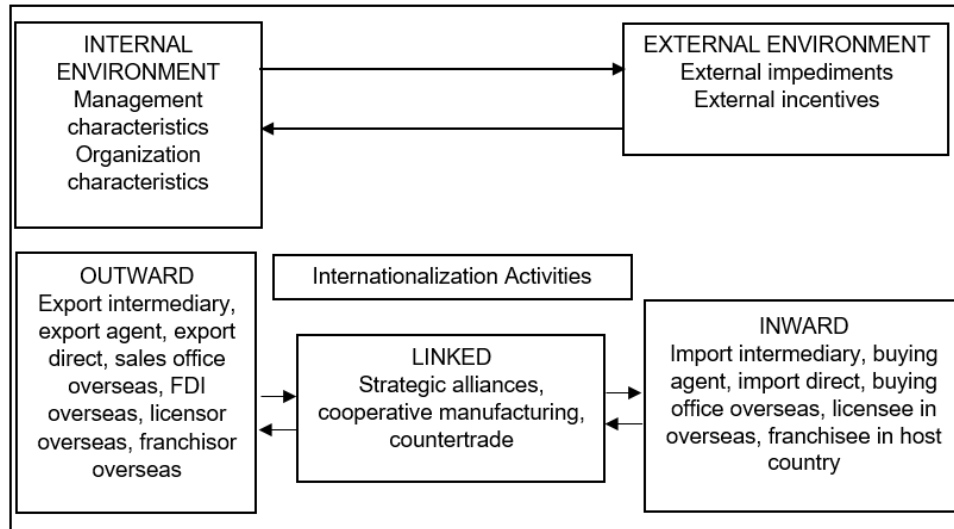
**Fig. 2. E-Marketing Approach to Internationalization**

*Source: Skudiene et al. [107]*

According to the e-marketing approach depicted in Figure 2, internationalization is defined as "a firm's international operations enhanced by e-marketing and technology-based management perspectives" [107, p. 922]. As per the model, e-marketing tactics moderate the relationship between e-marketing strategy and internationalization success. Skudiene et al. [107] offer a unique view of internationalization that differs from traditional theories. Nowadays, it is proven that for internationalization and e-marketing, the Internet and Information Communication Technology (ICT) are critical. It is believed that traditional theories completely ignored the Internet and ICT, which have a more significant impact on internationalization nowadays.

#### **2.2.14 Holistic Approach to Internationalization**

According to previous studies, internationalization had previously been considered an export-driven phenomenon. Although this phenomenon extends to other operations like licensing and manufacturing in other countries, it is normally seen from an 'outward' perspective [108]. Fletcher [108] viewed internationalization as an import-driven phenomenon and not an outward-driven (export-driven) phenomenon. Based on this consideration, Fletcher [108] has developed a framework called a holistic approach to internationalization by focusing on the factors leading to inward, linked, and outward internationalization.



**Fig. 3. Holistic Approach to Internationalization**

*Source: Fletcher [108]*

According to Figure 3, factors that influence outward-driven internationalization also have an impact on inward and linked types of internationalization. With the development of the electronic environment, the holistic approach plays a vital role for both small and medium exporters and transnational companies undertaking international business activities [108]. On the other hand, the holistic perspective indicates that outside actions can lead to interior and/or related activities and vice versa. Because of the complexity of internationalization, Fletcher [108] suggests that selected case studies of enterprises that participate in several types of international activity may be used to investigate this issue.

### 2.3 ANTECEDENTS OF INTERNATIONALIZATION

SMEs appear to have more challenges than their larger competitors; yet, by using their unique assets and identifying specialized markets, they may be able to recompense for their disadvantages [109]. Based on the literature, the main causes of internationalization can be separated into two clusters: internal and external [110,111,112,113]. External factors comprise industry-level factors and export market drivers, while internal factors comprise firm and product-related aspects [114]. Oura et al. [115] looked at several factors that impact a firm's export efforts, including variables related to organizational, managerial, relational, and physical resources. Commitment to exporting, perceived export obstacles, and international orientation are among the management variables, whereas the physical variables include the organization's capacity, financial amenities, and placement [115]. Additionally, the organizational factors include relationship-building with customers, foreign market visits, distribution channels, and interpersonal research. Furthermore, Haddad et al. [116] identified innovative capabilities, export-oriented managerial resources, relational resources, marketing capabilities, export marketing, export finance, capabilities of the management, country-specific advantages, and government policies as major factors affecting small and medium enterprise export engagement in a country. As per the resource-based perspective, varied resource profiles provide multiple bases for creating a competitive benefit in global marketplaces [117].

