

## EXAMINING SME INTERNATIONALIZATION MOTIVES AS AN EXTENSION OF COMPETITIVE STRATEGY

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### ABSTRACT

A number of arguments are presented that propose a theoretical relationship between a SME's environmental perceptions, performance, and competitive approach with their motives for internationalization. Data from 176 firms were used to test these relationships. The findings suggest that firms pursuing internationalization proactively are mainly influenced by favorable perceptions of their environment and their current performance. In addition, SMEs using a differentiation strategy based on unique marketing skills in conjunction with these circumstantial influences were more likely to pursue internationalization proactively. Implications and directions for future research are addressed.

### INTRODUCTION

During the last two decades of the 20th century, we have witnessed dramatically improved international communication and information networks, significant technological advances, falling barriers to international trade, and an increased global perspective to business activities. These changes create an environment in which internationalization is more feasible and potentially attractive to small businesses and entrepreneurial start-ups (Brush, 1995). The barriers to international business that historically favored large firms with the requisite resources have been lowered substantially.

Since small- and medium-sized enterprises (SMEs) comprise the vast majority of the population of firms in the US, and barriers to internationalization are falling, increasingly researchers are examining SME internationalization issues (e.g. Calof, 1993; Campbell, 1996; Czinkota, 1982; Leonidou & Katsikeas, 1996) and international entrepreneurship (e.g., Brush, 1995; Oviatt & McDougall, 1994; Reuber & Fisher, 1997). In spite of these efforts, there is much to examine and understand with respect to SME internationalization activity. Strategies on how to compete in markets and the type of resources being utilized to achieve competitive advantage have already been determined and are being utilized in domestic markets. The decision to internationalize adds a layer of complexity to the strategy of SMEs. While there has been research on factors influencing internationalization, there has been little effort to examine internationalization motives as they relate to, as well as are influenced by, their other ongoing strategic decisions and processes.

Therefore, the purpose of this paper is to examine internationalization motives within the context of SME's. Specifically, what impact do contexts, such as perceptions of the macro environment and the firm's recent performance, have on an SME's internationalization motives? In addition, how do different types of competitive strategies influence an SME's motivations as they undertake international trade? Lastly, is the relationship between these strategies and internationalization motivations influenced by the different contexts in which an SME finds itself? The paper first provides theoretical development for internationalization motives and specifies relationships between and among the variables in formally stated hypotheses. The second section of the paper discusses the methodology used to test the hypotheses. Lastly, the results are presented and we conclude with discussion, interpretations, and directions for future research. The intention of this research is to contribute to the understanding of SME internationalization motivations in the context of the macro environment, performance and competitive strategies.

### THEORETICAL DEVELOPMENT

A number of scholars have investigated the forces stimulating the firm's decision to initiate, develop, or sustain international operations. For some of them, the motives, incentives, triggering cues, and attention evokers are among the most dynamic and critical elements of the internationalization process in that they provide the real driving force behind the firm's expansion into international business (Wiedersheim-Paul, Olson, & Welch, 1978). These include, inter alia (possession of unique organizational competencies); existence of idle operating capacity; prevalence of home market constraints; pressures by domestic competitors; identification of business opportunities in overseas markets; and encouragement by external agents. These stimulating factors

become operative only to the extent that they are brought to the attention of the executive who is responsible for making the strategic decisions of the organization (Miesenbock, 1988). [See Leonidou (1995) for an extensive review of factors stimulating internationalization in SMEs].

In a broad sense, these motivations have been called the "pushes and pulls" to internationalize (Bartlett, 1991) and "proactive and reactive" SME motivations (Czinkota, 1982). Typically in the literature, the two dichotomies are indistinguishable and have been described as internal (firm-based) and external (environment-based) drivers to internationalize the firm. Proactive stimuli denote the firm's interest in exploiting internal strengths or opportunities in overseas markets, while reactive motives exemplify a response to organizational or environmental pressures (Johnston & Czinkota 1982; Leonidou, 1989; Pavord & Bogart 1975).

