

*"Many companies do not dare to internationalize
due to a perceived lack of competence..."*



GLOBALISERINGSFORUM

INTERNATIONALIZATION COMPETENCE OF SMEs

Leona Achtenhagen



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Sammanfattning

Export har en positiv inverkan på ekonomisk tillväxt. Exporterande företag har ofta en högre produktivitet i jämförelse med icke exporterande företag. Eftersom majoriteten av de svenska företagen är små eller medelstora (SMF) är det ytterst viktigt för den svenska ekonomin och för företagets konkurrenskraft att de kan växa genom export. Trots vikten av internationell handel för den svenska ekonomin, och att Sverige är ett högt internationaliserat land, fortsätter den större delen av SMF i Sverige att agera på en lokal eller nationell marknad. Många svenska SMF utnyttjar idag inte möjligheten till internationalisering för att skapa företagsutveckling och tillväxt. Detta beror knappast på regelverket – både import och export är ofta mindre kostsamt och mindre krångligt i Sverige jämfört med andra EU länder.

I rapporten belyses frågan om internationaliseringskompetens i SMF genom en omfattande litteraturstudie av befintliga empiriska resultat med fokus på internationaliseringshinder och relevanta kompetenstyper. Då internationalisering innebär en hög riskfaktor och företagets ansträngningar att exportera till nya marknader ofta misslyckas är studien högst relevant för att kartlägga då faktorer som uppfattas av företagen som hinder för internationella aktiviteter.

De hinder för internationalisering som SMF anger handlar inte sällan om (självuppfattad) brist på kompetens, som leder till att många inte vågar ta steget (Tabell 1).

Tabell 1. SMFs egen ranking av hinder för internationalisering

Rankning	Beskrivning av hinder
1	Brist på kapital att finansiera exportverksamhet
2	Svårigheter att identifiera affärsmöjligheter på utlandsmarknader
3	Begränsad information om hur man kan analysera/lokalisera marknader
4	Oförmåga att nå potentiella kunder på utländska marknader
5	Svårt att hitta pålitlig representant utomlands
6	Svårt att få ledningens tid att räkna till för att fokusera på internationalisering
7	Otillräckligt med personal eller utbildad personal för att hantera internationaliseringsmöjligheter
8	Svårigheter att matcha konkurrenters prisbild
9	Brist på stöd från myndigheter i hemlandet
10	Höga transportkostnader

Source: OECD-APEC (2007), cited in OECD (2009: 8)

Bristande marknadskunskap liksom brist på interaktion med nyckelaktörer (t.ex. kunder och leverantörer) kan till viss del överkommas genom åtgärder för att öka företagets internationaliseringskompetens samt genom exportstimulanser av olika slag.

Litteraturstudien visar även ett samband mellan import och export hos SMF. Denna länk är viktig eftersom import ofta är det första steget i internationalisering hos många SMF medan export uppstår i ett senare skede eller möjligen i samband med importen. Fördelarna med importerfarenheter är att dessa lägger en grund för framtida export, minskar kulturella skillnader, ökar förståelsen av utländska marknader, leder till en mer internationell syn på verksamheten samt ger ökade möjligheter till utländska kontakter och affärsmöjligheter.

Slutsatserna från studien sammanfattas i en sk POMI-modell. Modellen omfattar: Personlig internationell inställning/erfarenhet, Organisatoriska kompetenser och resurser, Marknadskompetens och Institutionella kunskaper. I rapporten presenteras slutsatser för såväl den ekonomiska politiken som för praktiker. Baserat på litteraturstudien presenteras också rekommendationer riktade till företag om vilka problem som kan uppstå när en internationalisering planeras. Detta bör i sin tur kunna bidra till att rätt sorts resurser och kompetenser utvecklas samt att policy aktörer bättre kan stödja SMFs internationaliseringsaktiviteter (Tabell 2).

Tabell 2. Förslag för att öka internationaliseringen i svenska SMF

Internationell Kompetens	Egenskaper	Förslag på utveckling
<i>Personlig internationell inställning/erfarenhet</i>		
Initial kompetens för internationalisering	Att upptäcka möjligheter på internationella marknader	<p>Internt hos SMF:</p> <ul style="list-style-type: none"> • Experimentera med import för att erhålla initial internationell kompetens som en förberedande aktivitet till export. • Fokusera på att bygga nätverk i olika sammanhang, speciellt där andra SMF delar med sig av sina erfarenheter. I många delar av Sverige anordnar t ex ALMI Företagspartner nätverksträffar. <p>Externt stöd:</p> <ul style="list-style-type: none"> • Lyfta fram förebilder genom olika sorters media som inspiration. Exportrådet har sådana företagsexempel på sin hemsida, men lyckade exempel av internationaliserade SMF kan uppmärksammas i större utsträckning. • Underlätta samarbeten där erfarna internationella chefer handleder SMF som är intresserade av internationalisering, till exempel, genom förberedande möten och/eller gemensamma tjänsteresor.

Internationell inställning	Kommunikationsförmåga med avseende på kulturella skillnader, kunskap i främmande språk, erfarenhet från resor och arbete i internationella miljöer.	<p>Internt hos SMF:</p> <ul style="list-style-type: none"> • Samarbete med universitet/högskolor för att utveckla närmare relationer med utländska studenter från potentiella marknader (t.ex. marknadsundersökningar och för att få tillgång till deras internationella nätverk). Ett exempel är Internationella Handelshögskolan i Jönköping som erbjuder företag att samarbeta med studenter i både entreprenörskaps- och marknadsföringsundervisning. • Erbjuder praktikplatser till nuvarande och/eller nyligen examinerade studenter med relevant internationell erfarenhet för att förbättra den framtida internationaliseringen samt de kulturella skillnaderna inom företaget. <p>Externt stöd:</p> <ul style="list-style-type: none"> • Ge stöd till samarbeten mellan internationella studenter/anställda och SMF och ett starkt samarbete med Migrationsverket för att undanröja eventuella problem med visum.
Organisatoriska kompetenser och resurser		
Kunskap om internationalisering	Kunskap om företagets kompetenser och resurser för att inleda en internationell aktivitet, internationell innovationsförmåga, samt kunskaper om internationell marknadsföring.	<p>Internt hos SMF:</p> <ul style="list-style-type: none"> • Utveckla/utvärdera den internationella marknadsföringsstrategin • Identifiera vilken information eller kunskap inom företaget som saknas och finna lösningar. • Fokusera på att förbättra/underhålla innovationsförmågan inom företaget. <p>Externt stöd:</p> <ul style="list-style-type: none"> • Tillhandahåll kompetensutveckling inom internationell marknadsföring. Flera företag, t ex ITM Worldwide, erbjuder bland annat en praktisk exportutbildning.
Marknadskompetens		
Erfarenheter från internationella marknader	Kunskap om utländskt företagande: erfarenhet från klienter, marknader och konkurrenter	<p>Internt hos SMF:</p> <ul style="list-style-type: none"> • Besök internationella mässor • Kontakta exportagenturer för stöd <p>Externt stöd:</p> <ul style="list-style-type: none"> • Anordna projekt och övningar för att stödja SMF att identifiera kunskapsluckor samt att avhjälpa dessa brister. • Förse företagen med information om relevanta mässor
Institutionskunskap		
Kunskap om utländska institutioner	Erfarenhet och kunskap om utländska statliga aktörer, institutionella strukturer, regler, normer, och värderingar.	<p>Internt hos SMF:</p> <ul style="list-style-type: none"> • Delta på relevanta industrimässor • Fokusera på att utveckla ett nätverk med personer/företag i samma situation <p>Externt stöd:</p> <ul style="list-style-type: none"> • Förse företagen med information baserat på branschskillnader • Tillåt privata aktörer att erbjuda specialanpassade tjänster.

Abstract

Export has a positive impact on economic growth, and exporting companies often achieve a higher level of productivity than non-exporting companies. Most companies in Sweden are small, and it is of vital importance for the Swedish economy that they successfully develop and grow. In a small home-market economy like Sweden, an important direction for growth is to expand internationally. But many companies do not dare to internationalize due to a perceived lack of competence. This report aims at providing a comprehensive overview of academic research related to different kinds of competences relevant for the internationalization of small and medium-sized enterprises (SMEs). The overview leads into recommendations to SMEs regarding what kind of issues they might want to keep in mind when preparing for international business activities, e.g. to develop an appropriate set of resources and competences. In addition, implications relevant to policy-makers are derived from the literature overview.

Internationalization competence of SMEs

Introduction

Many studies have documented the impact of exports on economic growth (e.g. Hesses & van Stel, forthcoming). Similarly, on a firm-level, consistent evidence has been found that exporters enjoy higher productivity than non-exporters within the same industry (Eliasson, Hansson & Lindvert, forthcoming). For European small and medium-sized enterprises (SMEs), not least the single European market has increased the opportunities for SMEs to internationalize their business activities (cf. Eyre & Smallman, 1998).

As an economy with a small home-market, international trade is essential for Sweden's economic growth. In 2011, Swedish companies exported goods and services for a value of 1136 billion Swedish Kronor (see even Table 10 below); and more than half of these exports (650.8 bln SEK) went to other European Union (EU) countries (Statistics Sweden, 2011). For example, the aggregate export intensity (i.e. the share of exports in sales) for manufacturing was 64% in 2006 (Eliasson et al., forthcoming). Yet, the share of SMEs, which represent 99.8% of all Swedish companies, in these international manufacturing activities can be considered low (see Table 1 below).

