

Social Capital Theory and the Internationalization Process of Czech SMEs

Abstract

The process and rate of internationalization of Czech SMEs has been affected by the country's accession to the EU. This has brought not only increased opportunities for entering foreign markets but also increased international competition. It seems appropriate, therefore, to assess the internationalization processes of Czech SMEs and potential barriers to their entering foreign markets. There has been a dearth of empirical studies devoted to the internationalization of SMEs in transformation economies and what relevant literature does exist is diverse and contains many conflicting perspectives. The aims of this paper are two-fold. The first aim is to critically examine the relevant literature regarding the internationalization process of SMEs in transformation economies in general and the Czech Republic in particular. Secondly, this paper contributes to the SME internationalization debate by arguing for the inclusion of a social capital theory perspective.

Keywords SMEs, Social Capital Theory, Internationalization, Transformation Economies, Czech Republic.

Introduction

The accession of the Czech Republic to the European Union in May 2004 brought with it both challenges and opportunities for small and medium sized businesses (SMEs), most of which have come into existence since the beginning of the economic transformation process in the late 1980s. The important role of SMEs in transformation economies has been extensively discussed in the literature but rather less attention has been devoted to the importance of internationalizing businesses for economic growth, competitive sustainability and the consolidation of the transformation process.

Smaller businesses must contend with specific challenges when contemplating entering foreign markets. In addition to resource and support requirements, there is usually a lack of relevant information and firms are faced with challenges related to the development of internal knowledge and expertise. Various theoretical approaches have been utilised to explain the internationalization processes undertaken by SMEs, stage models and latterly network models proving popular bases for empirical research. No existing body of theory has found universal agreement and, while there is a need to move to a higher degree of integration in the literature, the inclusion of alternative approaches which enhance current theoretical models may be useful in explaining the SME internationalization process more fully.

This conceptual paper takes an alternative approach to internationalization, utilising social capital theory (SCT). It highlights, *inter alia*, the importance of network relationships and social connections, both formal and informal, which impact on owner-managers' strategies for entering and operating in foreign markets. SCT provides insights not only for practice but also for policy-setting for SME development

in the Czech Republic and possibly also in other transformation economies of east and central Europe. After critically reviewing the current state of the relevant literature and discussing aspects of government policies that could expedite the internationalization processes of firms, we examine current ideas connected with social capital related to SMEs and argue that it might provide new insights in the examination of SME internationalization in the Czech Republic.

The Economic Contribution of SMEs in Transformation Economies

For many transformation economies, no significant small business sector has existed since the end of the Second World War. Thus Glas et al (1999) could argue that small business development during command economy times was a 'black hole' and that what constitutes the current SME sector in these countries has had to be built from virtually nothing in the period since 1989. There were of course some exceptions, notably Poland and Hungary which possessed significant numbers of small businesses, albeit with the majority having been collectively owned.

Transformation economies depend on SMEs as drivers of economic growth, for the generation of a vigorous private sector to replace or restructure former state-owned firms and for engagement with global markets. Successful domestic SMEs also have the effect of balancing (in part at least) FDI inflows through investment by foreign-owned firms. Researchers tend to agree on the importance of developing a private SME sector as part of the transformation process - see, for example, Smallbone and Welter 2001; Egorov and Voykovich 2001; Newman 1998; Nelson and Taylor 1995. However, it is argued that this importance is often misunderstood by government officials and by the general public. This misunderstanding may be a legacy of large state-owned organisations in the former command economies, where heavy industry was considered for many years a flagship of the economy. Smallbone and Welter (2001) argue that transformation economies should develop a strong SME sector to assist the transfer from public to private ownership and to help increase the pace of new venture creation. The SME sector has a place also in the reorientation of social awareness, as without this change the emergence of the private sector and a market economy are impossible (Piasceki, 1995).

Government policies and their implementation have differed between countries. They have had mixed success, perhaps because of poor targeting but also because the growth of SMEs has not attracted much attention. Help for entrepreneurs in overcoming barriers to investment and what Woodward (2001) terms 'deep-seated individualism' (thus helping firms co-operate with each other), may require specific SME policies. The main problem for SMEs is not wholly related to their size, but in being on their own. Small firms acting in isolation are vulnerable to economy of scale shortfalls and often encounter problems in obtaining credit. Participation in SME networks, for example, may help to overcome this.

In identifying the importance of a healthy SME sector in the transformation process, some commentators consider that it is important for them to become involved in global markets through involvement in international business. For the most part, this means some form of engagement in exporting, at least initially, before expanding to other forms of international

market entry and development (Leonidou (1998). Various drivers and enablers of, and barriers to, SME internationalization, are discussed in the following section.