Proactive SMEs likely view internationalization optimistically as an opportunity primarily because of the existence of some internal advantage that may allow the firm to exploit successfully a new international market. Internal advantage allows the firm to operate from a position of strength and may arise from proprietary market knowledge, skills and know-how, technology, or a successfully differentiated and unique product. Likewise, researchers have indicated the importance of external opportunities that were aggressively sought out by SMEs.

Conversely, reactive SMEs likely view internationalization as a necessary response to unfavorable conditions in their current markets. Such conditions may manifest themselves as increased competitive pressures, excess capacity given domestic market conditions, or a persistent declining domestic market. In addition, firms can react to negative changes within the firm and look to internationalization as a method for improving or overcoming internal problems (Albaum, Strandkov, Duerr, & Dowd, 1989). In sum, the proactive drivers of internationalization are offensive in nature and reactive drivers are defensive.

Based on the previous discussion, we expect both internal and external factors to influence SME internationalization motives. External forces for internationalization can influence the SME through management perception. An important contribution of entrepreneurship research is that the owner/founder has a dominant role in strategy determination for the SME (Shaver & Scott, 1991; Stuart & Abetti, 1987). Since the top manager in an SME plays such a dominant role, it is logical to assume that the top manager's perceptions of conditions or circumstances will be a significant factor in shaping the firm's internationalization motive.

A SMEs managerial attitudes about environmental conditions and strategy are important primarily because the SME owner/founder is actively engaged in managing the firm (Shaver & Scott, 1991; Stuart & Abetti, 1987) and they influence action-involving internationalization (Campbell, 1996; Reuber & Fisher, 1997). The owner's/manager's perceptions of or attitudes toward changed environmental conditions likely influence the strategic actions of the firm.

Managers many times interpret the implications from environmental change, (i.e., opportunities or threats) in distinctly different ways (Jackson & Dutton, 1988; Sharma & Vredenburg, 1998). Opportunities are more likely viewed positively with significant likelihood for gain given the correct or appropriate managerial response whereas threats are negative factors that could result in loss (Jackson & Dutton, 1988).

Economic conditions, for example trade agreements and other environmental factors, influence all business firms, but arguably may affect SMEs the most (Falbe & Welsh, 1998). For example, one of the more relevant dynamic environmental conditions was the passage of NAFTA in the early 1990s. NAFTA was one of the most hotly debated and contentious political issues of the recent past and one of the more dynamic environmental regulatory conditions for North American SMEs. NAFTA's anticipated effects-both positive and negative-were widely publicized. Free trade advocates argued that open markets would create opportunities for business growth by opening markets for US manufactured goods. Protectionists advocated that jobs would be lost to less expensive foreign labor. According to Gould (1998), both outcomes have materialized. However, the net effect has been positive for the US and Mexico while no effect (positive or negative) was discernable for Canada (Gould, 1998). The clear effect from NAFTA is the changed environmental dynamic for many businesses-perhaps most significantly for SMEs. A logical conclusion is that some SME managers will see significant opportunity in the environment, while others may view the same conditions as a significant threat.

Hence, favorable impressions of the economic and regulatory environments will likely elicit strong attitudes and perceptions in

SME owners/managers, which are likely to be associated with distinct internationalization motives consistent with those perceptions (Jennings & Lumpkin, 1992).

H1: There is a significant relationship between managers perception of the environment and internationalization motives such that (A) SMEs with favorable perceptions of the environment will have proactive motivations and (B) SMEs with negative perceptions of the environment have reactive motivations.

As stated earlier, internal proactive stimuli denote the firm's interest in exploiting internal strengths, while internal reactive motives exemplify a response to organizational pressures (Johnston & Czinkota, 1985; Leonidou, 1989; Pavord & Bogart 1975). Researchers have found internal conditions impacting SME internationalization motives including international experience among top managers (Bilkey & Tesar, 1977; Gamier, 1982; Moon & Lee, 1990), special competitive advantages (Jaffe, Pasternak, & Nebenzahl, 1988), the possession of a unique product, profit advantage, and technological competence (Koh, 1989), and underutilized production capacity (Kaynak, Ghauri, & Olofsson Bredenlow, 1987).