Table 1: Export activities among different sizes of manufacturing firms in 2006

Firm size class	Share of all companies	Share of exporters	Export intensity	Number of export destinations	Number of export products
Micro (1-9 employees)	94.2	3.2	1.4	0.2	0.1
Small (10 -49 employees)	4.7	31.2	11.3	3.6	1.9
Medium-sized and large (50-∞)	1.0	80.7	32.5	19.3	10.0
All firms (1 -∞)	100	15.2	5.9	2.4	1.3

Source: Eliasson et al. (forthcoming); share of all companies data from the EC Enterprise and Industry's SBA Fact Sheet Sweden 2008, based on data for 2004/2005.

Notes: Exporters are firms with a value of exports larger than 1.5 mln SEK. Export intensity is the average share of exports in sales for the firms within each size class. Number of export destinations (export products) is the average number of destination (products) the firms in each size class is exporting to.

Viewed across all industries, only 10.84% of SMEs imported from other EU countries in 2007 (EU average=17.69%); and only 5.02% of SMEs exported to other EU countries in 2007 (EU average=6.82%). Regarding trade with countries outside of the EU, 7.29% of Swedish SMEs imported from countries outside of the EU (EU average=6.91%), and 4.95% of Swedish SMEs exported to countries outside of the EU (EU average=3.88%) (data for 2007; EC Enterprise & Industry Small Business Act Fact Sheet Sweden, 2010/2011). It needs to be acknowledged that even though many SMEs have unleashed potential to grow through international activities, it is unrealistic that their degree of internationalization will ever reach the same level as that of large companies. Despite the importance of international trade for the Swedish economy and the self-image of being a highly internationalized country, in reality many Swedish SMEs continue to be local, or national at best. This low degree of international activities of Swedish SMEs cannot be attributed to infrastructural or regulatory burdens. As Table 2 below illustrates, Swedish SMEs can conduct exporting activities faster, cheaper and less bureaucratic than their EU counterparts on average.

Table 2: Internationalization infrastructure for Swedish SMEs compared to EU average

	Sweden	EU average
Import		
Costs to import (in USD)	735	1097.64
Time to import (in days)	6	12.35
Number of documents needed for import	3	5.35
Export		
Costs to export (in USD)	697	1043.46
Time to export (in days)	8	11.71
Number of documents needed for export	3	4.5

Source: compiled from EC Enterprise & Industry Small Business Act Fact Sheet Sweden, 2010/2011

If red tape cannot be blamed to be the main reason for the rather low degree of internationalization of Swedish SMEs, which other barriers exist for SME internationalization and which competences might SMEs need to successfully tackle them? For many SMEs, exporting is not really an option as they serve very local markets with business models that are difficult to scale up internationally (such as local bakeries). Others, however, have the potential for international expansion, but might not act on it, as they have not (yet) developed an international vision for the company.

This report aims at giving a comprehensive overview of academic research related to different kinds of internationalization barriers and competences important for the internationalization of SMEs. Such overview is relevant, as internally SMEs prepare for international business activities by developing an appropriate set of resources and competences to overcome internationalization barriers (Knight & Kim, 2009; Laghzaoui, 2011). At the same time, factors that are perceived as obstacles for international activities and relationship building can typically be explained by insufficient knowledge

about the procedures connected with international business (Kedia & Chockar, 1986; Korth, 1991; Ramaseshan & Soutar, 1996), or – put more simply, with a lack of internationalization competence. *Competences* refer to a set of knowledge, skills and personality variables, which relate to successful behavior in a designated field (Caird, 1992); in this report to SME internationalization. Successful international SMEs have left behind their domestic orientation and adopted a global mindset, viewing the world as the firm's marketplace (Nummela, Saarenketo & Puumalainen, 2004). *International business competence* contains multiple dimensions, including learning about international environments and adapting the whole organization to the changes brought about through interactions with foreign markets. As competences are embedded into contexts – individual, organizational and industrial, different contextual factors are also discussed in order to contribute to increasing the overall understanding of the topic.

The remainder of this report is structured as follows: After a short overview on internationalization barriers, processes and patterns as well as important factors for SME internationalization are presented. In the subsequent sections, aspects related to the internationalization competence of SMEs are integrated into a framework and different ways of enhancing internationalization competence are discussed to provide input to policy and practitioner-oriented considerations.

Barriers for SME internationalization

Different obstacles for SME internationalization and exporting exist. The 2007 OECD-APEC study *Removing Barriers to SME Access to International Markets* identified four barriers as being by far and away the most serious impediments to SME internationalization (see Table 3 below), namely 1) Shortage of working capital to finance exports; 2) Identifying foreign business opportunities; 3) Limited information to locate/analyze markets; and 4) Inability to contact potential overseas customers. In a study of Swedish SMEs drawn on in this report, the author pointed out the difficulty of Swedish SMEs to gain access to a suitable distribution channel in international markets (Rundh, 2007). A subsequent OECD (2009) study added the 'lack of managerial time, skills and knowledge' as a fifth important barrier. It is striking to note that most of these barriers are related to a (perceived) lack of competences related to international activities (i.e. all but rank 1 in the list above)! For enhancing the internationalization of Swedish SMEs, this is encouraging for policy-makers, as they could make an impact by supporting SMEs to identify and adequately fill those competence gaps.

In academic studies, barriers for SME internationalization have been summarized, e.g., as strategic, operational, informational and process-based challenges (Morgan & Katsikeas, 1997; Hutchinson & Quinn, 2006). Typically, these challenges are related to the *scarce resource base* of SMEs (including, for example, financial, operational, logistical and learning resources), which can hinder their international development (see Leondiou, 1995; Morgan & Katsikeas, 1997). However, internationally active SMEs show that these barriers can be overcome, i.e. through differentiation from competitors and by leveraging an entrepreneurial vision and network links (Hutchinson & Quinn, 2006). Internationalization involves a high degree of risk and many attempts

Table 3: Barriers ranked by SMEs using the top ten ranking method

Rank – Weighted factor	Description of barrier
1	Shortage of working capital to finance exports
2	Identifying foreign business opportunities
3	Limited information to locate/analyze markets
4	Inability to contact potential overseas customers
5	Obtaining reliable foreign representation
6	Lack of managerial time to deal with internationalization
7	Inadequate quantity of and/or untrained personnel for internationalization
8	Difficulty in matching competitors' prices
9	Lack of home government assistance/incentives
10	Excessive transportation costs

Source: OECD-APEC (2007), cited in OECD (2009: 8)

to export into new markets fail. Internationalization activities incur fixed costs, and SMEs have limited resources to cope with the potential downside of expansion abroad (Buckley, 1989). As many SMEs have a rather weak financial base, they need to recoup financial investments within a relatively short time-frame, which leads to a limited range of international entry modes feasible for SMEs and a rather narrow operational base from which the international activities can be undertaken (Papadopoulos, 1987). *Competence-related obstacles* for small firms to engage in international business activities are limited resources and management skills, a perceived lack of demand for the product offerings, regulations, red tape, cultural differences, lack of language skills and psychic distance (e.g. Miesenbock, 1988; see Fletcher, 2004).

The perception of these obstacles is intensified by limited market knowledge, leading i.a. to difficulties in finding foreign markets in terms of ease of penetration (Papadopoulos, 1987), and a lack of interaction with key actors (such as customers and suppliers), hindered by a lack of aspiration, expertise or awareness to grow through international expansion (O'Farrell & Hitchens, 1988). However, different kinds of export stimuli can help SMEs to overcome obstacles to international expansion (Leondiou, 1995). Such stimuli can include motivating factors, among which a focus on developing an international strategy, entrepreneurial vision and experience, drawing on firm networks and but also making use of external assistance to fill competence gaps (cf. Hutchinson & Quinn, 2006).

Processes and patterns of SME internationalization

Gradual SME internationalization

International research on the internationalization of small and medium-sized companies is often inspired by the Uppsala model (Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 1977; 1990), which has emphasized a gradual and incremental approach to SME internationalization. In the Uppsala model, internationalization is seen as process in which the learning about international operations interacts with the commitment to international business. A lack of knowledge about international mar-

kets and operations represents a major obstacle for internationalization. According to this model, market knowledge is mainly developed through the experiences accumulated through international operations. Increasing experience gradually enhances the commitment to further international business, as learning reduces the uncertainty level associated with such operations, changing the foreign market entry mode from indirect exporting to establishing sales subsidiaries abroad and finally investing in international production facilities. However, while the Uppsala model continues to have a major influence on the SME internationalization literature, many scholars have shown the limitations of its assumed linearity of internationalization. For example, Buckley and Ghauri (1999) point out that SMEs often, at first, internationalize following their customers. It has also become evident that SMEs do not necessarily adopt a gradual, incremental approach to internationalization, but instead embark on rapid internationalization and high market commitment starting with, or shortly after, inception. These companies are referred to as 'born globals' or 'international new ventures' (McDougall, 1989; Oviatt & McDougall, 1994; Oviatt & McDougall, 1997). Especially important for this group of companies appears to be the international, or even global, vision of managers (Oviatt & McDougall, 1995; Andersson & Wictor, 2003).

