

INTERNATIONALIZATION OF SMES FROM A CONTINGENCY PERSPECTIVE

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ABSTRACT

In this paper we use a contingency perspective to study the internationalization of Finnish small- and medium-sized enterprises (SMEs). We present both internal and external contingencies within our sample and analyze their effect on degree of internationalization (DOI). The focal contingencies are nature of the market strategy (niche vs. mainstream) and nature of the product a firm offers. The empirical sample of the paper consists of 241 Finnish SMEs 86 of which operates internationally. Our results show that tangible product firms operating in niche markets are the most likely to operate internationally and those SMEs which had more tangible product or provided an offering which combined tangible products and services were more international than those firms which focused more on pure services business. Furthermore, our study supports the use of contingency perspective as when controlling for the age and size of the firm, the highest scale of internationalization (foreign sales to total sale ratio) is predicted for the tangible product – mainstream market category.

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1. Introduction

Internationalization of small and medium-sized firms or enterprises (SMEs) has gained considerable attention during the last decade. This is not surprising as the success of SMEs, particularly those based in small home markets and pursuing niche strategies is more and more dependent on internationalization. The extant literature shows that there are both several theoretical perspectives regarding the internationalization process (see e.g. Johanson & Vahlne, 1977, 1990; Bell, 1995; Yeoh & Jeong, 1995; Coviello & Munro, 1997; Yip, Biscarri & Monti, 2000; Li, Li & Dalgic, 2004) and distinguished international patterns or pathways SMEs have predominantly followed in their subsequent internationalization (see e.g. Oviatt & McDougall, 1994; Knight & Cavusgil, 1996; Bell, McNaughton & Young, 2001).

In this paper our focus is to study internationalization of SMEs from a contingency perspective. Myers, Droge and Cheung (2007) note that the search of fit between organizational and environmental structures can be seen as a core concept within normative models of strategic formulation. In this the contingency perspective or approach is considered as a mid-range theory because it holds the middle ground between the claims of the uniqueness of the situation of each firm and the existence of general success recipes (Robertson & Chetty, 2000). It can be seen as a useful tool for SMEs as, if used well, it can appropriately take all types of resource constraints and internationalization motives into consideration (see Li et al., 2004).

In the context of internationalization the contingency perspective can be based on the idea that a firm's internationalization process is dependent on various contextual factors (see e.g. Welch & Luostarinen, 1993; Jones, 1999; Li, Li & Dalgic, 2004). Consequently, its international performance is determined by the extent to which a firm's behaviour matches or fits its internal or external context. An example of internal behaviour can be an entrepreneurial orientation of a firm (Yeoh & Jeong, 1995; Robertson & Chetty, 2000).

Li et al. (2004) point out that the emergence of the contingency perspective can be traced to the criticism of the Uppsala model presented in the 1980s. In the 1990s, for example Bell (1995) and Coviello & Munro (1997) showed us the importance of network approach; the network-based formal and informal relationships were found to affect an internationalization process. The existence of the network or partners can be seen as a contingency factor. Furthermore, the emergence of so-called born-globals has increased criticism towards the traditional incremental internationalization process model (see e.g. Knight & Cavusgil, 1996, 2004; Rialp et al., 2005). Born-globals firms are, by name, early adopters of internationalization, i.e. organizations which, from or near founding, seek superior international business performance and are selling their outputs in multiple countries (see e.g. Knight and Cavusgil, 2004). This type of internationalization is enabled by the development of the transportation and communication technologies which has increased possibilities for smaller firms to conduct international operations and consequently, the importance of the contingency perspective in the international business literature has increased in parallel with the rise of the born-global phenomenon.

The rest of the paper is structured as follows. In the next section the dimensions which can be used to analyze internationalization patterns or pathways of SMEs are presented. After this we focus on the contingencies which affect first the decision to internationalize and second the subsequent internationalization. The focus is on the scope of the market strategy or nature of the market, i.e., niche vs. mainstream, and type or nature of the product(s) a firm offers. In the empirical part of the paper we study Finnish SMEs' scale and scope of internationalization. The paper seeks to find out if there are differences in the degree of internationalization (DOI) among the SMEs operating within various industries and sharing the same domestic market because of the above-mentioned contingencies. The article ends with conclusions and a discussion presenting future research directions.

2. Internationalization pathways and dimensions to study internationalization

The traditional behavioural theories of internationalization, particularly the Uppsala-Model (Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 1977; 1990) and other incremental or stage models, i.e. the process theory or model of internationalization can be categorized under the term 'traditional pathway'. The firms which follow this pathway are cautious and avoid taking too many risks. They may perceive most of the international markets hostile and therefore most of the traditional firms begin their international operations on close by markets and are operating only in a few countries in the early days' of internationalization.