A primary theme emerging from existing research is the SMEs concern for growth and efficient utilization of resources as they affect firm performance. For example, among the many findings of Kaynak and Kothari (1984), exporters in their sample were influenced by excess or idle operating capacity and better utilization of corporate resources. In a later study, Kaynak et al. (1987) found that declining/saturated growth in an SME's market and the existence of underutilized production capacity within the firm was critical for influencing it to pursue internationalization. Corporate growth and performance again emerged in Sullivan and Bauerschmidt's (1990) study and were primary goals for exporters in Leonidou's (1995) research. Lastly, Ramaseshan and Soutar (1996) argue that the most important export incentive is the existence of limited opportunities in the home market, followed by the ability to attract higher prices in foreign markets, and the need to stabilize demand.

In response to these findings, this study includes current firm performance and growth as key indicators of internationalization motives. Performance advantages allow the firm to operate from a position of strength, while expanding into new geographic markets presents an important opportunity for growth and value creation. Dunning (1988) has stressed the importance of foreign locations as a primary location to invest and then source of strategic assets that enhance competitiveness. We expect that firms with internal advantages based on performance will be more proactive in their approach to internationalization.

Conversely, internationalization as a necessary response to unfavorable conditions is a reactive motivation. Performance disadvantages create these unfavorable internal conditions for firms as they compete in domestic markets. Firms react to negative changes within the firm and look to internationalization as a method for improving or overcoming internal problems (Albaum, et al., 1994).

Overall, we expect that SMEs experiencing growth and high performance in their domestic markets are working from a position of strength and therefore the motive to internationalize may be called proactive. Alternately, lower performing SMEs are reacting to performance problems by looking for new product and market outlets. Based on this discussion the following hypothesis is offered:

H2: There is a significant relationship between SME performance and internationalization motives such that (A) firms performing well have proactive motivations and (B) firms performing poorly have reactive motivations.

### Competitive Approach

Following Porter (1980), we conceive of strategy in the broad terms of broad business-level choices: low cost and differentiation. The low-cost strategy involves the construction of efficient-scale facilities, the aggressive pursuit of cost reduction and cost minimization in all functions of an organization, and offering products to price-sensitive customers (Dess & Davis, 1984). Differentiation strategies are designed to create and market innovative, high-quality products and/or services industry-wide (Porter, 1980). According to Porter, these competitive strategies are alternative viable approaches for dealing with environmental forces. Firms that fail to select one of these strategies are "stuck in the middle" and, therefore, are usually doomed to sub par performance or failure (Porter, 1980, p. 42). As Porter noted, a stuck-in-the-middle firm lacks the investment in low-cost

structure to compete on price, the industry-wide differentiation to offset the need for a low-cost position, and the focus to achieve differentiation or low-cost within a limited market.

Porter's (1980) generic business-level strategy typology-cost leadership, differentiation, and focus-has received significant empirical support for its construct validity (e.g., Dess & Davis, 1984; Hambrick, 1983; Robinson & Pearce, 1988). Also, Chaganti, Chaganti and Mahajan (1989) and Dollinger and Golden (1992) supported the contention that Porter's (1980) framework may apply to SMEs as well. Extending Porter's underlying framework to SME internationalization using Dess and Davis's (1984) methodology, Namiki's (1988) work revealed that SME's did follow basic competitive patterns that exporting firms pursue.

Consistent with the intent of Namiki's (1988) work, one can expect that different activity patterns or competitive strategies will be apparent for firms that compete internationally. In other words, SMEs use different competitive patterns as they internationalize. One can anticipate that, at minimum, two dimensions will emerge from the data reflecting the underlying construct of a differentiation approach and a cost-leadership or efficiency approach. By utilizing these competitive strategies to develop inimitable organizational efficiencies or differentiated assets, the opportunity for a firm to capitalize on resources that are valuable, rare, and costly to imitate are created (McWilliams, Van Fleet, & Cory, 2002).

Thomas and Pollock (1999) argue that competitive strategies are part of the effort by firms to build competence-based strategies around a cluster of organizational resources to achieve competitive advantage. SMEs in general, because they are resource constrained and may lack scale economies, are argued to be better suited to a focus differentiation and focus cost leadership strategy that targets a specific geographic or product niche rather than a broad market approach (Watkins, 1986). However, with respect to the underlying generic strategy-cost leadership or differentiation-an SME's actions are likely to be similar whether focused or broad market (Wolff & Pert, 2000). Therefore, these arguments frame the discussion in general terms of cost leadership and differentiation, without specifically addressing the focus concept.