Researchers have sought explanations for both the initial entry decision-making and the process by which SMEs internationalize. Some commentators consider that the sheer diversity of SMEs and their management styles and competences acts against the evolution of a satisfactory theoretical underpinning to research. However, for transformation economies in particular, it is necessary to understand more fully the process SME internationalization, in order to develop effective governmental and other institutional policies. Additionally, transformation economies provide significant opportunities to evolve and build theory specifically related to the international development of SMEs.

The Internationalization Process

The development of a theoretical approach to the internationalization of firms has existed from the earliest days of international business research but, in the last thirty years, the debate has intensified through the development of a range of models to explain the internationalization process. What seems to have happened during this period is that researchers employed a range of different approaches, which had the effect of blurring the issues as much as revealing new knowledge. A situational perspective has dominated research methodologies and many commentators have criticised the lack of a longitudinal approach seeking to explain internationalization as a dynamic on-going process. More recently, there has been increasing emphasis on collaboration activities between firms and other organisations in the internationalization process.

Welch and Luostarinen (1988) are critical of the fact that it is impossible to define precisely what internationalization is. Later reviews of the literature concur with this view, with the result that the area remains 'fuzzy'- as Beamish (1990) terms it. He offers a view that is both holistic in nature and has the advantage of catering for various internationalization processes. He suggests that internationalization is 'a process by which firms both increase their awareness of the direct and indirect influence of international transactions on their future, and establish and conduct transactions with other countries' (Beamish, 1990, p77). This definition has several advantages; one being the integration of managerial learning development as a result of international experience with firm's increasing investment in foreign markets, i.e. there are both economic and behavioural components within the definition. Secondly, the definition implies a process rather than an event.

Coviello and McAuley (1999) classify thinking on internationalization into three schools: FDI, the more behaviourally-oriented stage models of which the Uppsala model is the most famous, and network models. Some of this work has, however, evolved from research carried out with a bias towards the internationalization process of larger firms and the application of such models to SME activities is relatively uncertain (Coviello and McAuley 1999), although the models have been utilised in recent SME Internationalization studies. (See for example Chetty and Campbell-Hunt 2003; De Chiara and Minguzzi, 2002). The following discussion assesses SME-specific theoretical issues related to internationalization.

SME Internationalization

A good deal has been written in the past twenty years about the internationalisation processes of firms but most of this research has been carried out in larger companies. More recently, increasing attention has been given to the internationalization processes of SMEs. It is generally recognized that they suffer certain disadvantages vis a vis larger organizations, such as resource limitations and other liabilities of newness, but such disadvantages have not prevented several SMEs from competing effectively in international markets.

Increasing engagement by SMEs in international activities (Reynolds, 1997) involves them in factors central to the internationalization process, such as choice of market entry mode, the pursuit of economies of scale, the sequence of markets entered, and 'psychic distance' barriers (Wiedersheim-Paul, 1972, Bloodgood et al, 1997). However, conflicting evidence exists on how these factors affect SMEs' internationalization decisions (Benito and Gripsund, 1992). A wide variety of patterns and timescales of internationalization has been detected in studies (Dalli, 1994, Coviello and Munro, 1997, Bloodgood et al, 1997) and motivations to engage in international business vary, an example being in capitalising on unique resources, new technologies and cost benefits. A small and/or hostile domestic environment may also lead an SME to seek markets abroad (Colvin and Slavin, 1989).

Perhaps more than in the case of larger firms, SMEs face significant resource barriers in internationalising (Bloodgood et al, 1997), including the impact of a firm's demographics (size and resources), together with management philosophy and strategy, and both industrial and home country environment (Tyebjee, 1994). The problem of 'the liability of "foreignness"' (Lau and Peng, 1999, p 270) and the GNP of the host country (Berkema and Vermeula, 1998) also affects both initial expansion and extended involvement in international activities. The literature contains conflicting views on their impact, for example, on the relationship between firm size and exporting activities (Bonaccorsi, 1992, Calof, 1993).

Reuber and Fischer (1997) suggest that the literature in general tends to take a negative view of SME internationalization prospects because of the SME's inherent disadvantages in terms of resources and creditability. This view has been challenged recently, particularly in respect of the success of SMEs in technological industries and in the service sector. Liesch and Knight (1999) argue that SMEs can achieve internationalization advantages similar to those exhibited in larger firms, by successfully internalising information on external markets. SMEs, being more reactive and flexible than larger firms, often also possess advantages of quicker action, as long as the requisite knowledge and information exists and is applied properly.

Increasingly, studies are being devoted to the international activities of service firms, for example, Erramilli and Rao (1997), Hellman (1996). Recent studies have shown that the service sector SMEs have been increasingly involved in cross-border activities (O'Farrell et al, 1998a), examples being business consultants, financial services providers, design companies and training businesses. According to Welch and Luostarinen (1993), the range of operational modes is more limited for service firms than for manufacturers (Welch and Luostarinen, 1993) because of the non-consumable nature of services and their instantaneous nature. O'Farrell et al (1998b) argue that the internationalization of service SMEs should include an appreciation of the importance of client-supplier interaction and of business and social contacts, thus giving some

credence to the networking school of internationalization theory and Social Capital theory, discussed below.