Importing as antecedent to exporting

Other research has pointed out the relationship between importing and exporting. This link is important, as the first internationalization step for many SMEs is to import, while export activities are taken up only after that or at the same time (e.g. Samiee, Walters & DuBois, 1993; Holmlund, Kock & Vanyushyn, 2007). In any case can importing be viewed as an important early international activity of SMEs (Holmlund et al., 2007). Moreover, importing can play an important role for enhancing the propensity of SMEs to start exporting, for example when impulses from importing create opportunities for international business (Welch & Luostarinen, 1993; Karlsen et al., 2003). Advantages to gain from importing experience can be that these operations provide a base for potential export activities, a reduction of cultural barriers, a better knowledge of foreign markets, a stronger international outlook, and an increased chance that the foreign contacts might lead to orders (Welch & Luostarinen, 1993; Holmlund et al., 2007). However, the learning effect from importing to exporting is more likely to occur in companies which are small enough to have operations concentrated in one location and where activities are not spread into different departments with few linkages. In addition, it has been pointed out that the purchasing function in the company needs to have enough status to be able to suggest ideas for future business opportunities (Holmlund et al., 2007).

Even though SMEs have a range of international entry modes to choose from, many of them internationalize via exporting, especially when they first venture abroad (Bello, Chelario & Zhang, 2003). The impulse for initiating international business activities is often given by management interest, limited domestic markets and inquiries from buyers (Holmlund, Kock & Vanyushyn, 2007), but it requires entrepreneurial competence in identifying international business opportunities and managerial competence to put such opportunities into practice.

Exporting SMEs perform better!

That exporting SMEs achieve higher productivity than non-exporters within the same industry has mainly been explained by two factors: self-selection and learning by exporting. The *self-selection* explanation assumes that more productive SMEs can more easily afford the higher costs of exporting (Eliasson et al., forthcoming). Some SMEs consciously increase their productivity by investing in physical and human capital as well as new technologies with the explicit purpose of becoming exporters (Alvarez & Lopez, 2005). The *learning by exporting* explanation argues that exporters are exposed to knowledge flows from international buyers and competitors as well as to more intensive competition on international markets, and thus have more incentives to improve productivity than firms which do not have this exposure. Exporting might also help SMEs to exploit economies of scale and to improve capacity utilization.

A note on demographics

A number of studies on SME internationalization have tried to establish demographic characteristics of successfully exporting SMEs, however with largely inconclusive results. While some studies find young age to be such characteristic (Andersson, Gabriellsson & Wictor, 2004, Cavusgil & Naor, 1987), other studies find that an older age of the owner-manager or founder is positively related to internationalization (e.g. Nakos, Brouthers & Brouthers, 1998). One explanation for the differing results could be differences in internationalization characteristics across industry segments (Boter & Holmquist, 1996). For example, Andersson (2004) shows firms' different international behavior in mature and growing industries, and different international growth strategies have also been pointed out for manufacturing and service companies in consumer and business-to-business markets (Andersson, 2006). Overall, demographic characteristics do not appear to play an important role for SME internationalization. This triggers the assumption that behavioral characteristics are probably more relevant for SME internationalization than demographic factors. Therefore, demographic aspects will not be further discussed in this report.

Important factors for SME internationalization

Three factors are generally mentioned as important for SME internationalization. These are the owner-manager, an international strategy as well as networking. Due to their importance for the topic, these three factors will be shortly introduced in the following, even though some overlaps exist with the subsequent discussion focused on internationalization competence.

The role of the owner-manager

SMEs are often led by owner-managers. The SME owner-managers' experience and past commitments influence the choice of the first international market, and it is typically the owner-manager who decides to start or expand international activities and deter-

mines the scope of the organizational commitment to international expansion (Burpitt & Rondinelli, 2000). Having an entrepreneurial vision of developing an internationally active SME facilitates the initiation of international business activities. Whether or not SME owner-managers show propensity to international expansion has been attributed to different managerial characteristics, such as the extent to which SME management has engaged in foreign travels, the number of languages spoken, whether members of the management team were born abroad, and lived or worked abroad (Wiedersheim-Paul, Olson & Welch, 1978; Bijmolt & Zwart, 1994; Reuber & Fischer, 1997). Because SMEs are often founded around a specific product or technical skill of the owner, a personalized approach to running and internationalizing the firm is typically adopted (Apfelthaler, 2000). Andersson (2000) identified how technically-oriented entrepreneurs developed their firms with a slower international development, while marketing-oriented entrepreneurs firms displayed a more rapid international development. His conclusion is that different entrepreneurial types adapt different international strategies. This suggests that one size does not fit all – all entrepreneurs need to find an internationalization strategy which fits them and their businesses!

A personalized approach to internationalization can also be shaped by a group of people. In SMEs where management is a shared effort, organizational behaviors, including internationalizing business activities, is often shaped collectively by a team of people. 'Born global' firms that are international from inception are typically founded by a team of individuals with international experience (e.g. Oviatt & McDougall, 1994). It has been empirically confirmed that international experience of the founder and the management team influences the internationalization behavior of the SME (including the use of more foreign strategic partners), delaying less in obtaining foreign sales after start-up, which leads to a greater degree of internationalization (Reuber & Fischer, 1997). SMEs with diverse know-how represented in the management team have been found to be able to employ more competitive strategies and to engage in more promising business opportunities in international markets than large organizations (Westhead, Wright & Ucbasaran, 2001).

International strategy

Many SMEs could capitalize on their strengths in international markets (e.g. Merrilees & Tiessen, 1999). Due to their limited resource base, they cannot compete with larger competitors on price, but they can create an advantage based on a clear focus (e.g. Chetty & Campbell-Hunt, 2003). A clearly developed internationalization strategy is needed. By concentrating on a market niche, with differentiated and unique products, SMEs can cater to a narrowly defined market segment (Bloodgood, Sapienza & Almeida, 1997). Regarding operational processes to support the international strategy, the export channel structure and its management, including marketing activities, channel modes and administrative arrangements, appear to play an important role in achieving superior performance (Yeoh & Jeong, 1995).

Networking

One important extension of the Uppsala model introduced above refers to the relevance of networks for SME internationalization, demonstrating that international performance can be improved through alliances with other companies, which help to overcome resource and market knowledge limitations (Johanson & Vahlne, 2003). Networks can help SME managers to identify international opportunities, to establish credibility with their partners and to gain access to strategic resources (such as market knowledge) (Amal & Filho, 2010), and networks have also been found to act as catalysts for international expansion (Johanson & Vahlne, 1990). Two types of networks links appear as especially relevant for internationalization: the establishing and building of new relationships in new markets and the connecting to existing networks in other countries (Fillis, 2001). Important networking links include both, informal contacts, such as friendship and family links abroad, and formal contacts, for example with business and governmental organizations, in key and target markets (Coviello, Ghauri & Martin, 1998). Personal and social contacts established through family or friendship links have been found to be driving forces for SME internationalization (e.g. Holmlund & Kock, 1998). The social networks of SME managers comprise both, strong and weak ties, and the strength of ties depends on the combination of time, emotional intensity, intimacy and reciprocal services (Granovetter, 1973: 1361). Söderquist (2011) found that strong relationships were most important for a successful international growth strategy and Andersson and Florén (2011) showed that managers in international firms were more proactive in their networking behavior than firms primarily focusing on the home market.

Formal networking contacts which play an important role for the development of SMEs international activities are the participation in international trade fairs and exhibitions, as well as links to other companies sharing the same suppliers or customers (Koch, 2001), but also the communication with relevant experts outside the company (Terziovski, 2003). Network relationships affect the internationalization of SMEs by facilitating the forming of new competences as well as by changing the SME manager's entrepreneurial vision. The new competences can form an opportunity to develop market-specific knowledge, which in the process of further internationalization can be critical for market selection and the commitment of resources for developing new activities. Networking can also help SMEs overcome insufficient know-how and formal training in international operations (Vida, 2000). The quality of communication has been found to be especially important between an SME and its foreign intermediaries (Kuhlmeier & Knight, 2010). As communication is a two-way process, it is important that SMEs ask their intermediaries the right questions to establish which goals the intermediary hopes to achieve.

Internationalization competences

Can all SMEs internationalize? And, what does it take for an SME to go international? Many SMEs do not have business models which are scalable to international markets. Others could internationalize, but lack willingness and/or competences. Predicting which companies might be or could become willing to really take such action and internationalize could help support agencies direct their work better to interested companies. However, what kind of competences are considered as most relevant and which areas to acquire or develop competences in are perceived as most crucial depends on the specific situation of each company, as well as its experience with international business activities. Some authors have presented 'stage models' of export activities, the most prominent one (Reid, 1981) suggesting the process of export awareness, export intention, export trial, export evaluation and export acceptance. Different types of competences and experiential knowledge can be distinguished as important for the internationalization process, and these change over time as learning occurs during the process. For the purpose of this report, these different types of competences can be integrated into a POMI framework – *personal international orientation*, *organizational capabilities*, *market knowledge* and *institutional environment knowledge*.

- **P:** *Personal international orientation*, is formed by proficiency in foreign language, international travels, but also living abroad, including study and work experiences, which all contribute to acquiring foreign institutional and business knowledge (Dichtl, Koeglmayr & Mueller, 1990; Chandra, Styles & Wilkison, 2009); this personal international orientation can reduce the perceived 'fear' of entering foreign markets.
- **O:** Experiential knowledge of the *organization's capability and resources* to engage in international operations (also called internationalization knowledge) (Eriksson, Johanson & Majkgard, 1997), including organizational practices to facilitate international activities as well as to limit employees' potential anxiety related to becoming an international company.
- **M:** Experiential *market knowledge*, which includes knowledge about market specificities, clients and competitors (also called foreign business knowledge).
- **I:** Experiential *knowledge of institutional frameworks*, including specificities of governments, rules, norms, and values in the different countries the SME might consider to enter (also called foreign institutional knowledge).