The emphasis of each of the generic strategies is decidedly different. Differentiators strive to create unique products or services at reasonable cost while cost leaders strive to reduce costs to their lowest level at the expense of significant differentiating attributes (Porter, 1980). Because uniqueness in one market setting (for example the US) may translate to uniqueness in another market setting (Canada or Mexico), SMEs that compete by differentiating their products or services may be proactive (Czinkota, 1982) in pursuit of internationalization by exporting products to an international market. However, the SME cost leader may view things differently. To the extent that SME cost leaders are region specific or serving a narrow customer base (Porter's, 1980 concept of focus) they may be more susceptible to economic downswings, increased competition, a saturated market, or combinations of these, than differentiating SMEs. Therefore, the cost-leader SME may be more likely to view internationalization as a necessary step to counteract potentially negative environmental conditions. In other words, we expect costleader SMEs will be reactive (Czinkota, 1982).

H3: There is a significant relationship between SME competitive approaches to internationalization and internationalization motives such that (A) Differentiating SMEs will have proactive motivations, and (B) Cost-leader SMEs will have reactive motivations.

To this point, a number of main effect associations among the variables of interest have been proposed. However, beyond main effects, there are sufficient reasons to propose interaction effects among several of the variables. We expect that internationalization motivations will be influenced by an array of complex forces, including various environmental conditions, ongoing SME strategies and performance. More specifically, we expect that a firm's competitive strategy and organizational contexts jointly influence internationalization motivations more strongly together than they would alone. Therefore, a reliance on other theoretical frames concerning the interactive relationships among these variables in an effort to strengthen the proposed relationships is specified below.

One of the central tenets of entrepreneurship theory is that the founding and establishment of new businesses is due to innovation (Schumpeter, 1942). Innovation leads to different products, different materials or different processes and, hence, differentiation (Porter, 1980). Differentiation can also be achieved through marketing efforts (Porter, 1980). Therefore, new firms may be able to market themselves into a position that will allow them to prosper and grow. As firms become more prosperous, and accumulate

resources, imitation and emulation by competitors is more likely. As a result, successful firms over time more likely face increased competition, and efficiency may become more important.

Czinkota (1982) argues that proactive motivations for internationalization are driven internally from a position of strength and reactive motivations are externally driven and the firm is essentially reacting to conditions in its external environment. Combining the arguments from the development of Hypotheses 1 and 2, the interaction of competitive strategy and firm performance are proposed to influence the firm's internationalization motivation.

H4: SME internationalization motivations are an interactive function of a firm's competitive strategies and its manager's perception of the environment such that (A) proactive motivations will be stronger for differentiator SMEs with favorable perceptions of the environment, and (B) reactive motivations will be stronger for cost-leader SMEs with less favorable perceptions of the environment.

Since SME managers, are extremely influential in shaping the actions of their firms (Campbell, 1996; Reuber & Fisher, 1997), one can deduce that managers are also likely to influence the decision-making climate and organizational mind-set with respect to internationalization. Hence, managerial perceptions at the top of the SME are likely to interact with the type of competitive strategy they choose to develop. Framed in terms of the study, managerial perceptions of the external business environment will likely combine with the firm's strategy and shape the internationalization motivations of the firm.

H5: SME internationalization motivations are an interactive function of a firm's competitive strategies and firm performance such that (A) proactive motivations will be stronger for high performing, differentiator SMEs while (B) reactive motivations will be stronger for poor performing cost-leader SMEs.

## METHODOLOGY

### Sample

The research project was an initial endeavor to examine SME strategy, external environment and SME performance as they relate to the internationalization of SMEs. Therefore, the sample for this research was limited to firms with 500 employees or less. The hypothesized relationships above were empirically tested through a mail survey of SMEs. The questionnaire was administered to address the issues surrounding managers' motivation to internationalize in order to test the above hypotheses. A number of constructs (competitive approach, motivation to internationalize, external environment, and firm performance) were operationalized based on previous research (Czinkota, 1982; Dess & Davis; 1984, Namiki, 1988). The questionnaire was first pre-tested using other university faculty members familiar with SME research followed by a pilot study of 35 business owners thus ensuring content validity.