Vandermerwe and Chadwick (1989) note the link between service industries and the importing of customers. In a similar manner, Bjorkman and Kock (1997) consider tourism as 'indirect export' operations, even though there is no international flow of goods or services. Comparatively little is known, however, about the methods by which service firms import customers and how these methods consume services in the service provider's home country - a particular form of inward internationalization perhaps.

It seems, however, that the main theories currently used contain disadvantages in explaining some of the more qualitative and tacit aspects of internationalization. The Uppsala model and the internal innovation models (the most utilized in the literature) do not fully explain the informal nature of networking; nor for that matter do the more recent discussions of 'born globals', those small businesses which internationalize relatively quickly. Network theory perhaps gets nearer the interaction occurring between firms, institutions and various actors during the internationalization process but this is difficult to operationalize in terms of practical measures or comparisons between firms and the research emphasis is often on the structure of networks as opposed to their content and processes.

A networking approach is considered by some commentators to be a major factor in overcoming barriers to internationalization (Chetty, 1999), not only through new networks or those that exist in the home country, but also those existing abroad (Hakansson, 1982). Firms seem to take varied approaches to networking and this is reflected in the models derived in several studies (Grandori and Soda, 1995). These approaches include links with larger firms, various forms of alliances and me-too strategies, as well as provision of information and encouragement to other SMEs. The impact and value of social links between SME managers has also been a fruitful but sometimes neglected area for research activity, e.g. Donckels and Lambrecht (1995); Granovetter (1983, 1985); Kirk and Pollard (2002). These links may involve factors such as relative dependence, legitimisation of action, reciprocal legitimisation by exchanging information, etc. Economic relationships between firms take place around a web of pre-existing social relationships, which may include pre-existing local and regional networks (Christensen and Lundmark, 1993). Such relationships form the basis for the development of social capital theory and are discussed below.

SME managers' personal contacts are crucial to new international firms (Johannison and Monsted, 1998), regional contacts also being important in building exporting through group interaction. A good example of such regional networking can be found in the Charente region of France, where the local chamber of commerce not only provides relevant information resources but also actively encourages and facilitates exchange of information through an export network of SMEs. It can also be argued that this networking and its role in assisting increased SME internationalization could be further analyzed using social capital theory.

Studies in SME internationalization have also addressed - in the stage models and elsewhere - the importance of the attitudes and particular characteristics of individual SME managers (Schamp and Deschoolmeester, 1998). Not only do SME managers influence a company's

international progress (Madsen and Servias, 1997) -they are in turn influenced by it. Chief among managers' desirable characteristics are experience with foreign operations, experience gained in working abroad, language skills and country of origin (Reuber and Fischer, 1997; Manolova et al, 2002). Furthermore, an ability to network, both in the domestic market and abroad, is considered important by some observers. Reuber and Fischer (1997) show that internationally experienced management teams have a greater propensity to develop foreign partners and to develop further on entering foreign markets after start-up. Such characteristics are also argued to be critical in policy development as, for example, in deciding which firms should receive institutional support in extending their foreign operations.

Up until recently, comparatively few studies have been undertaken concerning methods of acquisition of information and knowledge in the internationalization process, Liesch and Knight, (1999) for instance, argued that the process was relatively poorly understood. However more recent studies (see, for example Fosgren, 2004; Knight and Leisch, 2002) have provided more in-depth knowledge concerning the acquisition and implementation of information during the internationalization process. Additionally, a key issue in the growth of SMEs, and the internationalization of SMEs in particular, is that of information availability (Cooper et al, 1995), especially of that relating to markets and their dynamics (Liesch and Knight, 1999). It has been argued that SMEs usually integrate and utilise information more effectively than MNEs. Government agencies may have a significant role in the identification and provision of such information in promoting exporting and other forms of internationalization .

However, such agencies face several problems in the provision of information and other support to individual firms, not least of which is the identification of which particular characteristics of the firm and its management should be evaluated. Due to variability in the internationalization process, progression through the various stages is not always sequential and may take longer or shorter lengths of time; so that indications of performance are difficult to assess. Performance in the domestic sector, for instance, is not necessarily a good predictor of success outside the country. However, SMEs entering export markets often benefit from government policy initiatives designed to promote both survival and growth (Smallbone et al, 1993). This could involve the use of external advisers in determining both sources of possible resources and the variety of opportunities available in foreign markets. Another factor is the ability of the firm to access the required level of financial resources, which is crucial during the early stages of internationalization (Bilkey and Tesar, 1977).