Although the international pathways are always simplifications of the reality and SMEs internationalize in numerous ways (see e.g. Jones, 1999) it appears that the most important recent model which challenges this traditional incremental internationalization pathway presented in the literature is a born-global pathway (see e.g. Bell, McNaughton, Crick & Young, 2003; Knight & Cavusgil, 2004). Two important dimensions used to define all the two above-mentioned pathways are 1) time of internationalization (speed, rapidity), and 2) degree of internationalization (DOI) which can be measured with scale (e.g. importance of foreign sales out of total sales or operation mode used), and scope of international operations (number of markets or regions; see e.g. Zahra and George, 2002). Consequently, the degree of control a firm holds in its international operations and the level of risk a firm has taken relate to these dimensions. The dimensions are depicted in Figure 1.

INSERT FIGURE 1 HERE

Time is a key measure in internationalization process. For example, a fundamental postulation describing the traditional internationalization pathway is that internationalization is a process in which a firm gradually or incrementally increases the number and diversity of the markets it operates in (Johanson & Vahlne, 1977). Furthermore, a firm has established itself domestically before entering foreign markets.

The most well-known definition of born-globals also includes a time measure: a born global is a firm that has reached a share of foreign sales of at least 25% (scale measure) after having started international activities within a few years of its foundation (Knight & Cavusgil, 1996; 2004). Often-used operational measure for the time lag between the foundation of the firm and the beginning of its international operations has been three years (Knight, Madsen & Servais, 2004). Furthermore born-globals, by definition should be new ventures, i.e. young firms.

Regarding the scope measures there are no exact definitions. However, a firm following a born-global strategy or pathway must, by implication, begin to operate in multiple countries on international markets almost from inception (see e.g., Oviatt & McDougall, 1994). Firms which tend to follow this accelerated international pathway typically operate in a narrowly defined market niche; consequently they cannot prosper in a single, small domestic market. A high degree of specialization requires international expansion if such a firm wants to achieve substantial sales growth.

To sum up, firms following the various internationalization pathways are expected to differ in terms of scale, scope and rapidity of internationalization as well as in terms of a large number of contingencies, which include, antecedents and drivers of internationalization, for example product a firm produces or international entrepreneurial orientation of the management. To put it other way round, these existing contingencies may lead firms to a different type of internationalization path and different level of DOI. Bearing the above-presented dimensions in mind we now turn our focus on contingency theory.

3. Contingencies in the internationalization of the firm

The contingency approach suggests that existing variations in firms' effectiveness are not random but depend on the appropriate matching of contingency factors with internal organizational designs (Zeithaml, Varadarajan & Zeithaml, 1988). Correspondingly, different strategies should be designed for different environmental contexts (Gardner, Johnson, Lee & Wilkinson, 2000). Within the internationalization literature there are several contingencies which may affect firms' internationalization strategy, process and DOI. It is evident that e.g. industry structure, competition and the characteristics of products and services shape the internationalisation process of the firm. Depending on the existing contingencies, in some cases, a firm may not even begin international operations and it is happy and successful at its domestic market. As noted above, in this paper we focus on two contingencies which have been found being of importance in the literature, namely the nature or type of the product or offering (cf. e.g. Jones, 1999; Myers et al., 2007) and nature of the market. Type of the product is an internal contingency factor and nature of the market external. The definitions of these two contingency factors used in this study are explained below.

3.1 Nature/type of product

Offerings of the firms, i.e. products and services are the actual outcomes of the production and technology capabilities the firms possess. The product (that being either tangible product or service) is often the core of the SME; it may happen that the whole

firm is established because of the product innovation. The key classification regarding firms' offerings is between (more or less tangible) products and (more or less intangible) services and this is the classification used in this paper². There are certain basic characteristics used to describe services such as intangibility, perishability, inseparability and heterogeneity (see e.g. Zeithaml et al., 1985) which are present in various degrees depending of the type of service in question. For example, knowledge-intensive business services such as consulting are normally more intangible and heterogeneous than e.g. catering services; consultants' products or services are mostly based on knowledge which is hard to standardise as these services are normally focused on people and are highly customised.