A random sample of 855 firms was selected from a total population 4,614 SMEs as reported in a biannual directory publication produced by the largest newspaper in a Mid-Western State. These organizations represented all facets of business and industry, including both privately held and publicly traded firms. A letter and questionnaire were mailed directly to the president (owner) of each sampled business. Postcard reminders also were mailed out three weeks after the initial questionnaires. Of those, 198 questionnaires were received, with 176 respondents providing complete information, producing an overall effective response rate of 21 percent.

### Measurement

Internationalization Motivation. Respondents were asked to answer seven questions on the degree or factors that influenced or motivated their decisions to become an exporter or to continue their exporting activities, similar to Czinkota's (1982) previous research. Each item was scaled from 1 = "strongly disagree" to 5 = "strongly agree" on a five-point Likert scale. Table 2 reports the results of a principal component factor analysis with a varimax rotation of those items. The two-factor solution reported acceptable eigenvalues, which are greater than 1.0 with no cross loadings, the results explained about 70 percent of the variance.

The first factor assessed the perceived threat or a "reactive motivation" to internationalization based on the following item's

characteristics toward exporting, "excess production capacity," "declining domestic sales," "competition in domestic markets," and "production obsolescence." The second factor was assessed as firms addressing export because of a perceived opportunity or a "proactive motivation" to internationalization as assessed by the items, "larger profits in foreign markets," "fulfill an international need," and "customer solicitation of product." The constructs for each factor were deemed reliable for both the reactive ( $\hat{I}\pm=0.83$ ) and proactive ( $\hat{I}\pm=0.81$ ) motivations for internationalization (Nunnally, 1978). The mean value for each construct was used for hypotheses testing.

**Competitive Approach.** The instrument used to measure the firm's competitive approach consisted of eleven items that tapped into how firms compete given their unique resources and capabilities. The scale for each of the items was based on a five-point Likert scale ranging from 1 = "strongly disagree" to 5 = "strongly agree." These items are consistent with previous research examining business-level strategies and competitive approach used by firms (Dess & Davis, 1984; Namiki, 1988; Porter, 1980). Since the research literature has not linked competitive approach and SME internationalization explicitly, our expectations were uncertain. Therefore, an exploratory assessment through a principal component factor analysis with a varimax rotation was employed to assess whether or not firms were indeed implementing different competitive approaches. The findings can be found in Table 2.

The results of the above analysis suggest a three-factor solution representative of the competitive approaches SMEs employ. The findings revealed two distinct differentiation types of competitive approaches, and a single low-cost competitive approach. The underlying factor structures lead to the interpretation and designation of three competitive types: marketing (differentiation), innovation (differentiation) and efficiency (low cost) approaches. For example, the first factor (marketing approach) solution deals with items that are associated with the firm's ability to "create a distinct image," "develop brand image," "control distribution channels," and "innovation in marketing techniques."

The second factor was labeled an "innovation approach" because of the association between "incorporating the latest technology," "investing in new facilities," "leadership in basic research," and "ownership of patents or other proprietary know how." The final factor solution was labeled "efficiency approach" because of the emphasis on "higher production efficiency than competitors," "control of selling /general / administration expenses," and "innovation in manufacturing processes."

The three-factor solution explained roughly 58 percent of the variance. Because these items were exploratory in nature, reliability testing was undertaken (see Table 1). The test for reliability for the resulting competitive approaches is acceptable ( $\hat{I}\pm = .59$  to  $.71$ ) following Nunnally (1978). The mean value for each competitive approach was used in further analyses.

**Environment Perceptions.** One area of interest within this research project was to determine if a firm's internationalization motives were associated with managerial perceptions of the environment. Five questions were asked of respondents to measure perceived conditions in the macro environment. The focus of these questions was to gain a better understanding of the firm's degree of flexibility concerning exporting given their perceptions of general economic, political/legal, and technological conditions. Response items were scaled to a five-point Likert scale from 1 = "strongly disagree" to 5 = "strongly agree." An exploratory assessment of these items through a principal component factor analysis with a varimax rotation provided a one-factor solution and also established the findings to be reliable as established by the reliability ( $\alpha = .85$ ). The mean score of these items was used as the underlying construct, "Environment Perceptions."