A growing number of studies are being devoted to the international activities of service firms, for example, Erramilli and Rao (1997), Hellman (1996). Recent studies have shown that the service sector SMEs have been increasingly involved in cross-border activities (O'Farrell et al, 1998a), examples being business consultants, financial services providers, design companies and training businesses. The internationalization of service SMEs follows one of three patterns (Erramilli and Rao, 1993; Hellman, 1996):

1. following a buyer or customer, e.g. banking and Insurance (Hellman, 1996) or service firms following manufacturers abroad (O'Farrell et al, 1998b)
2. reacting to a competing firm's actions

3. market seekers taking a proactive view of expansion out of the domestic market (Erramilli and Rao, 1993)

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5. SME internationalization in transformation economies

In addressing SME internationalization in transformation economies, researchers are faced with several difficulties. Theoretical difficulties have been identified earlier in this paper, these being compounded by a lack of research in transformation economy SME internationalization in general. What studies do exist fail to develop specific theoretical models, although studies by Glas et al and Smallbone et al do provide some interesting insights.

Glas et al (1999) consider that Slovenian SME internationalization is following patterns similar to those of developed economies in the West, by virtue of the change in orientation towards a market economy. They also suggest that Slovenian development can be explained using stage theories (discussed below) and further argue that the extent of SME international operations will grow as the SME sector matures. The latter argument is much stronger than the first two (although there may be problems of sustainability), the others begging much-debated questions concerning the scope and process of internationalization in developed economies. Smallbone et al (1998) studied the characteristics of subcontracting SMEs based in Poland and the Baltic states, noting the vulnerability of such transactions to uncontrollable factors such as international economic fluctuations.

Both Glas et al (1999) and Smallbone et al (1998) identify major business environmental factors affecting SME internationalization, such as the level of domestic economic activity and the size of the domestic market, both effectively limiting the growth of SMEs and pushing them into foreign markets. Loss of traditional markets seems to be another driver, especially in the more advanced transformation economies. The stability of the macroeconomic environment and the institutional developments discussed earlier are key enablers and critical for SME development and subsequent internationalization, the less advanced economies displaying rather less vitality in the SME sector and a higher percentage of those SMEs that do exist being involved in the informal economy.

Many researchers have emphasized the central role of government policy and its significant effect on SME start-up and growth. They tend to call for the development of appropriate fiscal policies, so as to reduce the tax burden on smaller businesses. They also identify the relatively high cost of employment, which may be a limiting factor. An additional argument is that governments should support the internationalization activities of SMEs through a range of measures such as limited fiscal support for attendance at trade fairs, acquisition of market and export related information and help in dealing with problems in meeting foreign standards, especially in the EU. Many governments support export activities through specially designed information and support services (Katsikeas and Morgan 1994). While government support for internationalization through assistance with general information provision and effective marketing for a firm's products is necessary, it is generally recognised that, even when such facilities exist, the take-up of opportunities is not always apparent, perhaps due to high levels of bureaucracy or other policy implementation-related problems

Another factor relevant to SME international developments is that the process may take a relatively long time and researchers have suggested that the export stage itself may develop over a protracted period. The process is likely to be influenced also by industry structure and the particular business environment, as export intensity varies across industries. In the case of less developed transformation economies, the evolution of SME internationalization may take significantly longer than in more advanced economies where business environmental conditions are usually more favourable.

Many multinational enterprises (MNEs) operating in transformation economies have been concerned with the identification of local suppliers. Local SMEs may eventually become suppliers to other parts of the same MNE in other parts of the world, thus potentially taking the SME from a position of local domestic supplier into an international arena. Some other SMEs are content to serve local markets and that situation is always going to exist, no matter how small the market. For smaller transition economies, however, internationalization is a major economic factor in ensuring transformational success and there is, therefore, a need for policy making to support SME internationalization

All three 'schools' of international thought seem to be represented in the internationalization processes in transition economies, judging from the evidence available. Much discussion in recent years has centered on the networking activities of SMEs and in their relation with larger firms; it seems that network models may help to explain the impact of firm interaction. In achieving this explanation, it may be necessary to assess not only the mechanics of networking but also the more variable social and professional networking employed by SME managers. It is argued that a more systematic approach should be taken in the examination of the internationalization process in transformation economies, so as to link both outward and inward internationalization, as necessary.

Investigations of the internationalization of SMEs should also take into account the sustainability of international operations. Tyebjee (1994) argues that internationalization is not a once-and-forever process – firms have been known to retreat from international involvement because they are no longer competitive or because they cannot sustain international operations. It can readily be seen that internationalizing the firm is only the first stage in a life cycle that

may last for a long period and therefore optimistic and unrealistic internationalization plans may actually set a company back years, if unsuccessful.