Characteristics of the product (or service) often determine the possible target markets and operation modes for internationalization. Consequently, nature of the product (or service) a firm has or technology it utilizes may be a decisive factor in internationalization. For example, Burgel and Murray (2000) noticed that firms which sell a highly customized product should be prepared to commit substantial amount of resources to their presales and after-sales service strategy. Zahra and Bogner (1999) found out in their study focusing on US software product firms that frequent product upgrades had a positive effect on performance under various environmental conditions. This means that it may not be possible for resource-constrained SMEs to internationalize easily if their products are intangible.

² It has to be noted that there are several more detailed typologies and/or classification of the products and services available than discussed here. For example, products and services can be classified based on the knowledge/technology-intensity (see e.g. Bell et al., 2003 in the context of SME internationalization and Gardner et al., 2000 regarding marketing of high-tech) and there are also other more detailed service type classifications available.

The intangibility and heterogeneity of services may also mean that such offerings are not suitable for global marketing strategies, i.e. for the standardized marketing strategy. There are several studies in favour of standardized, single marketing strategy across national boundaries (see e.g. Hout, Porter & Rudden, 1982; Zou & Cavusgil, 2002): this type of strategy should offer better internationalization possibilities and consequently performance benefits.

Furthermore, the ability to commercialize tangible products may be crucial. It has been argued that more successful high-tech new products are generally launched sooner into foreign markets and they tend to enjoy higher foreign sales than less successful launches (Oakley, 1996). To sum up, considerable evidence suggests that the nature of the product has an effect on DOI of the firm. Firms selling intangible highly customized products or in other words services are less likely to internationalize than their counterparts which offer tangible products. Thus:

H1: Nature of the product has an effect on degree of internationalization (DOI) of the firm

If the firm's offering is tailor-made or sold as a service it tends to require more contacts with end-users and active presence at the markets. Packaged more tangible products, on the other hand, can be sold rather easily without the support of the producer. This means that their international operations are more easily conducted through partners. Erramilli (1990) has found out that e.g. software providers use multiple entry modes and there is

plenty of variation in their internationalization patterns. This seems logical at least in the software context; the choice of a distribution channel depends on how much support or service a product needs (Coviello & Munro, 1997). It is also important to note that the distinction between hard and soft services can be made regarding their transferability and internationalization possibilities (see e.g. Erramilli, 1990; Majkgård & Sharma, 1998). Hard services are services in which production and consumption can be separated and thus exported. They can be seen as offerings, combinations between physical good and services; examples of these are packaged software products and engineering designs, for example. In contrast, soft services are services in which a service producer and a receiver need to be physically near each other and, thus exporting is not often possible or it is not cost-effective (Erramilli, 1990).

Although caution has to be exercised when generalizing in a SME setting as there are differences among the funding of the companies, for us it is evident that hard (i.e. more tangible and inseparable) services are easier to export and in general, it can be predicted that firms with standardized and packaged tangible products are more international. Thus:

H1a: Firms which offer more tangible products in the Finnish domestic market are more likely to internationalize than those that offer intangible products (services)

H1b: Firms which offer more tangible products have higher DOI than those that offer more intangible products (services)

3.2 Nature of market

Nature of the market a firm operates in can be analyzed from various perspectives. There are several actors which can be studied: these include customers and competitors, for example. A market may play a role in a firm's internationalization by providing a stimulus, or opportunities and challenges, and it may possess a different level of competitive intensity or turbulence. An industry structure in which a SME operates may have a significant effect on the international operations (Oviatt & McDougall, 1994; Walters & Samiee, 1990). Furthermore, focal markets can be divided into smaller segments based on their location or importance; in many studies the focus has also been on diversity of market segments (see e.g. Keiser & Sproul, 1982; Zahra & Bogner, 1999).

It has been argued that the effect of domestic market on the process of internationalization has received only a little and limited attention (see e.g. Tyebjee, 1994; Morgan, 1999). Although these suggestions have been made a while ago it seems to us that extensive analyses focusing on the role of the domestic market are still scarce. Some important studies exist, however. For example, Zahra et al. (1997) suggest that there is a link between a firm's domestic environment and its international performance. This type of argument is based on the fact that competition at the home front should increase firms' competitiveness in international markets.