Human capital must be distributed appropriately inside the internationalizing organization as a precious strategic resource to deal with the external contingencies posed by abroad

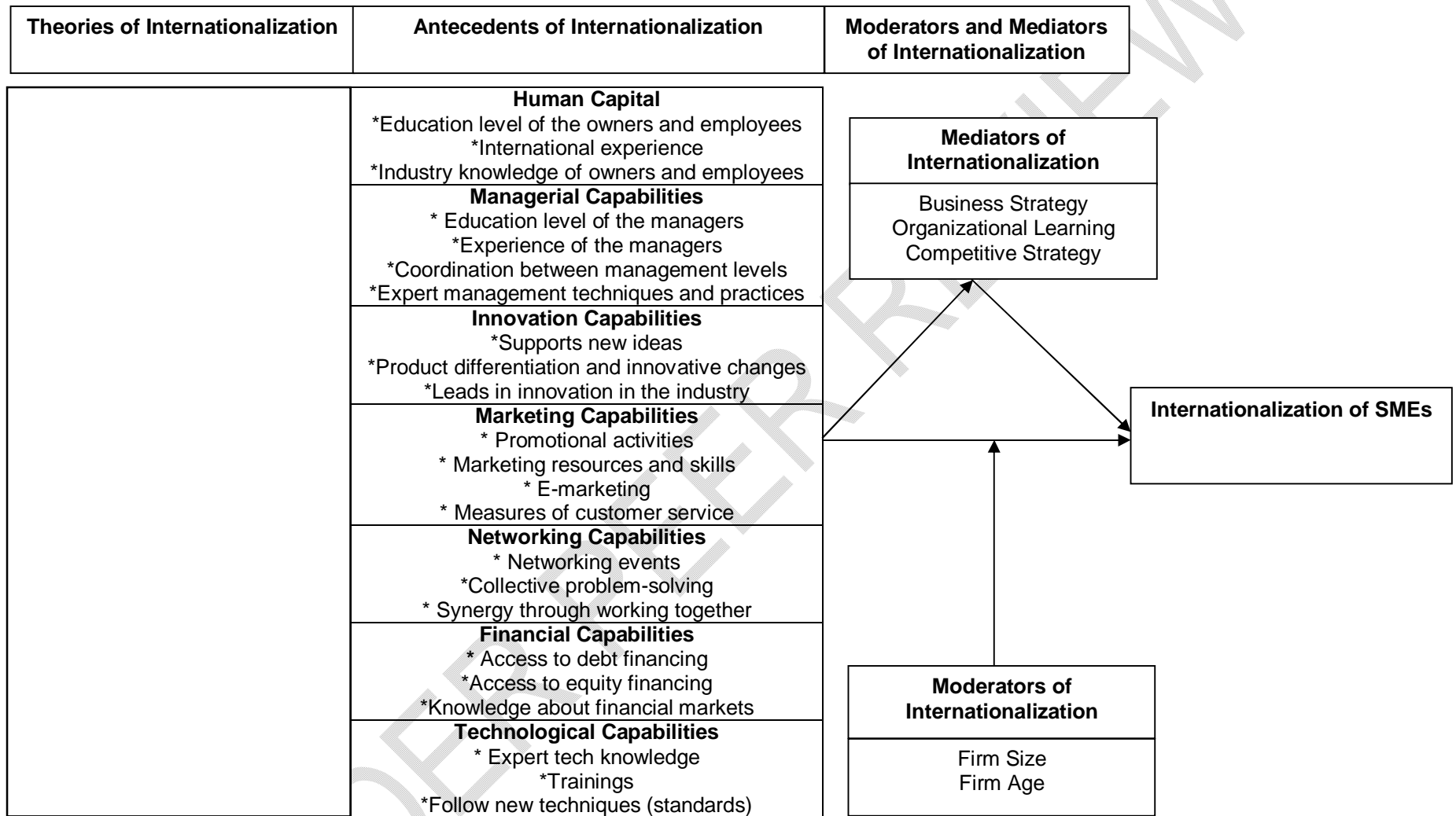
markets that necessitate specialized knowledge and experience requirements in the workforce [118,119]. For organizations, human capital is critical as a source of innovation fuel. According to Subramaniam and Youndt [120], human capital benefits an organization's ability to innovate. Many researchers have identified that human capital as a significant determinant of SME internationalization and growth [121,122,123]. Managerial skills and expertise may help businesses improve their export capabilities, and managers' knowledge and expertise substantially benefit export performance [124]. Management commitment towards internationalization is positively associated with the level of internationalization of Indian firms [125]. Having high degrees of dynamic management qualities is often associated with having the fundamental characteristics required to enter international markets [126]. For businesses to compete in the global market, innovation is seen as a critical source of competitive advantage [127,128,129]. Small businesses that utilize their innovations have a higher chance of succeeding in export markets than those that offer typical products or services [130]. Small businesses that utilize their capabilities in marketing to anticipate their performance in export markets are more successful in exporting compared to larger organizations [131]. Additionally, exporting businesses' marketing abilities tend to boost client loyalty and perceived quality in global marketplaces [132]. Such marketing competencies include a firm's ability to adapt and differentiate products or services, as well as pricing, to specific characteristics of the target export market [133,134]. Small firms with few resources could find it challenging to pursue other potential sources of business; in this situation, marketing expertise becomes a practical and effective strategic alternative for them [135]. Scholars studying small businesses' worldwide activities have been particularly interested in the networking skills of SMEs [136]. According to Manolova et al. [137], the sooner a new venture participates in inter-firm collaboration, the higher the degree of internationalization. Small businesses' survival in export markets depends on a combination of alliances, partnerships, and collaboration with other trading partners to gain access to unique resources [138]. One of the best ways for small companies to better understand export markets and improve their assets to take advantage of possibilities is to build strong relationships with their trade partners. Yogendrarajah et al. [139] argued that most small and medium-sized business owners may need more financial management skills. Furthermore, if the owner and the other partners can acquire external sources of financing based on their expertise, the financial obstacle to exporting may be overcome [117]. Employees in companies that are pursuing a quick internationalization plan require a higher degree of technical knowledge and abilities that will allow them to do business in various and diverse markets throughout the world at the same time [119]. A firm's technical competence allows it to produce and deliver new goods and services more efficiently and effectively that best meet consumer demands, improving the firm's new product creation and performance [140].