Various researchers (for example Smallbone et al 1998; Smallbone and Welter, 2001, Woodward, 2001) have emphasized the central role of government policy and its significant effect on SME start-up and growth. They tend to call for the development of appropriate fiscal policies, so as to reduce the tax burden of smaller businesses and also identify the relatively high cost of employment, which may be a limiting factor. There is an additional argument that governments should support the internationalization activities of SMEs through a range of measures, such as limited fiscal support for attendance at trade fairs, acquisition of market and export related information and help in dealing with problems of meeting foreign standards, especially in the EU. Furthermore, it could be argued, government support for internationalization through assistance with information provision and effective marketing for their products is necessary. However, it is recognized that, even when such facilities exist, the take-up of opportunities is not always apparent (Glas et al 1999).

Another factor relevant to SME international developments is that the process may take a relatively long time and researchers have suggested that the export stage itself may develop over a protracted period (Leonidou and Katiskas, 1996). The process is likely to be influenced also by industry structure and the particular business environment, as export intensity varies across industries. In the case of less developed transformation economies, the evolution of SME internationalization may take significantly longer than in more advanced economies where business environmental conditions are more favourable.

Social Capital Theory and SME Internationalization

If each of the current theories of internationalization cannot fully explain elements of the process, it is necessary to integrate theoretical work from other areas to supplement these theories. It has been argued that Social Capital Theory can provide fresh insights into organisational processes, in that it addresses the often tacit complexity of knowledge development and the role of personal relationships in the internationalization process. The application of SCT and its potential in explaining complex inter-personal aspects of SME internationalization will be addressed, following a general introduction to its scope and content.

Social Capital theory evolved from studies in community dynamics - see for example Bourdieu (1992) and Coleman (1988). Social capital can be defined as 'the sum of resources, actual or virtual, that accrue to an individual or group by virtue of possessing a durable network of more or less institutionalised relationships of mutual acquaintance and recognition' (Bourdieu and Wacquant 1992:119). For Coleman (1988) social capital contains a variety of social phenomena that contain structured relationships which facilitate actions and interactions within and between groups and individuals. Therefore, social capital is not a single entity but a complex set of relationships that exists between people and therefore utilises a considerable level of tacit information. For Bourdieu (1986) social capital is the creation of tacit knowledge and value creation - much of the capital is embedded within networks of mutual acquaintance and recognition. The theory has latterly gained increasing recognition in business applications

(Adler and Kwon 2002) such as in explaining various factors associated with organisational change.

For the purposes of this paper, the emphasis of social capital is on the binding of individuals and groups within a context of knowledge exchange and this network should have the capability to create value (Bourdieu (1996). Like other forms of capital, social capital must be applied in order to become useful; for instance, relationships do not become capital until used for some purpose. The development of relationships requires recognition as having potential capital but not all relationships are mobilised at the same time for a particular purpose. Nahapiet and Ghoshal (1998) consider that social capital facilitates new forms of association and organisation and that the concept is 'central to our understanding of institutional dynamics, innovation and value creation' (Nahapiet and Ghoshal 1998: 245)

Social capital thus requires not only network structures but also the development of trust and relationships which may be enabled through that network (Bourdieu 1986; Burt 1992). Drawing on the work of Granovetter (1992) three types of embeddedness can be identified: structural, relational and cognitive (Nahapiet and Ghoshal (1998). Structural embeddedness relates to the network configuration, that is, the whole configuration of the network, the people who one reaches and how one reaches them (Burt 1992). Issues of density, connectivity, hierarchy and organisation of network processes are included, as is transferability - the ability of using one network created for a particular purpose to do the work of another (Coleman 1988). Relational embeddedness refers to personal relationships, developed through interactions over a period of time, and includes characteristics such as friendship and trust, which influence behaviour within a network as well as obligations and expectations (Coleman 1988, Granovetter 1985). Cognitive embeddedness refers to shared systems of meaning, interpretations and representations, shared language and codes. While this dimension has been comparatively neglected in the development of SCT, it is receiving increasing attention in other fields, such as in business strategy (Nahapiet and Ghoshal (1998).

Putnam (2000) distinguishes between bridging and bonding in networks. Bridging concerns relationships constructed within heterogeneous groups such as SMEs and MNEs. Such relationships can often be a rich source of information and knowledge such as new trade leads which can be obtained without the development of particularly strong ties. Bonding, on the other hand, refers to relationships within homogenous groups such as ethnic groups and clusters. Here there is a good deal more trust and stronger ties between organisations, built on strong personal relationships including kinship ties.

Utilising the work of Hakasson (1982) and others on internationalization networks in conjunction with SCT provides powerful insights into the inter-relationships of SMEs and other institutions and the development of management knowledge which informs and sustains the internationalization process. Issues of information availability and content, together with the sources of information, etc., may also be incorporated in analyses of this type. For transformation economies, it can be argued that a legacy of relationships, in addition to those which have developed since the move toward a market economy, provides specific internationalization pathways which have not been fully explored in the literature. SCT can therefore enhance the network approach to firm internationalization by explaining more fully the networking actions and interactions - or lack of them.