Please note that this classification has the purpose to facilitate the structuring of the literature. Overlaps between the different dimensions naturally exist (e.g., as organizations are made up of people and their individual competences, the dimensions P and O overlap, and as the knowledge of markets and institutions frameworks are related to the capacity of an organization to make use of such knowledge, even the dimensions O, M and I overlap to some degree), and many studies address several dimensions together.

Personal international orientation

SME managers constantly evaluate information, talking through different alternatives, options or scenarios, and bring to their interactions with customers, stakeholders and suppliers their previous experiences, understandings and conversations (Fletcher, 2004: 296). Thereby, SME managers develop a vision of the future, and how things might be different and/or better by embarking on (further) international business activities. For SMEs internationalizing some years after start-up, the international market is then often seen as another 'site' in which business activities are tried out or practiced, and internationalization is thus mainly an extension of what has already occurred in the home market (ibid). However, some owner-managers are afraid of internationalizing, as they fear they have to lose, negotiate or change their entrepreneurial practice, e.g. by developing new product versions and when utilizing different network links.

International experience

High experiential knowledge of the SME manager has been found to be an important determinant of SME internationalization (e.g. Johanson & Vahlne, 1990; Reid, 1981). Exporting SMEs often have top managers with more international experience than sporadic exporters or non-international companies (e.g. Bloodgood et al., 1996). The more internationally experienced the top management team is, the earlier SMEs tend to enter international markets (Reuber & Fischer, 1997).

Cross-cultural competence

An important aspect contributing to the international orientation, and thus the tendency to get engaged into international business activities, is cross-cultural competence, addressing the cultural challenges that accompany the internationalization process (cf. Weber, 2005, for a thorough discussion of intercultural learning). The ability of individuals in an SME to understand cultural differences and behave accordingly is one success factor for successful international operations (Johnson, Lenartowicz & Apud, 2006). These authors define cross-cultural competence in international business as "an individual's effectiveness in drawing upon a set of knowledge, skills, and personal attributes in order to work successfully with people from different national cultural backgrounds at home or abroad (Johnson et al., 2006: 530). Table 4 below summarizes research on what comprises antecedents of cross-cultural communication competence.

An important aspect of cross-cultural competence and a major difficulty perceived for conducting international business activities is intercultural communication. This includes the use of foreign languages, but also non-verbal communication. Phone calls, letters or visits from or to (potential) foreign customers and cooperation partners, visiting industry fairs, and participating in international project tenders all require extensive language skills. While larger companies might employ specialists with specific language skills, send employees to language and/or intercultural communication trainings, as well as translate relevant documents to and from other languages, SMEs often lack the financial and human resources for such actions and must rely on the personal

Table 4: Antecedents of cross-cultural communication competence

Knowledge	<ul style="list-style-type: none">• Culture-general knowledge; that is, what is culture and what are its components (Lustig & Koester, 1993)• Culture-specific knowledge; that is, the cultural attributes of oneself and of others, including similarities and differences between cultural groups (Lustig & Koester, 1999)• Knowledge of what is required to achieve an effective communication outcome (Ruben & Kealey, 1979; Lustig & Koester, 1993)• Understanding of the dialectical perspective on multiple variables in cross-cultural communication (Martin & Nakayma, 1999), such as power, personality, and social class
Personal attributes	<ul style="list-style-type: none">• Empathy, respect, openness, and being non-judgmental (Saeed, 2004)
Abilities/skills/behaviors	<ul style="list-style-type: none">• Performing role behaviors (Saeed, 2004)• Interaction management (Saeed, 2004)• Establishing meaningful interpersonal relationships through understanding the feelings of others (Saeed, 2004)• Dealing with different social customs (Ruben & Kealey, 1979; Harris & Moran, 1995; Gudykunst, Wiseman & Hammer, 1977)

Source: Muzychenko (2008: 372)

competences of individuals in the company. In a study of SMEs in the UK, Crick (1999) found that owner-managers perceived using foreign languages as important and beneficial. SMEs reported that the use of foreign languages would enhance their image and to some extent increase orders. The opportunity to avoid misunderstandings and the indication of the quality of the business which the use of foreign languages indicated were other important reasons. However, SMEs were found not to work actively with language training etc., but to rely on employees' existing skills. It is interesting to note that this study was conducted with English-speaking managers. For SMEs in a country like Sweden, the need to speak foreign languages is naturally even more important. A recent study conducted in collaboration with the Industrial Development Centres (IUC, Industriella Utvecklingscentra Sverige AB), comparing SMEs in different European countries demonstrated that multilingualism can have a positive impact on economic performance (Ben Habib, 2010). Only 27% of exporting Swedish SMEs had a multilingual export strategy (compared to 68% of Danish, 63% of German and 40% of French SMEs). 20% of Swedish SMEs declared that they had missed out on export contracts due to language barriers (ibid). The need for language skills increases with an increasing complexity of products offered, for example, if the sales process requires in-depth product knowledge. However, Crick (1999) also points out the importance of the switch-board operator to be trained in the basics of several relevant languages in order to be able to react appropriately when business contacts call from other countries and with different types of accents. People speaking a foreign language often also have at least some cultural understanding of the country or regions where that language is spoken, which can reduce intercultural misunderstandings. Foreign language skills not only demonstrate an interest in the culture of the business contact, they facilitate negotiation processes and improve the ability to understand business practices in that specific culture as well as adapt products to the specific needs of customers. The inter-

net has facilitated global communication even for small firms, allowing them to exploit international opportunities (e.g. Loane, 2005). SMEs which start selling on the internet in addition to the usual sales channels can potentially reach a global market reach, as McAuley (1999) demonstrates for small firms from the UK arts and crafts sector. However, even for internet-based internationalization, the competence of using relevant industry terms correctly as well as to communicate clearly in written form are essential.

Identifying international business opportunities

An important prerequisite for successful internationalization is the ability to recognize opportunities in international markets (Chandra, Styles & Wilkinson, 2009). People are able to recognize opportunities i.a. because they have relevant prior knowledge which they employ for this goal (Venkataraman, 1997). Yet, while this ability is perceived as the very important barrier for internationalization by SMEs themselves (see Table 3 above), empirical research investigating it is scarce (OECD, 2009). However, cross-cultural competence appears to be highly relevant for facilitating the identification of international business opportunities (Muzychenko, 2008). A number of different aspects are of importance in this process (see Table 5).

Table 5: Suggested elements of cross-cultural competence in identifying business opportunities

Antecedents	Performance outcomes
Understanding differences in networking behavior across cultures (Drakopoulou Dodd & Patra, 2002)	Building and developing a cross-border network of experts and entrepreneurs, weak ties, and strong ties internationally (Muzychenko, 2008b)
Awareness of cultural differences in the behavior of investors (Oviatt & McDougall, 1995)	Using foreign investors in order to gain access to their networks and thus develop global vision by being exposed to international opportunities (Maula & Makela, 2003)
Ability to exert global vision by detaching oneself from business thinking delineated by a single country or culture (Oviatt & McDougall, 1995; Johnson, 2004)	Creativity and trial-and-error learning, rather than relying on previous international business experience in a given sector or "tried and true" solutions (George et al., 2004) Creating wealth by reconciling conflicting cultural values (Trompenaars & Hampden-Turner, 2001) Discovering opportunities due to "intellectual internationalization" by embracing local cultural and market structures and seeing new combinations as a result (Geursen & Dana, 2001)
Awareness and understanding of dominant entrepreneurial cognitive archetypes across cultures in order to better manage stakeholder relationships in cross-border alliances and partnerships (Mitchell et al., 2002) Awareness of the culturally determined preference for organizational forms of an alliance, such as equity ties versus flexible arrangements (Steensma et al., 2000)	Managing stakeholder relationships in cross-border alliances and partnerships (Mitchell et al., 2002)
Understanding of cognitive biases strongly related to risk evaluation (Keh et al., 2002)	Taking appropriate actions to overcome risk evaluation biases (Keh et al., 2002)

Source: Muzychenko (2008: 372)

International orientation

A low psychic distance to international markets, the proficiency in foreign languages, experience with travels abroad and tolerance for risk have in different studies been found, labeled as international orientation, to enhance the likelihood to engage in international business activities (Dichtl et al., 1990). In a more recent study, however, international orientation was found not to differ between internationalized and non-internationalized SMEs (Manolova et al., 2002), which the researchers explain with the instant access to international information which today’s SME managers have. Even managers of companies which are not (yet) internationally active, media attention and the emergence of new markets are forced to be more internationally oriented, reducing the impact of ‘traditional’ constraints to SME internationalization (ibid). For SME managers, an international orientation typically means an entrepreneurial approach to international markets. Such entrepreneurial stance is typically paired with a managerial vision and proactive organizational culture for developing specific resources needed for achieving the goals in foreign markets (Knight, 2000). Having a strong international orientation can help SME management shape the organizational culture of the SME (see Table 6 below).