**Firm Performance.** For various reasons small- and medium-sized firms are oftentimes reluctant to provide information about firm performance. This situation could potentially make it difficult to measure the construct. To overcome the obstacle a categorical approach for assessing firm performance was employed. We asked respondents to answer three questions concerning their performance level in comparison to their industry. The scale for each of the items was based on a five-point Likert scale ranging from 1 = "Lowest 20% returns" to 5 = "Highest 20% returns." As previously discussed performance can be viewed from multiple perspectives, therefore, respondents were asked to rate their performance level compared to the industry for sales growth, R&D expenditures as percent of sales, and creation of new products. A confirmatory factor analysis verified a single-factor solution which also demonstrated reliability ( $\hat{I}\pm = .73$ ).

## RESULTS

Table 3 presents the descriptive statistics and intercorrelations for the variables analyzed. The initial findings provide partial support for our direct effect hypotheses. For example, bivariate correlations indicate that proactive motivation for internationalization is significantly related with the differentiated (both marketing and innovation) competitive approaches. However, the reactive motivation is not correlated with the low cost (efficiency) competitive approach.

Table 3 also indicates that environment perceptions have a significant positive relationship to proactive internationalization motivations. Lastly, SME performance is positively correlated with proactive motivations and negatively correlated with reactive motivations, though only the performance-proactive relationship is significant ( $p$

We used regression analysis to examine the strength of association between environment perceptions, firm performance and competitive approach-individually and collectively-and internationalization motivations. To better assess the results, we used four regression equations to partial the main effects of each predictor on the two types of internationalization motivations (proactive and reactive). The findings from these hierarchical regressions are reported in Tables 4 and 5. Table 4 displays the results of the regression analyses on proactive internationalization motivations and Table 5 illustrates the results for reactive motivations.

For each type of internationalization motivation, the main independent variables proposed in Hypotheses 1, 2, and 3 enter the regression equation separately and then simultaneously. The results of these analyses are mixed. Models 1 and 2 in Table 4 indicate a significant ( $p$

Lastly, when all independent variables enter the regression simultaneously (Model 4), environment perception and firm performance remain significantly associated with proactive motivations ( $p$

We analyzed reactive internationalization motivations in the same manner. Table 5 illustrates the results of this analysis. Surprisingly there were no significant results for any of the hypothesized direct effects on the reactive motivation. These findings are true for both the independent analysis and the simultaneous analysis. Overall, these results provide partial support for the relationships proposed in Hypotheses 1,2, and 3.

As we hypothesized earlier, the relationship among independent variables and their association with the dependent variables may be more complex than would be revealed by direct effect analysis. To begin the process of untangling these relationships we tested the interactions between independent variables proposed in hypotheses 4 and 5. Table 6 displays the results of these regressions.

The interaction variables had to first be created by aggregating the variables from the regression analyses presented in Table 4 to produce four distinct interaction variables (for example, strategy  $\times$  environment perceptions). In Table 6 Model 1 presents the analysis of the interaction between environment and strategic approach. The results indicate that the interaction between positive environment perceptions and marketing differentiation are significant ( $p$

Model 2 displays analysis results for the association between the performance-strategic approach interaction and internationalization motivation. The results show that firm performance and marketing differentiation appear to work in conjunction relative to proactive internationalization in a statistically significant way ( $p$

Lastly, the reactive motivations to internationalization were examined with respect to the interaction terms. We expected that a combination of unfavorable environmental perceptions, poor growth and a reliance on efficiency strategies would yield an association with an SME's reactive internationalization motive. However, similar to the results of our earlier tests of direct effects on the reactive motivation, the interaction variables yielded no significant association with the reactive motivation. The results are presented in Models 3 and 4 of Table 6.