The lack of management knowledge and experience in operating internationally remains a significant impediment to SME growth (Manlova et al, 2002). However, with the greater presence of foreign firms operating in transformation economies, it is likely that more management knowledge will be available in the labour market. A major challenge for government is how to ensure that management education develops in order to provide the new management skills applicable to small businesses. Training courses on specialist subjects, including exporting and marketing, might be funded by governments and made available at a national or regional level. At this level, SME managers with international experience might be engaged to discuss their experiences with others, or perhaps local organizations might sponsor 'master class' events to disseminate international know-how.

Manolova et al (2002) assess the impact of the owner-manager's personal capital on SME internationalization, arguing that international experience and degree of international orientation is important in the entry of the firm to foreign markets. They further suggest that whilst behavioural skills are incorporated in various approaches to internationalization, they tend to be bundled under generic terms rather than assessing specific behaviours, a feature regretted by Leonidou et al (1998).

Human capital or personal factors may provide important intangible competitive dimensions for a smaller firm. International skills and experience, international orientation and perceptions of the environment are salient features (Manolova et al 2002). There are also issues such as opportunity perception and opportunity operationalisation, as well as whether the owner-manager is a novice or habitual entrepreneur (Barney et al 2001). It may be that in transitional economies that entrepreneurs are relatively novice in orientation and this may have an effect on the success of internationalization in the longer term, if not in the short-term.

Human capital can provide those unique resources which sustain competitive advantage in international markets, such as business skills, knowledge, experience, etc. The greater the skill-set, the quicker the firm internationalizes (Reuber and Fischer 1997). Monolova et al (2002) do not investigate the issue of entrepreneurial skills, opportunity perception, etc. In transformation economies, such skills may have been acquired through working for a foreign company or for a domestic organization with a history of trading internationally. Skills may have been developed as a result of education and for this matter educational issue are included under this area, These human capital dimensions may be important for policy-makers in that there seems to be specific areas in which governments can support the internationalization of small businesses through personal development media,

Orientations include the organization's psychic distance between itself and its foreign market, proficiency in foreign languages, risk adverseness, etc. In transformation economies, one might expect that the language factor would be different to a more global approach, for instance familiarity with other Slav languages in the case of Eastern Europe or with regional affiliations such as German in the Czech Republic and parts of Poland and an emergence of English as a common business language. It is argued that there is a storing relationship between the owner-manager's foreign orientation and the commencement of exporting activities (Dichtl et el 1990)

Barriers to SME Internationalization in the Czech Republic

A survey of the internationalization literature shows that all firms, large and small, have to deal with a number of barriers in entering and operating in foreign markets. Studies of international growth strategies have tended to identify external and internal barriers to the internationalization process. This area of research is rather unevenly represented in textbooks (Fillis 2000), most research being devoted to external constraints, to the virtual exclusion of internal factors, especially those faced by smaller businesses (Katsikeas and Morgan 1994). The systemic relationships between external and internal constraints have been almost totally ignored

Some common examples of external barriers are: trade barriers including tariffs and quotas, economic, political and cultural differences, management inexperience, the liabilities of newness and 'foreignness' in the targeted market and issues associated with competing internationally while also competing in domestic markets. Small businesses may be at a disadvantage in overcoming many of these barriers because of resource limitations; however there are instances where SMEs have successfully overcome such obstacles and operate successfully abroad. Some major barriers, external and internal, can be drawn from the extensive exporting literature (Fillis 2000) and are summarised in table 1. From the work of Madsen (1989), it seems that such barriers are perceived as more serious by inexperienced firms compared with the perception of experienced SMEs.

Table 1 External and Internal Barriers to Internationalization

External	Internal
Lack of international networks and distribution channels, e.g. agents	Opportunity costs and disruption to domestic market activities
Increased levels of competition	Lack of capacity
Lack of government support and effective SME strategies	Lack of management knowledge/experience/motivation
Liability of newness or 'foreignness'	Risk adversity
Lack of market and other information	Lack of financial resources
Payment delays and cash flow considerations	Lack of exporting knowledge
Institutional bureaucracy	Lack of experienced staff
External environmental factors – trade barriers, unfavourable exchange rates, etc.	Inability to utilise information resources effectively

There are many potential applications of network methodologies to explain how SMEs perceive and overcome barriers to internationalization. External factors such as the lack of international networks (for instance, with sub-contractors, distributors or agents), domestic networks (of inter-firm and firm-institution relationships, especially for new entrepreneurs) and the lack of support systems sponsored by government and other providers in particular can be

investigated, assessing both network structures and the tacit content of relationships. Internal resource deficiencies may also be investigated in the same way.