There is also a question of the size of the market or segments. A small domestic market, which would especially be the case if a firm operated in a niche market, tends to lead

towards higher DOI. This type of argumentation has a foundation in market saturation construct (see e.g. Jaffe & Pasternak, 1994). Westhead (1995) found out that many British new ventures sought new markets abroad because they were not able to find local customers from the saturated home markets. Thus competitive intensity may be a push factor in internationalization for two reasons: either a firm has learnt to become competitive or it has had to seek new markets because of lack of domestic markets. One indicator of a niche domestic market is the number of competitors is limited. To sum up, although there are several reasons for the commencement and subsequent increase in an involvement in international operations, it is clear that the nature of market being it niche or mainstream has an effect on internationalization. Thus:

H2: Nature of the market has an effect on DOI of the firm

Firms which operate in a niche segment in the home market (e.g. Finland) with their products need multiple market areas to gain economies of scale benefits. Consequently they should seek growth from international markets. Thus,

H2a: Firms that are more focused on niche markets in Finland are more likely to internationalize than those targeting the mainstream market.

H2b: Firms that are more focused on niche markets in Finland have a higher DOI than those targeting the mainstream market.

3.3. Joint effects of product and market on DOI

On the basis of the discussion above, we now present a conceptual model in which the joint effect of market and product contingencies on DOI are hypothesized. As explained earlier, both these factors could be considered contingencies that may have a different effect on internationalization of SMEs.

As explained earlier products are manifestations of capabilities of the firm. If a targeted market segment is global these capabilities can be standardized and applied effectively in congruent geographical markets (Myers et al., 2007). Accordingly, standard tangible products are easier to internationalize than intangible services. Firms serving niche domestic markets have a greater need to internationalize due to market saturation and the need for scale economies. For a niche firm a market may effectively be spread around the globe and it should be more efficient for a SME to follow market diversification strategy with a tangible standardized product. Thus, firms with tangible products and niche markets should have the highest DOI. Thus,

H3: The likelihood and degree of internationalization should decrease across the four cells in the following order:

1. *Tangible product-niche market*
2. *Tangible product-mainstream market*
3. *Intangible product-niche market*
4. *Intangible product-mainstream market*

The following Figure 2 explains how market and product strategies should affect the DOI.

INSERT FIGURE 2 HERE

4: Empirical research methodology

Our empirical data were collected in the spring of 2008 by a web survey from a sample of 1147 Finnish entrepreneurial SMEs from five industries in manufacturing and service sectors. The sample was retrieved from the Amadeus database and consists of firms employing 10-500 persons. The pretested questionnaire was targeted to the top-management level in the firms in order to result reliable appraisal of the firm strategies. After an initial phone call and two rounds of reminders, the final response rate was 22%, resulting in usable responses from 255 companies. Of these responses 67 came from the software industry, 50 from the metal industry, 33 from furniture industry, 56 from food industry and 49 from entrepreneurial SMEs from the field of knowledge-intensive business services. Consequently, both services and manufacturing firms were present in the data. The collected data was checked for possible non-response biases according to the procedure suggested by Armstrong and Overton (1977) with satisfying results.

The measures for the dependent variables were all single indicators. The likelihood of internationalization was captured simply by asking if the firm had any international sales at the time of the study (with response alternatives “yes” and “no”). The degree of internationalization (DOI) was measured along the dimensions of scale, scope, and time. The scale measure was the share of the firm’s sales turnover that came from the international markets (response scale from 0 to 100%), and scope was measured by asking how many target countries the company had. The time dimension indicator was the number of years taken from the establishment of the firm to the first international sales.

The independent variable about product strategy was simply the percentage of the firm’s sales turnover that came from tangible products, and this was further categorized into three groups: (a) pure product firms with more than 90% of revenues from tangible products, (b) pure service firms with more than 90% of revenues from services, and (c) firms providing both tangible products and services. The market strategy indicator was computed as a sum of two items (Likert scale 1=not at all...7=to a great extent): (1) our primary product caters to a specialized need that is difficult for our competitors to match, and (2) how much high target market specification is emphasized in the company. The firms were further categorized based on the sum of these two items as niche market firms if the sum was greater than ten, and mainstream market firms otherwise. The resulting 3x2- contingency table (see Figure 3) thus included six types of firms: (1) pure service firms operating in niche markets, (2) pure service firms operating in mainstream markets, (3) firms offering both products and services for niche markets,

(4) firms offering both products and services for mainstream markets, (5) tangible product firms in niche markets, and (6) tangible product firms in mainstream markets.

In testing the hypotheses about the relationships between product-market strategies and internationalization we used two basic demographic control variables: size and age of the firm. Although firm size is one of the most analyzed variables in internationalization literature it is still a valid measure as many adolescent and small firms perceive themselves too small for exporting or other international operations (Westhead, 1995). A firm's age was measured with the year of establishment and size was measured by asking the sales turnover in million euros.