Table 6: Characteristics of international orientation

<i>International orientation</i>
<ul style="list-style-type: none">• SME management tends to see the world, instead of just the home country, as the company’s marketplace• The prevailing organizational culture (i.e. the value system) encourages active exploration of new business opportunities abroad• SME management continuously communicates its mission to succeed in international markets to the company’s employees• SME management develops human and other resources for achieving the company’s goals in international markets

Source: based on Knight & Kim (2006: 264)

While the different personal factors discussed above are a common theme in research on international activities of SMEs, only few scholars have elaborated on the relative importance of various personal factors for the internationalization of SMEs (Manolova et al., 2002). In a study examining the differences in personal factors between international and non-international small firms, managerial skills and environmental perceptions were found to be the most important dimensions (Manolova et al., 2002). Namely, owner-managers with international work experience and/or established personal networks and relationships abroad possess the skills to conduct international business activities. And those who have more positive perceptions of the environment will be more likely to internationalize their small business (ibid). Similarly, the founders of international new ventures have been found to be more ‘alert’ to combine resources

from different national markets for international activities because of the experience they have developed from earlier activities (McDougall, Shane & Oviatt, 1994). Manolova et al. (2002) confirm that owner-managers draw on their overall international competences when internationalizing their firms. The international experience helps them to perceive less uncertainty in the international environment.

Organizational capabilities and resources

On an organizational level, relevant competences for successful internationalization appear to be international innovativeness, bringing new economic activities to international markets, as well as international marketing skills to add value to international customers.

International innovativeness

Many internationally successful SMEs are innovative, whether in their products or their approaches for entering foreign markets. International innovativeness can be defined as the capacity to develop and introduce new processes, products, services, or ideas to international markets (Knight & Kim, 2006: 261). As these authors point out, “[b]ecause an internationalizing firm’s learning may rely heavily on local sources of information, the role of market intelligence appears to be crucial for introducing innovations into foreign markets (Autio, Sapienza & Almeida, 2000)” (ibid). International innovativeness of SMEs appears to depend on the extent to which managers acquire and act on market intelligence. While it is relatively easy to invest time and resources into studying markets, the challenge is to translate the deriving knowledge into practice (see Table 7 below).

Table 7: Characteristics of international innovativeness

<i>International innovativeness</i>
<ul style="list-style-type: none">• The SME is at the leading technological edge of its industry in international markets• The SME invented a lot of the technology embedded in the product• The SME is highly regarded for its technical expertise among its channel members in international markets• In the design and manufacturing of the product, the SME employs some of the most skilled specialists in the industry• The SME is recognized in international markets for products that are technologically superior• Compared with local competitors, the SME is often first to introduce product innovations or new operating approaches in international markets• Over the past five years, the SME has marketed many products in foreign markets

Source: Knight & Kim (2006: 265)

International business activities often require some organizational changes. Communication between different functional responsibilities is crucial. For some employees, internationalization can cause anxiety, as they fear that the organization will change and that the international activities are outside their locus of control. Providing employees the opportunity to learn more about the foreign markets as well as informing about the status of the different international activities can play an important role in reducing this anxiety.

International marketing skills

How products are marketed abroad is very important for exporting SMEs (Knight & Kim, 2006: 260). Relevant considerations include the customization of products and marketing activities (such as advertising and promotion activities), as well as the actual handling of the product in the market. The challenge is to create demand and build a brand name. International marketing skills thus refer to the SME's ability to create value for foreign customers through effective segmentation and targeting, as well as through integrated international marketing activities, which include planning, controlling and evaluating how marketing tools are organized to differentiate offerings from those of competitors (Johnson et al., 2006). Even SMEs which possess superior products and technology that meet the preferences of international customers well are less likely to reach potential foreign customers effectively without strong marketing skills (Knight & Kim, 2006) (see Table 8 below).

Table 8: Characteristics of international marketing skills

<i>International marketing skills</i>
<ul style="list-style-type: none">• Marketing planning process• Control and evaluation of marketing activities• Skills to segment and target individual markets• Ability to use marketing tools (product design, pricing, advertising etc.) to differentiate the product

Source: based on Knight & Kim (2006: 264)

The readiness of an SME for international involvement has been interpreted to be a function of its state of informedness on targeted foreign market(s) and the means for entering them (Liesch & Knight, 1999). However, SMEs often find themselves in situations where the lack of relevant export information constitutes an obstacle to initiating or further developing export activities. The internet has increased the possibilities to collect data about international markets, but the ability of SME managers to decipher information appears not to have increased correspondingly, and therefore the increased availability of information does not necessarily facilitate the making of qualified export marketing decisions (Andersen, 2006). Due to the limited financial resources of SMEs, processing of relevant data can be challenging, and managers often rely on personal contacts for acquiring information (Denis & Depelteau, 1985). Export

market research is also provided by external consultants or export market managers. Export market intelligence refers to a more informal process of information exchange, which is often used by export managers of SMEs to obtain relevant export information (Andersen, 2006).

Not only for generating export information, but also for other relevant types of information, SMEs tend to develop skills to identify and exploit knowledge outside their own control, namely residing in networks (Thorpe et al., 2005). By developing and making use of a developing network support structure, firms can stay better informed about the existence, contents and location of knowledge relevant for conducting international business activities. Thus, developing a network facilitates knowledge combination, which lays the basis for knowledge creation in foreign markets (Tolstoy, 2010). In fact, knowledge appears to be a strong predictor for developing business in foreign markets (Rialp, Rialp & Knight, 2005). Especially for SMEs, knowledge creation is crucial, as they control few resources other than knowledge and thus cannot compete, for example, on the basis of economies of scale (Wiklund & Shepherd, 2003).

Market knowledge

International market knowledge comprises an understanding of international customers as well as of the competition. In addition, the SME's perception of its environment is an important aspect for how international market knowledge will be acted upon.

International market orientation

Managers of international SMEs highlight the importance of foreign market orientation (Knight & Kim, 2006: 261). An example of such orientation is to conduct field surveys to find out what the needs of the customers are, before designing the product accordingly. International market orientation can be defined as the extent to which an SME's international business activities are oriented towards customers and competitors, and the extent to which these activities are coordinated across functional areas of the company (Knight & Kim, 2006: 262). Market intelligence plays a crucial role for international market orientation, as customers and competitors differ from the domestic market. International market orientation covers the SME's internal efforts to collect and disseminate market intelligence on customers and competitors in a foreign market and to coordinate organizational functions (see Table 9 below).

Perceptions of the environment

It has been argued that exporting SMEs tend to perceive less environmental risk than non-exporting SMEs (Cavusgil & Naor, 1987). It has been confirmed by other, more recent, studies that environmental perceptions can be strong predictors of internationalization activities of SMEs (e.g. Manolova et al., 2002). However, more research examining this relationship is clearly needed.

Table 9: Characteristics of international market orientation

<i>International market orientation</i>
<i>Customer orientation</i> <ul style="list-style-type: none">• SME management communicates information throughout the firm about its successful and unsuccessful customer experiences in a market• All SME managers understand how everyone in the company can contribute to creating value for the customers in a market
<i>Competitor orientation</i> <ul style="list-style-type: none">• SME management frequently discusses the strengths and weaknesses of its major competitor(s) in a market• If a competitor launched an intensive campaign targeted at the SME's customers in a specific country, the SME would implement a response immediately
<i>Interfunctional orientation</i> <ul style="list-style-type: none">• The SME's business functions (e.g., marketing and sales, manufacturing, finance) are integrated in servicing the needs of a market

Source: Knight & Kim (2006: 265)

Institutional knowledge

An important, yet understudied, aspect of SME internationalization competence is the knowledge about foreign institutions, governments and norms. This comprises the environmental scanning of political, socio-economic, technological, ethical and legal aspects of potential and current international markets, as well as trends and possible changes. For example, for a Swedish SME from the medical technology sector wanting to expand to other European countries, EC marking is needed and for entering the US American market, clearance by the Food and Drug Administration (FDA) is required. In addition, intellectual property protection, for example through patenting, is advisable (cf. Laurell, Achtenhagen & Andersson, 2010). Thus, knowledge about which country-specific regulations are relevant, by which institutions they are governed and how processes should be organized is crucial for successful internationalization.

Does the same internationalization approach suit all SMEs?

Most of the discussion above pointed out the relevance of a relationship-oriented approach of SME internationalization, stressing the relevance of networking for SME internationalization. The core of such relationship-driven model of SME international marketing consists of four features (Merrilees & Tiessen, 1999: 332-3), which have partly already been mentioned above, namely:

1. *Strategy to achieve niche market power in a well-defined niche*
2. *Control over the selection of foreign customers and agents, i.e. the SME targets*

particular clients in specific countries. If agents or distributors are used, their initial selection is tightly controlled by the exporter (e.g. by visiting a tradeshow, developing a short-list of potential agents or distributors and then carefully selecting the preferred candidate). However, sometimes serendipity might lead to circumstances where a distributor or exporter is selected almost by chance, especially when there is a strong personal chemistry in place (Merrilees, Miller & Tiessen, 1998). For example, an entrepreneur might on vacation meet an executive from an overseas firm, and this chance encounter can lead to the initiation of new business activities (Spence & Crick, 2006).

3. *Importance of relationships with foreign customers and agents*, such as activities by the exporting SME to carefully ascertain customer needs and to work hard on the communication between the different relevant actors.
4. *Controlling the marketing mix*, where the exporting SME makes adaptations to the marketing mix in the foreign country. As customers are in a position to be able to choose any supplier they wish, exporting SMEs are in a situation in which they need to listen carefully to their (prospective) customers' needs. For example, new products, product features or packaging might be developed for the customers. Also, across different foreign markets different price margins might be set to make full use of the niche market power.