However, it would be inappropriate to ignore the systemic relationship between internal and external barriers. For example, provision of management education and export know-how by external institutions may overcome the barrier of lack of management knowledge. In the same way, promotion of interaction between SME owner-managers may help to overcome information deficiencies and risk adversity. The Charente initiative mentioned earlier is a good example of this and the application of SCT to the provision and internalisation of new knowledge (for example) would bring more attention of practitioners and policy-makers to the need for the promotion of interaction between experienced and inexperienced entrepreneurs. The role of clusters, business parks and university-business interactions in assisting with exporting and other internationalizing activities might be studied using a SCT approach.

Overcoming external and internal barriers to internationalization

Various initiatives have been implemented to improve the support of SMEs in the Czech Republic. Due to the fact that such developments are of a localized nature, SME support development in the country has suffered from a lack of cohesion. Perhaps accession to the EU will provide opportunities for a more country-wide institutional development, which may provide a higher level of support. Such support need not be of a financial nature; assistance with network development, export and other foreign market information and the encouragement of university-industry relationships would provide important support. Such developments would also have to engage owner-managers in assessing particular needs of SMEs in various industrial and commercial sectors.

Government support need not necessarily involve direct financial support for particular firms but could be more of a shared resource which could be enhanced further by the SMEs as they gain in experience and know-how. The mutuality of such arrangements means that government sponsorship may be more short-term than long term. This provision of support does face a number of challenges, however, not least with a legacy of suspicion of any measures introduced by government departments and the possibility of creating bureaucratic procedures which may stifle interest.

Lack of management knowledge and experience in operating internationally remains a significant impediment to SME growth. However, with the greater presence of foreign firms operating in transformation economies, it is likely that more management knowledge will be available in the labour market. A major challenge for government is how to ensure that management education develops in order to provide the new management skills applicable to small businesses. Training courses on specialist subjects, including exporting and marketing, might be funded by governments and made available at national or regional level. At this level, SME managers with international experience might be engaged to discuss their experiences with others; or perhaps local organizations might sponsor 'master class' events to disseminate international know-how.

An additional set of factors relate to the increasing tendency of SMEs to internationalise through participation in joint ventures or other forms of strategic alliance. Additional barriers would be encountered such as difficulties in choosing an appropriate partner or partners and the problems associated with collaboration as opposed to competition.

Discussion

The European transformation process has produced a mixture of development trajectories and timescales. While important differences exist between the transformation of European and Asia economies, it has been shown that governmental support for SME development and internationalization are crucial factors in sustaining the transformation process. The significance of regional innovation in assisting national policy development has been discussed and one lesson derived from the European experience is that both national and regional policy should co-exist to realise the full economic benefits of SME growth and internationalization. The importance of Involvement with the facilitation of SME and other networks, together with their sustained encouragement, has also been emphasised. Although policies cannot be standard for all transformation economies, it is essential that whatever support is provided should be geared to the needs of the economy, as well as those of industries or firms. Whatever policy decisions are taken, it is important that they are implemented properly and whatever facilities exist are properly communicated to the private sector.

The essential role of government agencies, research centres and universities has been identified in SME development in Europe. (Similar situations have been identified in China but involvement is still at an early stage.) Woodford's study, in particular, demonstrates how regional networks involving these institutions can be a major source of support and this is reinforced by studies undertaken in European developed countries. Properly implemented, these support networks could be a major platform for SME development.

It seems that SME internationalization in transformation economies presents certain theoretical and practical difficulties for researchers. Aspects of market selection, the extent of internationalization and the process itself can all be utilised to develop further theoretical insights. The role of management competence and experience and organisational learning in the internationalization of SMEs seems a particularly fruitful area for further detailed comparative research, as do policy issues. Researchers such as Glas et al (1999) and Smallbone et al (1998) identify sectoral and individual economy differences, adding complexity to comparative research into the internationalization process. Cultural differences and other aspects such as location and proximity to market can influence the internationalization process, in addition to cultural distance. Variables such as these will require attention by researchers, to avoid the dangers of over-generalisation.

The critical contribution of SMEs to economic transformation has been explored in terms of generating new industries and employment opportunities and the sustainability of a private market economy. In the near future, the international performance of SMEs is likely to gain in importance as international competitiveness increases. There is a danger that, if transformation economy businesses are not encouraged to develop international activities, they may be at a

disadvantage vis-a-vis international firms entering their traditional domestic markets, hence the need for proactive encouragement of SME internationalization by governments.

Social capital and change in the Czech Republic (and other transformation economies, for that matter) provides a unique background in which to assess the development of SME internationalization theory. The move to a market economy in such countries has not been achieved in a vacuum - the transformation trajectory is informed by past history and experience, as well as the need to innovate. So it is with social capital. Individuals and groups are understandably reluctant to give up social assets accumulated during the command economy period and, in fact, a good deal of publicity has been given over to certain individuals who were in a position of power under the old regime and have been spectacularly successful in a market economy environment through their mobilisation and conversion of social capital assets. Some have profited through industrial restructuring, in management buy-outs (Pollard and Kirk 2001) and other forms of asset acquisition. Kolankiewicz (1996) notes that in these situations, network relationships have been successfully deployed in successfully moving from the old order to the new. Others have not been so successful because they have not been able to convert social capital assets such as networks quickly enough to take advantage of new market opportunities.