5. Analysis

5.1 Descriptive results

In average the firms in the sample at the time of the data collection were approximately 24 years old (median 18) and had 37 employees (median 19). Key descriptives regarding the whole sample are presented in Table 1. There were 86 SMEs which operated internationally. Regarding the scope of internationalization, the number of countries in which the firms were doing business varied from one to 81, with a mean of 11 markets in addition to the domestic market (i.e. Finland). Regarding the scale of internationalization the proportion of foreign turnover of the total turnover varied from zero per cent to 98%. The mean value among the firms which operated internationally

was 33%. Exporting is the dominant international operation mode as 78.8% of the internationally operating firms stated that exporting is their primary operation mode.

INSERT TABLE 1 HERE

The distribution of product and market strategies can be seen in Figure 3. 17% of the firms were offering services for mainstream markets, 19% offered tangible products to niche markets, 12% services to niche markets, and 26% offered tangible products for mainstream markets. The remaining 16% and 10% of the firms offered both services and tangibles to niche and mainstream markets, respectively. These percentages indicate that product and market strategy are related, and the Chi square test of independence confirmed a statistically significant association (Chi square=6.23, p=.044). If the firm offers both products and services it is more likely to operate in niche markets, whereas nearly 60% of the pure product and pure service firms operate in mainstream markets. The proportions of firms that have international operations vary across the product dimension of the contingency matrix. 64% of firms that offer tangible products in niche markets are international, followed by the both types of offering - niche market combination with 37% of the firms international. Among the pure service firms, 24% of mainstream market operators are international and 28% of those in niche markets have international operations.

INSERT FIGURE 3 HERE

In the following Table 2 the key descriptives of the respondents divided into the product-market combinations are given.

INSERT TABLE 2 HERE

5.2 Analysis and results

In the actual testing of the hypotheses about the effects of product-market contingencies on the likelihood to internationalize (H1a, H2a, H3) we estimated a binary logistic regression model. The dependent variable was coded as 0=domestic company and 1=international company. The company's age and size were used as control variables, and type of product, market scope and their interaction as independent variables. The results in Tables 3 and 4 indicate that the model is statistically significant (Chi square=30.80 with 7 degrees of freedom, $p=.000$), and yields a reasonable fit compared to the null model (Nagelkerke's pseudo R square= .165). Table 3 shows that the model correctly classifies 69% of the cases. According to the model coefficients in Table 4, the likelihood to internationalize is lower for pure product firms than pure service firms.

The significant negative coefficient for product firms is contrary to H1a (*Firms which offer more tangible products in the Finnish domestic market are more likely to internationalize than those that offer intangible products (services)*). The coefficient for market type is not significant, thus H2a (*Firms that are more focused on niche markets in Finland are more likely to internationalize than those targeting the mainstream market.*) is not supported by the sample. As the interaction term niche market – tangible product is positive and significant, the effect of product type is different in mainstream and in niche markets. Thus H3 is supported: we can conclude that the likelihood of internationalization decreases in such order that tangible product firms operating in niche markets are the most likely to operate internationally. However, we cannot establish any difference among service firms in niche markets versus service firms in mainstream markets. This result may stem from the fact that even among firms which provide intangible services there are differences among factors which either push and/or pull firms international and which hinder internationalization in parallel. For example, it may be that in the case of intangible services experience gained from larger [domestic] mainstream markets and other learning effects are explaining internationalization for those firms whereas niche firms are internationalizing because of the need to achieve scale economies.

INSERT TABLE 3 HERE

INSERT TABLE 4 HERE

The hypotheses about the effects of product-market contingency on DOI (*H1b: Firms which offer more tangible products have higher DOI than those that offer more intangible products (services)*, *H2b: Firms that are more focused on niche markets in Finland have a higher DOI than those targeting the mainstream market*) were tested using general linear model analysis. The results are shown in Table 5. The first column has the scale of internationalization as a dependent variable. The control variables are company age and size, and type of product, market scope and their interaction are the independent variables. R square is 23% and the model is significant. The percentage of international sales increases with company size, but also the nature of products has a significant main effect: international sales are on an average 29% units lower if the internationalized firm offers merely services. Also the interaction variable is significant: those who operate in mainstream markets with pure service offering receive significantly more of their sales from international markets. This result implies support for H1b but not for H2b, as the main effect of market type is not significant. Controlling for the age and size of the firm, the highest scale of internationalization is predicted for the tangible product-mainstream market category.

