INTERNATIONALIZATION OF SMALL AND MEDIUM SIZED FIRMS – NETWORK PROCESSES AND STRATEGIES

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ABSTRACT

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BACKGROUND

In most industrialized countries today SMEs and their development are seen as the base for future growth and employment. New policy programmes are formed in order to create and develop SMEs. Many industrial markets are however dominated by large, highly internationalized firms. The important and crucial roles of such companies for the national economy have been subject to much research. How they have developed and internationalized over time are well documented and explained theoretically in the literature. In this paper we will, based on case studies, link the analysis of SME internationalization to current internationalization processes of large firms.

A NETWORK PERSPECTIVE ON SME INTERNATIONALIZATION

The paper analyses the internationalization of small and medium-sized firms (SMEs) in a network perspective, focusing on how this process is dependent on internationalization of an SME’s network context. This dependence on a dynamic "international market" influences an SME’s strategic opportunities and constraints as regards its internationalization. Traditional theoretical explanations of the internationalization of a firm do not consider this dynamic interdependence between the firm and its environment. Efforts to include such considerations in network oriented studies have focused large rather than small firms. Furthermore, most studies of internationalization of SMEs have been concerned with attributes of management and other internal resources, with government policy measures to promote export or with the early stages of internationalization of SMEs, who later grew to become large firms.

We regard the driving forces for internationalization of SMEs to be very much dependent on current network dynamics both in terms of changes in
the governance structure and in terms of changes in production/distribution systems. Examples of such changes are international mergers and international alliances, internationalization of industries, regionalization and "globalization" of markets, "outsourcing", increasing degree of coordination of purchasing, R&D, distribution and manufacturing in international production systems. An SME needs to adapt to such developments or may take advantage of opportunities e.g. when its home market internationalises, when its suppliers, customers and distributors abroad internationalise, when technology becomes more internationally standardized etc.

EMPIRICAL BACKGROUND

The paper will be based on information about early stages in the internationalization of 46 technologically oriented Swedish firms taking part in two management courses at the Stockholm School of Economics. For 11 of those firms we have more detailed information assembled through interviews and firm visits.

STRATEGIES, CONTROL AND FLEXIBILITY

We distinguish between two major internationalization strategies, "own regime"-strategy and "alliance"-strategy. While the former permits a more gradual development with more control, the latter may lead to a rapid international extension and coordination much less controlled by the SME. The on-going internationalization of the market means that the SME must be very flexible, often changing its network position and its configuration of activities. However, such flexibility is often difficult implement.

Internationalization of SMEs therefore poses difficult problems due to an SME's limited capability to exercise control over its own internationalization process.
In the paper we will analyse a number of cases and develop a typology for SMEs internationalization. The paper presents a conceptual development based on the book by Hertz and Mattsson "Mindre företag internationaliseras-marknadsföring i nätverk", Liber, to be published in June 1998.