## DISCUSSION

An important research aspect of the internationalization of SMEs is investigation of the forces that stimulate a firm's decision to initiate international operations. In our study, we expected external environmental conditions, firm performance, and competitive strategies to influence SME internationalization motives. Overall, we found significant support for the hypothesized relationship

between these variables and the proactive motivation to internationalize. While the firms in our study exhibited both proactive and reactive internationalization motivations, the ability to associate the independent variables with the notion of a reactive motivation was largely ineffective.

Our first test investigated the influence of the environment on these motivations. Hypothesis 1 argued that SMEs with more favorable perceptions of the environment have proactive motivations and SMEs with negative perceptions of the environment have reactive motivations. This hypothesis was partially supported by our study. Managers of SMEs with favorable perceptions of general economic and regulatory conditions were more likely to seek out foreign markets and opportunities proactively. Apparently, favorable environments are strong drivers of managers seeking international opportunities on which to capitalize. Having confidence in the domestic economy and perceiving the regulatory environment, as something that is manageable and supportive for small businesses, influenced managers to pursue international opportunities.

However, based on the outcomes of the analysis, SME managers with negative perceptions of general environmental conditions do not necessarily reactively internationalize as a response to their environment. The lack of findings concerning the reactive responses could result from the use of general environment perceptions versus measures of the more specific task or industry environment. Industry environmental measures may exert a more direct influence on the firm's decision makers regarding the internationalization process. Indeed previous research (Bilkey & Tassar, 1977; Czinkota, 1982) measured the reactive motivation by examining specific competitive conditions within an industry. Such measures included increased competition, decreased sales, excess capacity, saturated market, and so on.

Hypothesis 2 maintained that there was a significant relationship between SME performance and internationalization motives. Our hypothesis, again, was partially supported by the data. Firms with high performance, in terms of revenue growth, tended to have proactive internationalization motives. Thus, we conclude that high performing firms experiencing growth in their domestic markets internationalize from a position of strength.

We cannot make the case as clearly for the association between lower firm performance and the reactive motivation to internationalize. Interestingly, lower performing SMEs demonstrated no strong association with either proactive or reactive internationalization motives. While the correlation matrix and regression analyses indicated an expected negative relationship between poor performance and proactive motivations and an expected positive relationship with reactive motives, the relationships are not statistically significant. Perhaps poor performance does, in some manner, influence decision makers to internationalize reactively, but our data did not adequately support this premise.

Hypothesis 3 suggested that (a) differentiating SMEs exhibit proactive motivations and (b) cost-leader SMEs exhibit reactive motivations. When we analyzed the association between competitive strategy type and the proactive motivation to internationalize, differentiation strategies based on marketing and innovation emerged as strongly associated with proactive internationalization efforts. These results support part (a) of the hypothesis. SMEs that compete by differentiating their products or services may be proactive (Czinkota, 1982). We interpret this support to indicate that SMEs proactively "push" their unique skills or attributes into new geographic markets as opposed to being pulled into these markets by exogenous factors. While part (a) of hypothesis 3 had statistical support, part (b) did not. Thus, the data did not support the premise that cost-leader SMEs reactively internationalize due to exogenous environmental factors.

Finally, we proposed that a firm's competitive strategy and organizational context jointly influence internationalization motivations more than the factors do independently. In hypothesis four, we argued that SME internationalization motivations are an interactive function of a firm's competitive strategies and its manager's perception of the environment. Specifically we suggested that proactive motivations were stronger for differentiator SMEs with favorable perceptions of the environment, and reactive motivations were stronger for cost-leader SMEs with less favorable perceptions of the environment.

The findings partially support hypothesis 4 and the proposed interactive effects. For proactive SMEs with (marketing) differentiated competitive approaches and a favorable perception of the environment, the interaction variable is a significant explanatory variable. However, analysis of the interaction between environment and the innovative competitive approach and between environment and the efficiency competitive approach yielded no statistical association with proactive internationalization



or reactive internationalization. The outcome suggests that the marketing competitive approach and perceptions of the environment are complementary and jointly influence the proactive motivations for internationalization. Although there is support for the interaction term involving the marketing approach, the more general proposition regarding differentiation or cost leadership, environment perceptions and proactive or reactive motives to internationalize was not supported.