The second column of Table 5 contains the results for the scope of internationalization. The R square is relatively high (.35) and the model is significant, but only the control variables size and age have significant effects. The positive coefficients imply that

larger and older firms have more target countries. Thus, in terms of scope of internationalization, our hypotheses are not supported. The last column shows the results for the time dimension. They are very similar to the ones for scope: the model is significant, but the only effect is that of age, and we find no support for our hypotheses in terms of the time dimension. Thus rapidity of internationalization does not differ significantly among the internationalized firms: this result implicates that most of the small Finnish SMEs were aiming at least for rather rapid internationalization if not even for the born-global pathway (which would imply that firms would have a wide market scope as well as a target) at the time of the data collection.

INSERT TABLE 5 HERE

6. Discussion

The purpose of this paper was to discuss the question, how the nature of market and product affects DOI among the firms (which relates to the internationalization strategies of the firms). In our study we wanted to emphasize the suitability of the contingency approach to study internationalization of SMEs whose internationalization and subsequent success are often contingent on factors such as finding good customers and developing new products at the right time. SMEs' lack of resources means that the selection of the right strategy in the first attempt is more important for them than for

larger firms. The sample of the study consisted of small and medium-sized Finnish firms.

Our study supported earlier findings that the nature of the product plays an important role in internationalization (see e.g. Burgel & Murray, 2000). First, our results show that tangible product firms operating in niche markets are the most likely to operate internationally (interestingly though the main effect of the pure product is lower than pure service which meant that H1a was not supported; however the interaction effect is more important as our suggestion is that contingencies shape internationalization). Second, those Finnish SMEs which had more tangible product or provided an offering which combined tangible products and services were more international than those firms which focused more on pure services business; the significant results were found regarding the scale of internationalization, i.e. in the foreign sales to total sales ratio.

Third, it is interesting that although the main effect regarding market type was not significant the interaction variable was: controlling for the age and size of the firm, the highest scale of internationalization is predicted for the tangible product – mainstream market category. This result naturally supports the idea of using contingency theory or approach in studies focusing on internationalization of SMEs. Furthermore, although our analysis is not very detailed, this result could also support the idea of strategic focus or strategic behaviour (Porter 1991). Strategic behaviour theory posits that firms conduct business by any mode which maximizes their profits through improving their competitive position among competitors. Knight and Cavusgil (2005) note that this theory could help explain why SMEs might emphasize a certain strategy or strategic

orientation. In our case, this could mean that those SMEs which want to achieve international sales growth (export ratio) should try to develop a tangible product for a main stream market in the end although in the first place the niche market may be more valid for the beginning of international operations.

This type of result also supports previous born-global research: those born-global firms which have had a clear focus or differentiation strategy have been more successful in comparison to those born-globals which had more cost-leadership orientation, for example (Knight & Cavusgil 2005). However, to become more global and a 'real multinational corporation' a shift in a focus may be needed as the firm grows and develops.

We have to admit that those firms among the sample which had internationalized did not differ significantly from each other regarding the rapidity or scope of the firms' internationalization. The age and the size of the firm (turnover) explained more the increase in the scope dimension and age was the only significant predictor for the timing of internationalization within our sample. These results imply that there is clear support for the gradual internationalization through the stages along the lines of Johanson and Vahlne (1977; 1990) in general among the Finnish SMEs.

However, regarding the time it has to be noted that the median time between the foundation of the firm and time to internationalize was four years (the mean being 9.3) among the firms which had internationalized. Consequently, it may be that most of the firms which are operating internationally were pushed to internationalize no matter the

product type and the market scope; Finnish market is small and for new firms opportunities may seem to lie elsewhere. Furthermore, as noted earlier, those firms which operated in mainstream domestic market may have also proactive motives to internationalize (e.g. through learning, or they may possess international entrepreneurial orientation, see. e.g. Knight & Cavusgil, 2004; Kuivalainen, Sundqvist & Servais, 2007). Consequently, although (Finnish) firms are internationalizing rather rapidly there may be gradual process in their potential born-global type of internationalization as well (cf. e.g. Madsen & Servais, 1997).

In the theoretical part of the study we presented several measures for the DOI along the lines researchers have studied born-gobal firms. As noted earlier, the DOI of born-global firms should be high, and many of the firms in our sample can be seen as born-globals. Consequently, it has to be noted that our sample is a 'bit special': most of SMEs generally seek domestic customers and only a few of them possess resources or capabilities to exploit their competitive advantages internationally (Westhead, Binks, Ucbasaran & Wright, 2002). However, within our sample app. 36% of the firms had internationalized and many of them within the four years of existence. One major factor which has probably led to this situation is a small domestic market that is Finland. Thus, it can be concluded that in many ways our firms are quite similar to each other. There is a need for most of them to internationalize rapidly. This may also explain many insignificant results in our paper. All in all, the sample is a limitation in our study and generalizations regarding results need to be done with caution. However, hopefully our study can work as a reminder for researchers and practitioners alike regarding the understanding of the importance of the correct fit between firms' internal resources and

capabilities (contingencies), external environment and chosen internationalization strategy. Hopefully our research provides ideas how to incorporate contingencies into the research projects focusing on international entrepreneurship in the future.