Because many small businesses see their size as a barrier to exporting, firm size is also one of the most studied variables in international activities [3]. Firm size is often evaluated by the number of employees, especially when distinguishing between SMEs and larger firms [141]. Although Casson [142] claimed that there are no major differences between organizations of various sizes, most studies particularly in the context of a firm's internationalization [143,2,144,18,3,117] support the notion that large organizations have significant differences compared to small entities. While some of the researchers concluded that firm size has a direct relationship with internationalization, the weight of the literature suggests that firm size has a moderating effect on firm performance and internationalization [145,146,147,148,149]. The firm's age and time in the context of global expansion are becoming essential areas in the research field of SME internationalization. The age of a business becomes a significant factor in determining small firm internationalization [2]. Young enterprises that do not have established routines may be able to expand more quickly than their competitors that wait longer to internationalize [150]. Age was not favorably (and substantially) connected to the degree of internationalization in Reuber and Fischer's [151] study but was negatively

connected. While most of the researchers found a direct link between firm age and internationalization, several researchers highlighted the moderating effect of firm age on performance and internationalization [152,153,154]. A study done by Aziz and Samad [152] indicated that firm age acts as a moderator between innovation capability and competitive advantage. Mabenge et al. [153] revealed that firm age moderates the effect of marketing innovation on firm performance. According to Safari and Saleh [4], business strategy mediates the relationship between export performance and its antecedents. Based on the findings of Camison and Villar [155] competitive strategy mediates the relationship between internationalization and firm capabilities.

### **3. INTEGRATED FRAMEWORK FOR SME INTERNATIONALIZATION**

Based on the literature review presented above, the following integrated framework is proposed after combining theories and models, antecedents, moderators and mediators. By looking at the literature and finally the proposed framework in Figure 4, it can be seen that all the theories and models synthesized above together with the antecedents have some valuable implications for SMEs as different theories and models look at internationalization through different lenses. Therefore, an integrated framework would be beneficial for SMEs to see a holistic view of SME internationalization.



**Fig. 4. Integrated Framework for Internationalization**  
 Source: Author Proposed

## 4. CONCLUSION

This study assesses the wide array of literature concerning internationalization theories and explains the factors affecting the internationalization of SMEs. Despite the significant contributions of the various internationalization theories, they have many flaws and deficiencies in explaining the behavior of firms [52,89]. The theories presented above appear to show a diversity of viewpoints on the firm's internationalization process and provide varied emphasis on internationalization-related concerns. It seems clear that each of the internationalization theories presented above has made a significant contribution to practitioners to formulate their strategies and various scholars to develop more sophisticated theories. However, by looking at the benchmarking studies and proposed theories, most of them developed based on multinationals in developed countries. The validity and application of most of the theories are questionable in developing countries. Most of the previous theories are highly reliant on information availability and the cost of accessing such information. However, due to the advancement of technologies and reduced market imperfections information are easily accessible to decision-makers. Therefore, it is believed that there is a requirement to develop new theories integrating the discussed theoretical approaches and incorporating new global market dynamics. This critical review provides a more holistic and integrated view of the current status of the internationalization of SMEs and available literature for better decision-making and strategy formulating. This study will advance SME internationalization research with the holistic framework presented based on the previous empirical evidence.