However, for some SMEs a transactional orientation is more relevant, meaning that there they require only a fairly routine, standardized process of receiving orders, checking requirements and shipping items (Merrilees & Tiessen, 1999). The emphasis of such orientation is relatively short-term, though consistent if the same clients re-order. The main purpose of relationships on which only limited attention is spent, is then to ensure a smoothly running transactional process; and most of the contacts are initiated by the customers, rather than the SMEs (ibid). Such sales-driven orientation has four main features:

1. *Lack of niche market power*, i.e. SMEs might practice differentiated market segmentation, but lack market power within their segment.
2. *Lack of control over client and agent selection*, i.e. an international customer or agent initiates contacts with the SME, makes an inquiry and places an order.
3. *Low-key relationships with foreign customers and agents*, i.e. while relationships are cordial and professional, the exporting SME does not take a proactive role in developing the relationship.
4. *Minor adaptations of the marketing mix* to meet foreign customer needs (Merrilees & Tiessen, 1999: 330-1).

Industry differences

Internationalization takes different forms and internationalizing SMEs meet different challenges in different industries. The exports by Swedish companies in general by commodity groups are presented in Table 10 below. Corresponding data for SMEs have not been available to the author of this report, but it can be assumed that the picture would look somewhat differently for SMEs. In a study of Swedish companies which includes SMEs, Byberg (2006) for example finds that 45% of machine producers and 27 % of metal goods producers in his sample exported.

Table 10: Exports by important SITC commodity groups (SEK million)

<i>Type of goods</i>	<i>Value in 2010</i>	<i>% of total, 2010</i>
Forest goods	128874	11.3
Wood goods	26023	2.3
Pulp	19522	1.7
Paper	77564	6.8
Minerals	124500	11.0
Iron ore	18433	1.6
Iron and steel	57047	5.0
Other metals	25503	2.2
Chemical products	145300	12.8
Basic chemicals, compounds	16393	1.4
Pharmaceuticals	66561	5.9
Plastics	26763	2.4
Energy goods	85784	7.6
Oil products	77474	6.8
Fabricated goods	511162	45.0
Metal works	32457	2.9
Machines	169690	14.9
Electronic goods, telecom	161972	14.3
Vehicles	107822	9.5
Automobiles	38426	3.4
- Trucks	19054	1.7
- Vehicle parts, accessories	41122	3.6
- Other transport	11390	1.0
Instruments, optical goods	27830	2.4
Other goods	140488	12.4
Food	53821	4.7
Textiles, shoes	29886	1.8
Furniture	16277	1.4
Total	1136107	100

Source: Statistics Sweden, HA22SM1101, Foreign Trade – Exports and imports of goods, January-December 2010, page 4.

Internationalization processes, including barriers to internationalization, as well as competences perceived as needed differ between different industry sectors. For the Swedish context, Andersson (2004) concluded that differences in typical internationalization processes exist between mature and growth industries. He finds that firms from a mature industry in an early internationalization stage can succeed by means of a slow, incremental internationalization strategy, initially targeting markets which are psychologically close to the Swedish market. For the further internationalization process, it is important that these firms make use of the knowledge and experience gained from their first international experiences. Once the company is more experienced in international activities, market choices become more dependent on competitors' actions. For companies in growing industries, the logic of market choice is different (ibid). As the industry is more volatile, planning becomes more difficult, and as consequence, market choice is mainly related to the firm's internal resources, especially the knowledge of the entrepreneurs and other key people in the organization, as well as existing network links in different markets. At a later stage, companies from growing industries tend to attempt to be close to other important players in the industry, which play a crucial role for their knowledge acquisition. In a study of SME internationalization in the UK, Bell, Crick & Young (2004) find that SMEs from 'traditional' industries followed an incremental approach to internationalization, influenced by their industry sector as well as managerial attitudes. SMEs from knowledge-intensive sectors displayed more strategic thinking and planning, supported by external advisors and non-executive directors (and linked to external finance). Knowledge-intensive manufacturing firms displayed an international orientation from inception, and their new product development processes focused on the requirements of international markets (and especially lead markets), and followed a planned and structured approach to entering overseas markets.

Retailing: Internationalization of retailing firms is often seen as relevant for large players only. More recently, however, it has been argued that smaller retailers have greater potential in international markets as they are less weighed down by organizational preconceptions (Alexander & Quinn, 2001). Dynamic small retailers can, in fact, be capable of international growth if they have strong concepts, formats and products (Hutchinson & Quinn, 2006). The product, lifestyle, image and niche of the firm's brand were found to contribute to a competitive advantage of small retailers in international markets (Simpson & Thorpe, 1996). Several studies point out how small firms are more likely to implement international niche focus strategies than bigger firms (Moen, 2000; 2002). Capitalizing on an internationally appealing offer has been found as important for the decision of retailers to internationalize (Akehurst & Alexander, 1995). In addition, the recommendation has been made to differentiate the international product offerings by making it exclusive and high-end (see Hutchinson et al., 2005). Even SME retailers can make use of a whole range of different entry modes, such as indirect and direct exporting, licensing, in-store concessions, franchising, joint ventures, and foreign direct investments (McGoldrick & Davies, 1995). An important competence for retailing SMEs is thus the ability to assess and value the relative cost benefits of different possible entry modes.

Manufacturing: A study of 135 small Swedish manufacturing firms found that while high levels of perceived environmental dynamism in the industry explained why some small firms became engaged in international business activities, older companies with young CEOs tended to continue to grow their international activities, which can be explained with the experience a more established company has accumulated with the more natural international backgrounds of younger CEOs (Andersson et al., 2004). Also Andersson & Wictor (2003) found that in a database of 423 Swedish manufacturing firms only one could be characterized as a born global company (i.e., as a company that has achieved a foreign sales volume of at least 25 % 3 years after inception and that derives significant competitive advantage from the use of resources and the sales of output in multiple countries).

Information and Communication Technology (ICT): In a study of Finnish SMEs from the ICT industry, Nummela et al. (2004) found a global mindset of the SME management to be a key parameter for the international performance of the firm, and point out the relevance of proactiveness (including an understanding of the market and its requirements and the ability to take risks), commitment and international vision for international success.

High-technology vs. low-tech industries: In a study of high performing high-tech SMEs from the UK, Crick & Spence (2005) find that international strategy formation and implementation varies widely and conclude that a more holistic view on SME internationalization is needed to capture this heterogeneity. Most studies on internationalization of firms have been done on high-tech industries and often it is taken for granted that there would be a strong correlation between high-tech industries and internationalization. However, Evers (2010, 2011) found internationalization in low-tech sectors to be strongly influenced by industry factors. She concluded that a high degree of international demand and a global integration of the industry were crucial for the international development in the studied firms in a low-tech sector. Her study also showed a positive relationship between internationalization of local industries and emergence of international new ventures. The entrepreneurs/managers in low-tech sectors did largely not have international experience but still were successful in their international ventures, which might indicate that international experience is not the only or most important managerial characteristic, but an entrepreneurial drive for growth and development is very important. For a high-technology sector, a recent study pointed out that the tendency of entrepreneurs with previous international experience to mainly focus on markets they are already familiar with can be overcome by cooperating with export agencies, such as the Swedish Trade Council in Sweden (Achtenhagen, Andersson & Laurell, 2011).

Competence development

Only very few studies have focused on internationalization competence and competence development of SMEs. As an SME internationalizes, not necessarily the entire organization is involved to the same degree. Rather, different types of competences are required from different functional areas for different types of internationalization activities, as summarized in Table 11 below.

Table 11: Internationalization activities and related competences

Activity	Competences
Importing	Purchasing (order processing) Contract negotiations
Exporting (direct)	Production Distribution Sales and marketing
Export (agents)	Production Marketing After-sales
Collaboration	Reputation Processing technology Quality (product and process)
Joint venture	Reputation Technical skills Creativity/innovation
Overseas production	Management Brand image Financial strength

Source: Katwalo, 2006: 94

Internationalization competences are developed and/or acquire in discrete bundles with every experience over time. The dimension of time is important – the longer an SME engages in a particular activity, the better it becomes at it, and the more activities it engages in, the more the diversity of competencies the SME will develop (Katwalo, 2006: 94). Competence development is not a linear process, rather competences can be developed in ‘clusters’ over time. In addition, competences are unstable in that they can be lost if they are not protected or improved over time. Different internationalization modes require different types of internationalization competence.

How SMEs could develop their international competences is discussed in more detail in the following section.

Conclusions

Summarizing the relevant findings from research related to different internationalization competences, Table 12 below presents the different types of competences and their characteristics, as well as suggestions as to what SMEs and export policies could do to enhance each of these competences.