Based on our study we can propose some directions for future research. First, as in many contingency theory studies, it would be of importance to study actual performance implications of the contingencies. Thus, our next research endeavour should be to link a contingent strategy to actual firm performance. What would be the best internationalization pattern or pathway for a Finnish SME for example under the specific internal and external conditions? Second, these patterns of internationalization should be studied in a longitudinal manner. Third, actual pathways or patterns which can be used to describe early internationalizing new firms should be defined clearly to enable comparisons and replications. There is clearly a problem with this issue as even the term born-global has not been defined in explicit terms (see e.g. Rasmussen & Madsen, 2002).

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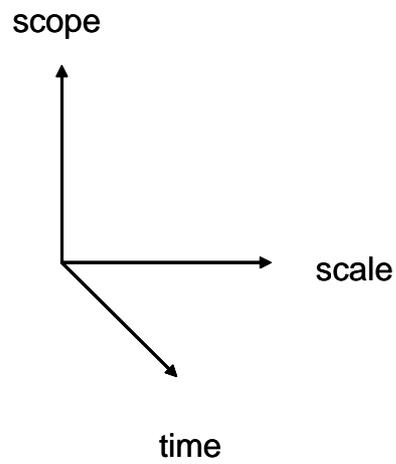


Figure 1. Three key dimensions to study internationalization of SMEs.

| | | | |
|---------------------------------|------------|-------------------------------|--------------------|
| NATURE OF MARKET (SCOPE) | Niche | Third highest DOI | Highest DOI |
| | Mainstream | Fourth highest DOI | Second highest DOI |
| | | Intangible | Tangible |
| | | NATURE/TYPE OF PRODUCT | |

Figure 2. A proposed framework of the effect of nature of market and product on internationalization.

| | | | |
|--|---|---|---|
| NATURE OF MARKET (SCOPE) Niche Mainstream | 12% of sample <i>72% domestic</i> <i>28% international</i> | 16% of sample <i>63% domestic</i> <i>37% international</i> | 19% of sample <i>36% domestic</i> <i>64% international</i> |
| | 17% of sample <i>76% domestic</i> <i>24% international</i> | 10% of sample <i>68% domestic</i> <i>32% international</i> | 26% of sample <i>73% domestic</i> <i>27% international</i> |
| | Intangible | Both | Tangible |
| | NATURE/TYPE OF PRODUCT | | |

Figure 3. Product-market contingency and DOI in the sample

Table 1. Key descriptives of the total sample

| | | Number of employees | Turnover of the company (M€) | Age of the company | In addition to Finland, in how many countries does your company operate/have clients | How large porportion of your turnover comes from foreign markets today (%) |
|----------------|-------|---------------------|------------------------------|--------------------|--|--|
| N | Valid | 247 | 245 | 249 | 83 | 84 |
| Mean | | 36.6 | 4.61 | 23.9 | 10.9 | 33.0 |
| Median | | 19.0 | 2.00 | 18.0 | 5.00 | 20.0 |
| Std. Deviation | | 59.4 | 7.48 | 21.1 | 14,6 | 30,4 |
| Minimum | | 5.00 | ,170 | 2.00 | ,00 | ,00 |
| Maximum | | 550 | 46.0 | 134 | 80.0 | 98.0 |

Table 2. Descriptive statistics of age, size and DOI by product-market combination