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## Appendix

### APPENDIX 1

Summary of the Measures

| Identified Factor | Author/s                 | Determinant              |
|-------------------|--------------------------|--------------------------|
| Firm size         | Javalgi & Todd (2011)    | Number of employees      |
|                   | Ruzzier & Ruzzeir (2015) | Number of employees      |
|                   | Ruzzier & Ruzzeir (2015) | Annual turnover          |
|                   | Childs & Jin (2015)      | Number of employees      |
|                   | Panda & Reddy (2016)     | Total assets of the firm |
|                   | Yadav et al. (2019)      | Total assets of the firm |
| Firm age          | Javalgi & Todd (2011)    | Years of existence       |
|                   | Gaur et al. (2013)       | Years of existence       |
|                   | Ruzzier & Ruzzier (2015) | Years of existence       |
| Human Capital     | Friedman et al. (2000)   | Education level of the   |

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|                            |                                    |  |
|----------------------------|------------------------------------|--|
|                            | Fletcher (2004)                    | owners   |
|                            | Rauch et al. (2005)                | International experience of the employees and owners   |
|                            | Rauch et al. (2005)                | International experience of the employees and owners   |
|                            | Chen et al. (2009)                 | Education level of the owners  |
|                            | Huang & Wu (2010)                  | International experience of the employees and owners   |
|                            | Huang & Wu (2010)                  | Education level of the employees   |
|                            | Javalgi & Todd (2011)              | International experience of the employees and owners   |
|                            | Javalgi & Todd (2011)              | Education level of the employees   |
|                            | Kenny & Fahy (2011)                | International experience of the employees and owners   |
|                            | Kenny & Fahy (2011)                | International experience of the employees and owners   |
|                            | Perez-Calero Sanchez et al. (2015) | Industry knowledge   |
|                            | Perez-Calero Sanchez et al. (2015) | Education level of the owners  |
|                            | Perez-Calero Sanchez et al. (2015) | International experience of the employees and owners   |
|                            | Onkelinx et al. (2016)             | Education level of the employees   |
| Managerial Capabilities    | Kenny & Fahy (2011)                | Expertise management ability   |
| Technological Capabilities | Salisu & Baker (2019)              | Follow industry standards  |
|                            | Salisu & Baker (2019)              | Predict changes in a tech environment  |
| Marketing capabilities     | Salisu & Baker (2019)              | Technical pieces of training   |
|                            | Elango & Pattnaik (2009)           | Marketing and advertising expenditure  |
|                            | Gaur et al. (2013)                 |  |
|                            | Raymond et al. (2015)              |  |
| Innovation Capability      | Gupta & Chauhan (2020)             | R&D expenditure  |
|                            | Gupta & Chauhan (2020)             | Innovative ideas   |
| Network Capability         | Dadzie et al. (2021)               | Number of formal partnerships or business group associations and the individual social network |
|                            | Musteen et al. (2014)              |  |
|                            | Raymond et al. (2015)              |  |
|                            | El Makrini (2017)                  |  |
|                            | Musteen et al. (2010)              | Total number of foreign contacts   |
| Financial Capability       | Ruzzier et al. (2006)              | Access to debt financing,  |
|                            | Ruzzier & Ruzzier (2015)           | Access to equity financing   |
|                            | Ruzzier et al. (2006)              | Domestic profitability   |
|                            | Ruzzier & Ruzzier (2015)           |  |
|                            | Childs & Jin (2015)                |  |
| Internationalization       | Geringer et al. (2000)             | Foreign income as a percentage of total income   |
|                            | Capar & Kotabe (2003)              |  |
|                            | Karadeniz & Gocer (2007)           |  |

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Javalgi & Todd (2011)  
Perez-Calero Sanchez et al.  
(2015)  
Onkelinx et al. (2016)  
Boso et al. (2016)  
Karami & Tang (2019)  
Ruzzier & Ruzzier (2015)

Percentage of full-time  
employees dedicated to  
international activities  
Number of countries

Childs & Jin (2015)

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