Table 12: Internationalization competences, characteristics and suggestions for development

Internationalization competence	Characteristics	Suggestions for development
Personal international orientation		
Pre-internationalization competence	Recognize opportunities in international markets	<p>SME internal:</p> <ul style="list-style-type: none"> Experiment with importing as an antecedent to exporting to acquire initial international competence Focus on networking in different arenas, where other SMEs might be sharing their experiences. In a number of counties, e.g. ALMI Företagspartner organizes such networking events <p>Agency support:</p> <ul style="list-style-type: none"> Promote role models through different types of media as source of inspiration. Exportrådet (the Swedish Trade Council) has such company examples on their homepage, but the visibility of potential role models through different kinds of media could be increased Facilitate teams, in which experienced international managers mentor SMEs willing to internationalize, for example in preparatory meetings and/or joint business trips
International orientation	Cross-cultural communication skills; proficiency in foreign languages; experience from international travels, work or stays	<p>SME internal:</p> <ul style="list-style-type: none"> Cooperate with universities/colleges for developing tighter links to international students from prospective markets (e.g. for market studies and making use of their international networks). Jönköping International Business School with its highly international student body, for example, offers such cooperation in its entrepreneurship and marketing education Provide internships to students/graduates with relevant international backgrounds to enhance the international outlook and cross-cultural company of the company When hiring new staff, attempt to increase cultural diversity and search for people with relevant language skills Provide key people with language training if needed <p>Agency support:</p> <ul style="list-style-type: none"> Support the teaming up of international students/workers and SMEs; cooperate with the Swedish Migration Board (Migrationsverket) regarding possible visa issues

<i>Organizational capabilities and resources</i>		
Internationalization knowledge	Experience knowledge of firm's capabilities and resources to engage in international operations; international innovativeness; international marketing skills	<p>SME internal:</p> <ul style="list-style-type: none"> • Develop/review the international marketing plan • Identify information/knowledge gaps and fill them • Focus on enhancing/maintaining the organization's innovativeness • Provide information (e.g. through books, internal communication) to all employees to enhance interest in international activities and to reduce fear <p>Agency support:</p> <ul style="list-style-type: none"> • Provide training in international marketing skills. Different companies, such as ITM Worldwide, offer i.a. hands-on export trainings • Help SMEs to optimize their presence in relevant international search engines and to set up the internal structure to handle incoming deals
<i>Market knowledge</i>		
International market orientation	Foreign business knowledge: experience knowledge of clients, markets and competitors	<p>SME internal:</p> <ul style="list-style-type: none"> • Visit international fairs • Network with peers to gain insights into their international experience <p>Agency support:</p> <ul style="list-style-type: none"> • Set up projects and trainings to support SMEs in identifying and filling knowledge gaps in SMEs • Offer information about relevant fairs
<i>Institutional knowledge</i>		
Foreign institutional knowledge	Experience knowledge of governments; institutional frameworks; rules, norms, values	<p>SME internal:</p> <ul style="list-style-type: none"> • Attend relevant industry-specific fairs • Focus on developing network links with relevant peers <p>Agency support:</p> <ul style="list-style-type: none"> • Provide industry-specific information • Provide additional private actors the chance to offer specialized services

In the following, some further relevant aspects for policy-making and practitioners are discussed.

Relevant aspects related to export policy

Export policy is believed to have a direct effect on export performance. Since the early 1980s, the role and significance of support services for the internationalization of SMEs has been investigated by different scholars (e.g. Czingota & Tesar, 1982; Valikangas & Lehtinen, 1994). Not surprisingly, such studies assume that such services are more relevant if the determinants of the demand for the services are analyzed in relation to the need of the SMEs (De Noble, Castaldi & Moliver, 1989; Moini, 1998). An important observation here is that export policy in many countries has been formed with large companies in focus, and if policies are to support SMEs, their specific realities have to be met. Interestingly, in a study of SMEs which included companies which only export

and those which import and export, the pure-exporters considered themselves more dependent on governmental and/or association support (Holmlund et al., 2007), underlining the relevance of importing for enhancing internationalization competence.

Standardized versus customized services

Two different types of internationalization services have been distinguished (Valikangas & Lehtinen, 1994): standardized and customized services. Standardized services create the same or similar effects on the firms that buy them (e.g. if all firms in a country have access to the same resources or skill-base), while customized services produce customized effects in different SMEs by meeting the specific needs of the individual firms (De Chiara & Minguzzi, 2002). Examples of standardized services are administration, finance/credits as well as management (e.g. credit solvency); examples of customized services entail market analysis, identifying and selecting customers, promotion and packaging. Logistics, distribution and sales intermediation can vary somewhere between these two extremes. Thus, customized services are not necessarily needed for all aspects of internationalization support, but SMEs tend to be suspicious as to how standardized solutions might help them in their specific company situation (cf. Hutchinson et al., 2006).

Indirect internationalization

One important aspect regarding SME internationalization which is often overlooked in the discussion on internationalization is the role of indirect internationalization. Such indirect activities include i.a. exporting, sourcing or distribution agreements with intermediary companies which manage, on behalf of the SME, transactions, sales and/or services with international customers (Fletcher, 2004). Such indirect internationalization can be extensive. In a study of UK firms, 86% of micro-firms (i.e. with less than 10 employees) and 84% of small firms (i.e. 11-49 employees) were found to be involved into indirect internationalization activities (Matlay & Fletcher, 2000). Thus, it is important for policy support to take into account the different, diverse ways in which SMEs can be involved in international business activities, including both, direct and indirect ways. An important question in this respect is how the scope of e-commerce and other internet-based activities has increased SME internationalization. An important aspect for policy-makers could be to advise SMEs which might be willing to internationalize to maximize their exposure on internet search engines, especially in sectors where a number of firms exist and overseas buyers have a great deal of choice (Chaudhry & Crick, 2002).

Access to information

A lack of access to information has been stated as an important factor for why SMEs abandon foreign market opportunities (Leonidou, 1997). Thus, export support agencies and other actors have developed several programs to provide export managers with general and detailed export market information (such as reports and databases).

In Sweden, many SMEs have difficulties in finding relevant information about internationalization activities. While an attempt has been made to integrate information about different actors on the website www.internationaliseringsguiden.se, much relevant information is missing there. The design and userfriendliness of the site also leave much room for improvement, and information about other private actors could be integrated. One promising approach could be to integrate this site with the information platform www.verksam.se for starting and developing companies provided by the Swedish Company Registration Office (Bolagsverket), the Swedish Tax Agency (Skatteverket) and the Swedish Agency for Economic and Regional Growth (Tillväxtverket).

Table 13: Overview of main actors providing internationalization support

Organization	Support
Exportrådet (Swedish Trade)	Has export consultants in all parts of the country as well as 60 offices worldwide; webpage provides relevant information about exporting and different markets (www.swedishtrade.se)
Swedfund	Venture capitalist investing into projects in Africa, Asia, Latin America and East Europe (outside EU), sharing the investment and risk with the company (www.swedfund.se)
EKN (Exportkreditnämnd)	Provides insurance for the risk of non-payment in many countries world-wide (www.ekn.se)
SEK (Svensk Exportkredit)	Provides long-term financing solutions for export activities of Swedish companies (www.sek.se)
ALMI Företagspartner	Provides networking opportunities in different parts of the country; provides short-term export credits (www.almi.se)
Swedish Customs (Tullen)	Provides information about restrictions to shipping goods from/to Sweden as well as documents for sending cargo (www.tullen.se , see also www.posten.se/c/info_tullinfo)

Programs to provide export managers with information are often unsuccessful, and one explanation provided for this is that they only to a very limited degree address the issue of developing export managers' personal contacts as a means for accessing market information (Andersen, 2006). One rather successful solution has been found in Denmark, where internationally inexperienced SME managers join more experienced managers and trade offices in visiting particular target markets, thereby promoting personal linkages among export managers, which are then used rather extensively for export information retrieval (ibid).

Finally, industry differences are relevant for how well policy measures fit the targeted SMEs. When designing policies as well as training programs for practitioners, it should thus be recognized that there are differences for the internationalization of SMEs based on a technology sector, and that support initiatives need to capture these differences.

Implications for practitioners

For SME planning to internationalize, a pre-export stage containing different export preparation activities appears to be relevant. These activities include “advertising, getting on either industry or embassy lists of potential exporters, attending trade shows, networking, word of mouth or being responsive to fortuitous orders from foreign customers” (Merrilees & Tiessen, 1999: 329).

If management is not very experienced in establishing and/or running international business activities, SMEs might want to consider hiring new managerial talent experienced in international business or obtaining assistance from consulting companies or government agencies which can offer such expertise to SMEs (Hutchinson et al., 2005). However, in practice many SMEs take foreign market entry decisions often based on internally generated information, rather than on external consultation (McNaughton, 2001). This might be partially due to the fact that many SMEs, whether already internationally active or not, are unaware of government programs available for assisting international activities (Crick & Czinkota, 1994) – in Sweden many SMEs are, for example, unaware of the site www.internationaliseringsguiden.se and the support different actors could offer, and they might even be unaware of potential opportunities in foreign markets (Westhead et al., 2001). That even SMEs aware of support offered by government services choose not to use it has been explained with the criticism that companies have individual ways of doing things, while the services provided tend to be standardized, as well as that these organizations might provide leads and contacts which are not appropriate for providing support in establishing business abroad (Hutchinson et al., 2006).

Buying support services can improve international competitiveness for SMEs, mainly because they allow to exploit country-specific factors to develop distinctive competences (De Chiara & Minguzzi, 2002). However, in order for an SME to know which kind of internationalization service to acquire, it must have an understanding of which parts of the firm contribute and are affected by international competition. The criteria for choosing internationalization services could be based on what kind of opportunities are discovered in a specific market and how these can be matched with internal competences and capabilities.