Hypothesis 5 was also partially supported. We proposed that proactive motivations would be associated with high performing, differentiators, while reactive motivations are associated with poor performing cost-leader SMEs. Firms experiencing growth and profitability when using a marketing differentiation approach were more likely to be proactive in their internationalization. Similar to the outcomes of the previous interaction analysis, innovation and efficiency when combined with performance bore no statistical association with the proactive or reactive motivation to internationalize.

In sum, the lack of evidence for significant statistical association among some of the variables was expected. However, the complete lack of significant results concerning reactive internationalization motives was unexpected. The absence of any association was consistent across all the tested direct effects and interactions. This outcome warranted further exploration.

One issue may rest with using Czinkota's (1982) measure of reactive motivations for SMEs. In examining the items further, factors such as underutilized capacity and production obsolescence typically may not be associated with small firms. Generally, smaller firms operate with fewer slack resources and therefore try to minimize overhead costs. In addition, small firms may be more flexible in incorporating new technologies and production techniques (Garsombke & Garsombke, 1989). In other words, perhaps certain aspects of Czinkota's (1982) reactive motivations are less likely to drive internationalization for small and very small firms.

We employed a post hoc analysis of the data to determine whether larger firms in our sample might be more likely to exhibit one competitive approach over another. We wanted to determine if size might influence some of the hypothesized relationships. From this analysis, we found that size was not important for explaining proactive motives, but larger SMEs were associated (p

Overall, and consistent with previous research, it seems that managerial knowledge, experience or perceptions shape the partem of SME internationalization (Brush, 1996; Reuber & Fisher, 1997). Additionally, these results also support the stream of literature contending that SMEs use different competitive approaches to internationalize, depending on their resource capabilities (Dollinger & Golden, 1992; Namiki, 1988; Wolff & Pert, 2000). Finally, an SME's motivation to internationalize is partially based on the degree to which they are internally versus externally driven to select such a course (Czinkota, 1982).

However, the above findings indicate much more than the previously found results obtained through simple multivariate analyses. These results support the presence of a moderator effect between competitive approaches and perceptions of the environment and between competitive approach and firm performance on internationalization motivations. The findings presented above explain the influence of unique competitive approaches of SMEs as they contemplate internationalization. We contend that the competitive approach implemented by SMEs is better understood when the moderating effects of environmental perception and performance are examined simultaneously as presented in this study.

This research represents one of the first efforts to examine the moderating effects of environment perceptions and firm performance on SME competitive approaches as they related to the motives to internationalize. While we did find some support for our contentions, the relationships examined are also much more complex than conceived in this study and therefore the study has important limitations. Due to the complex nature of the relationships between competitive strategies and push/pull motivations, there are likely to be other factors not considered in the research that influence the association. Primary among them is size within the SME categorization of enterprises. Additionally, the sample was limited to SMEs with headquarters in one geographical state. Future studies should expand this research to including a cross section of states and regions within the US as well as comparative studies across countries.

Researchers could also investigate how SME's begin to change their competitive strategies as they move abroad. For example, our study focuses primarily on the two underlying competitive strategies of cost leadership and differentiation while not accounting for any differences in whether these strategies are niche-focused or broad-based. As firms move into multiple international

markets, with varying demands and differences, obviously a change in the market focus of their competitive strategies occurs. The impact of these strategic changes over time could have ramifications on SME performance. In addition, these changes may be driven by different internationalization motivations of the firms. Finally, the link between motivations and international implementation has been relatively unexplored. These results offer a number of interesting opportunities for future research in an area that has received much publicity dealing with globalization.

In sum, this study investigated the influence of the environment, performance and competitive strategies on the internationalization motives of SMEs. The research is unique in that it incorporates business level competitive strategy and examines its relationship to internationalization. It also integrates elements of environmental perception and firm performance into SME internationalization processes. In view of our results, other constructs, such as managerial perceptions of the industry or task environment, should be incorporated into the evaluation of SME motivation to internationalize. Another potentially fruitful avenue of exploration is examination of changes in SME competitive approach and internationalization motivation because of initial forays into international markets. This study found a number of direct and interaction effects that help to explain, in part, proactive internationalization motives of SMEs. However, the study also raises a number of additional questions and illustrates the complexity of the issues surrounding SME motives to internationalize.

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