However, Bourdieu (1994) sees conversion as an ongoing process and it is therefore important to sustain and develop social capital as, for example, the setting up of a new company may require financial capital which may be accessed through effective relationships with appropriate institutions. As Kolankiewicz (1996) notes, the ability to translate social assets such as political power or knowledge depends on several individual and systemic factors such as speed of transformation, business legislation, etc. Restricted access to finance for businesses, for instance, may be overcome by network assets but may still be a fundamental barrier for business development and growth, as discussed in more detail later. Essential in the development of such networks is the concept of reciprocity.

Transformational routes to a market economy have taken various trajectories and, whereas there are some common features to be found in studying economic transformation processes, it is clear, as Putnam (1993) states that 'where you get to depends on where you have come from'. (Putnam, 1993:179). Much depends on the level of economic development at the point of transformation and this in turn depends on historical events both within the country and outside it. In short, people 'respond in a rational fashion to historical contexts presented to them'. (Kolankiewicz, 1996:427).

In this context, any examination of the Czech transformational processes is necessarily affected by historical factors, in addition to any new policies and economic restructuring which have happened in the past fourteen years. Thus business and trading relationships formed post-transformation may have their antecedents in the command economy days, as have many peoples' attitudes. Such historical associations may also have proximity affects.

One of the advantages of applying SCT to the internationalization process is that it highlights tacit elements of interaction between SMEs and institutions and between owner-managers, in addition to knowledge and experience. All such factors are of importance in the internationalization process and, together with decisions such as mode of entry, timing and market location, they form the main constituents of an international strategy for SMEs.

Interactions within existing networks are of fundamental interest in transformation economies, as former business networks have provided a foundation for further development during the transition period.

The relationship between SMEs and MNEs and the function of bridging relationships in SCT may provide insights into how MNEs influence the internationalization behaviour of transformation economy SMEs. Bonding elements can be facilitated through the promotion of interaction between owner-managers, as discussed above. Similarly, developments in the service sector (including tourism), where the customer is an integral part of the system, provides a good deal of potential for the application of SCT in exploring key elements and components of interactions and knowledge development.

Concluding Remarks

This paper has examined the dynamics of SME internationalization in some detail and has outlined a case for a research agenda in the context of transformation economies. The transformation process provides unique research opportunities in assessing the growth of SME internationalization from a 'standing start' position.

Several key themes have been identified within the discussion above, for example the role of government support, the importance of relevant and timely information, the ability of firms to acquire and integrate relevant knowledge and the interaction between firms and other players in relevant industrial systems. The experience and orientation of owner-managers have also been identified as key issues. These research themes could form an important foundation for specific SME-based research and the resultant work may help explain various factors connected with SME internationalization in transformation economies and more generally. What seems to be paramount, however, is that research effort should be directed at longitudinal studies, as it is only through this type of study that the dynamics of SME internationalization can be effectively understood.

Explanations for both the initial entry decision-making and the process by which SMEs internationalize have attracted the attention of researchers in recent years. Some commentators consider that the sheer diversity of SMEs and their management styles and competences acts against the evolution of a satisfactory theoretical underpinning to research. However, for transformation economies in particular, it is necessary to understand more fully the process of SME internationalization, in order to develop effective governmental and other institutional policies. Additionally, transformation economies provide significant opportunities to evolve and build theory specifically related to the international development of SMEs.

An important factor to consider in understanding business developments in transition economies is the extensive social capital networks that existed before the beginning of the transition period. It has been a central issue in explaining the emergence of new entrepreneur, where foreign connections, knowledge and access to business assets have been fundamentally important. Further development in this area will probably be a function of both private capitalization and the involvement of government-sponsored and other institutions which are set up to assist the expansion for new businesses. Accession to the EU will bring with it some

funding for the generation of new businesses but much depends on the policies evolved as to how successful new ventures are likely to become.

The development of social capital also depends on knowledge diffusion and the ability to provide knowledge inputs, especially for the penetration of foreign markets. It is likely that this will form a challenge for business education in the Czech Republic and other command economies for some years to come. Although this paper has concentrated on the development and internationalization of Czech SMEs, the argument may also be applied to such processes in other transformation economies. Although the transformation trajectories of former command economies may differ markedly, it is apparent that the internationalization processes of SMEs may be similar.

Social capital theory may provide some important insights (that are missing from or understated in other contemporary theories) to explain both formal and informal networking which should exist within the small business community, as well as between small business and MNEs or institutions. As such, incorporation of these models will have the effect of integrating the current discussion of SME internationalization, certainly in terms of owner/manager interactions and decision-making.

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