Also, organizational structures might need to be adjusted to export. This could, for example, include having an export manager or even an export department, to have employees devoted to export, and to engage in export training courses. Another relevant factor is the attitude towards export. If SME management realizes the relevance of international business activities, it is important that priority is given to whatever means is chosen to achieve these (such as export) and to support the choice of market.

In addition, export marketing planning is a relevant factor, comprising the following activities (Bijmolt & Zwart, 1994):

- Describing the export country
- Making numerical descriptions of the foreign market
- Performing an analysis of the competitors
- Defining export goals
- Listing and evaluating different distribution channels
- Listing and evaluating possible trading partners
- Setting up a foreign price policy
- Setting up a promotion plan for abroad
- Investigating the needs to be satisfied abroad
- Adjusting the organizational structure
- Formulating a long-range export plan

Many SMEs need support with these activities, as it can be a challenge not only to find relevant information, but also how to use certain 'tools', such as competitor analyses.

In addition, a number of other organizational aspects appear to be important. For example, the linking of purchasing and marketing has been shown to have the potential to facilitate internationalization through importing and exporting and increase to profits. Accumulating market knowledge in one function can reduce costs and increase the chances of identifying international business opportunities (Holmlund et al., 2007). Moreover, SMEs wanting to expand via internationalization are well-advised to work with their organizational innovation intensity, e.g. finding innovative ways of performing value-creating activities (O'Cass & Weerawardena, 2009). Entrepreneurial effort has been proposed to be a key driver of SME internationalization (Collinson & Shaw, 2001). Thus, SMEs should not only focus on product innovation, but try to pursue innovation in all value-creation activities (cf. Carson & Gilmore, 2000). SMEs with higher international business competence have been found to perform better (Knight & Kim, 2006). SMEs should try to develop specific competences that are relatively unique and difficult to imitate.

The quality of the management team in international SMEs appears to be of particular importance for company success (Knight & Kim, 2006). Management of an SME with international aspirations might be well-advised to develop a global vision and support the development of international business competences which are discussed in this report. Sharing the international aspirations with other employees by informing and involving them can not only reduce potential anxiety but also increase commitment to these operations.

For SME managers it might be comforting to know that internationalization does not have much to do with demographic variables, but rather with their perceptions. If they perceive that there is a low level of uncertainty in an international market or

that they have the requisite skill set to internationalize, they will have high chances of embarking on international business activities (Manolova et al., 2002).

To conclude, internationalization competence of SMEs entails not only knowledge about how to enter a foreign market, it also comprises a range of other competences. Successful internationalization is often facilitated by an adequate international strategy, an entrepreneurial vision, and an extensive reliance on networking. To put the internationalization strategy into practice, competence gaps should be identified and addressed – either internally or by drawing on the support of external actors.

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Appendix: Selected empirical studies relevant to SME internationalization and internationalization competence

Author (Year)	Question addressed	Type of study	Findings
Amal & Filho (2010)	Determinants of internationalization of SMEs in emerging economy	Case studies with 3 companies in Brazil	Importance of entrepreneurs and network relationships for the internationalization pattern.
Chandra, Styles & Wilkinson (2009)	Process of international entrepreneurial opportunity recognition	Case studies with eight knowledge-based SMEs in Australia	Firms with little or no prior international knowledge tend to make use of opportunity discovery rather than deliberate/systematic search.
Crick (1999)	The role of language for SME internationalization	Survey with 185 UK SMEs and 20 interviews with owner-managers of those firms	SMEs are aware of the importance of languages, but this is often not reflected in their use or in recruitment and training policies.
De Chiara & Minguzzi (2002)	How are support services for SMEs linked to internationalization activities?	136 small export firms from southern Italy	The demand for services grows with a firm's propensity to export. Firms with higher performance have more firm-specific demands on internationalization services
Eliasson, Hansson & Lindvert (forthcoming)	Do SMEs learn by exporting or do they learn to export?	Panel study of Swedish manufacturing firms	Learning to export occurs, but learning by exporting does not; future exporters have higher productivity than non-entrants, indicating self-selection into exports.
Fink, Harms & Kraus (2008)	The contribution of self-commitment to the performance of internationalizing SMEs	146 Czech, Austrian and Slovenian SMEs	Trust-based internationalization is promising for SMEs
Fischer & Reuber (2003)	How export support programs can be effectively targeted to SMEs	188 exporting and pre-exporting Canadian SMEs	Segmentation of support based on the owners' level of export experience can be effective
Fletcher (2004)	How small firms internationalize	2 detailed case studies in the UK	Internationalization happened 'accidentally', through recommendations and word of mouth
Hall & Cook (2009)	The relative importance of human and product resources in influencing the export propensity of small firms	Sample of 50 software companies and 37 food manufacturers in the UK	Most important influence on export propensity is belief by management that their product is a market leader
Holmlund, Kock & Vanyushyn (2007)	The relation between importing and exporting	Survey of 178 Finnish SMEs	Importing has a modest, yet statistically significant, influence on exporting

Hutchinson, Quinn & Alexander (2006)	What are the motives and strategies for internationalization of SMEs in the retailing industry	Case studies of nine SME retailers from the UK	Five main barriers to internationalization noted are financial commitment, complexity of international markets, market information, brand control and management resources; strategic and process barriers are not found to be important obstacles
Katwalo (2006)	What is competence development in SMEs?	Semi-structured interviews with 31 manufacturing SMEs in the UK	Competencies are developed with experience over time
Knight & Kim (2009)	The impact of international business competence on international SME performance	Interviews with 16 SMEs, survey with 384 SMEs from the US	International orientation, international marketing skills, international innovativeness and international market orientation are all significant dimensions of international business competence
Kuhlmeier & Knight (2010)	The role of relationship quality for the exporter-intermediary relationship and SME performance	Survey of 265 exporting manufacturing SMEs from the US	Relationship quality is found to be significant, with the communication driving cooperation, commitment and trust
Lages & Montgomery (2004)	Argues that performance should be investigated as an independent variable	Survey data of 400 managers responsible for the export of Portuguese SMEs	Past performance plays crucial role in SMEs commitment to exporting; international market strategy adaptation is noted in SMEs exporting to the most developed markets (rather than to the most competitive environments)
Lindell & Karagozluglu (1997)	How do R&D-oriented SMEs cope with global competition?	Data from 35 SMEs from the US, and 47 from Finland and Sweden	Successful SMEs intensified and developed relationships with customer and suppliers and focused internally on quality control, the improvement of managerial skills, the development of technological skills and re-engineering
Manolova et al. (2002)	Examines the differences in personal factors between internationalized and non-internationalized small firms	Survey of 284 small firms in the US	Environmental perceptions and self-assessed strengths in international business skills are significantly different between internationalized and non-internationalized small firms

Merrilees & Tiessen (1999)	How are insights from marketing theories relevant for understanding SME internationalization?	Process mapping of the entry of 12 Canadian SMEs into the Japanese market	Niche market power as well as control over agent and client selection were found to be especially important in internationalization
Nummela, Saarenketo & Puumalaian (2004)	What is the role of a global mindset for SME internationalization?	123 Finnish SMEs from the ICT sector	Managerial experience and market characteristics are important drivers of the global mindset, which is an important parameter for international performance.
O'Cass & Weerawardena (2009)	What is the role of international entrepreneurship and innovation in SME internationalization	302 manufacturing SMEs in Australia	SMEs striving towards internationalization are recommended to undertake organizational innovation.
Reuber & Fischer (1997)	What is the role of management teams' international experience for SME internationalization?	Survey of 49 Canadian software product SMEs	Internationally experienced management teams have a greater propensity to develop foreign strategic partners and to delay less in obtaining foreign sales after start-up
Rundh (2007)	What characterizes the international marketing behavior of exporting firms?	15 interviews, survey with 356 Swedish manufacturing firms, including 212 small firms	No general differences in international marketing of small and large firms
Rundh (2011)	How SMEs are meeting market needs in their export marketing strategy (EMS)	Expert interviews and survey among 212 Swedish SME exporting firms in the manufacturing industry	Exporting firms need to consider different market aspects in their EMS. Product quality, flexibility and service are important in relation to the export markets.
Spence, Manning & Crick (2008)	Internationalization strategies of high performing Canadian SMEs	Interviews with 8 Canadian SMEs	Effective internationalization performance is contingent on the circumstances facing management teams; vision and entrepreneurial management style contribute to performance
Tolstoy (2010)	Can network development leverage knowledge creation in foreign market relationships?	188 SMEs in Sweden	Network development has positive impact on knowledge creation, and knowledge combination mediates between these

Entreprenörskapsforum har lanserat Globaliseringsforum – en ny arena med fokus på globaliseringens effekter på entreprenörskap, mindre företag, innovationer och i förlängningen den regionala och nationella utvecklingen i Sverige.

Ambitionen är att skapa ett nätverk där diskussioner initieras utifrån forsknings-sammanställningar och där resultaten förs fram till berörda beslutsfattare i en allmän diskussion och presenteras vid utåtriktade aktiviteter. De rekommendationer till beslutsfattare inom politik och näringsliv som kommer fram inom ramen för globaliseringsforums arbete ska vara förankrade i vetenskaplig forskning.

Denna rapport ur Globaliseringsforum tar upp hur kompetensnivån ser ut i särskilt mindre och medelstora företag gällande utlandsmarknader, när det gäller att bygga och synliggöra varumärke, strategier för marknadsföring, samt beskriva internationella och globala distributions- och produktionskedjor.

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