| Market-product strategy | Statistic | Age | Turnover (M€) | Turnover from foreign markets (%) | Number of countries | Time to internat. |
|-------------------------|-----------|---------|---------------|-----------------------------------|---------------------|-------------------|
| Mainstream-product | Mean | 51,59 | 15333,14 | 49,76 | 16,64 | 14,47 |
| | Median | 29,50 | 2,95 | 60,00 | 5,00 | 5,00 |
| | Std. Dev. | 126,92 | 120648,76 | 30,94 | 19,69 | 21,65 |
| | Minimum | 2,00 | ,35 | 1,00 | 2,00 | ,00 |
| | Maximum | 1014,00 | 950000,00 | 90,00 | 67,00 | 75,00 |
| | N | 62 | 62 | 17 | 17 | 17 |
| Mainstream-Both | Mean | 19,36 | 4,05 | 17,90 | 8,00 | 7,57 |
| | Median | 15,00 | 1,60 | 12,50 | 3,00 | 5,00 |
| | Std. Dev. | 18,43 | 8,53 | 22,60 | 11,83 | 7,82 |
| | Minimum | 3,00 | ,85 | ,00 | ,00 | ,00 |
| | Maximum | 93,00 | 44,00 | 70,00 | 35,00 | 20,00 |
| | N | 25 | 25 | 8 | 8 | 7 |
| Mainstream service | Mean | 20,71 | 26,26 | 26,88 | 8,44 | 7,55 |
| | Median | 17,00 | 1,45 | 10,00 | 2,00 | 3,00 |
| | Std. Dev. | 22,45 | 150,03 | 31,31 | 11,18 | 7,17 |
| | Minimum | 3,00 | ,50 | ,00 | 1,00 | 1,00 |
| | Maximum | 134,00 | 975,00 | 80,00 | 30,00 | 20,00 |
| | N | 42 | 42 | 9 | 9 | 9 |
| Mainstream Total | Mean | 35,29 | 7378,75 | 36,21 | 12,44 | 11,12 |
| | Median | 20,00 | 2,00 | 27,50 | 5,00 | 5,00 |
| | Std. Dev. | 90,28 | 83641,60 | 31,78 | 16,31 | 16,46 |
| | Minimum | 2,00 | ,35 | ,00 | ,00 | ,00 |
| | Maximum | 1014,00 | 950000,00 | 90,00 | 67,00 | 75,00 |
| | N | 129 | 129 | 34 | 34 | 33 |
| Niche-product | Mean | 27,23 | 39,77 | 35,42 | 10,07 | 8,57 |
| | Median | 20,00 | 3,00 | 30,00 | 5,00 | 2,00 |
| | Std. Dev. | 20,50 | 190,18 | 31,25 | 15,58 | 12,74 |
| | Minimum | 2,00 | ,20 | ,00 | ,00 | ,00 |
| | Maximum | 98,00 | 1300,00 | 98,00 | 80,00 | 48,00 |
| | N | 47 | 47 | 26 | 26 | 26 |
| Niche-both | Mean | 15,23 | 2,61 | 36,15 | 11,38 | 6,00 |
| | Median | 15,50 | 1,77 | 25,00 | 6,00 | 3,00 |
| | Std. Dev. | 7,750 | 2,61 | 31,36 | 13,39 | 7,97 |
| | Minimum | 4,00 | ,60 | ,00 | ,00 | ,00 |
| | Maximum | 32,00 | 15,00 | 85,00 | 45,00 | 26,00 |

| | | | | | | |
|---------------|-----------|---------|-----------|-------|-------|-------|
| | N | 38 | 38 | 13 | 13 | 12 |
| Niche-service | Mean | 16,13 | 29,56 | 7,00 | 6,14 | 8,85 |
| | Median | 15,00 | 1,20 | 6,50 | 4,00 | 6,00 |
| | Std. Dev. | 10,75 | 134,17 | 5,09 | 5,08 | 7,31 |
| | Minimum | 2,00 | ,17 | ,00 | 2,00 | 3,00 |
| | Maximum | 46,00 | 700,00 | 16,00 | 16,00 | 24,00 |
| Niche Total | N | 29 | 27 | 8 | 7 | 7 |
| | Mean | 20,41 | 24,70 | 30,78 | 9,84 | 7,93 |
| | Median | 17,00 | 2,05 | 20,00 | 5,00 | 4,00 |
| | Std. Dev. | 15,89 | 139,55 | 30,16 | 13,74 | 10,81 |
| | Maximum | 98,00 | 1300,00 | 98,00 | 80,00 | 48,00 |
| Total product | N | 114 | 112 | 47 | 46 | 45 |
| | Mean | 41,09 | 8738,75 | 41,09 | 12,67 | 10,90 |
| | Median | 23,00 | 3,00 | 35,00 | 5,00 | 3,00 |
| | Std. Dev. | 97,08 | 90991,34 | 31,56 | 17,40 | 16,84 |
| | Maximum | 1014,00 | 950000,00 | 98,00 | 80,00 | 75,00 |
| Total both | N | 109 | 109 | 43 | 43 | 43 |
| | Mean | 16,87 | 3,18 | 29,20 | 10,09 | 6,57 |
| | Median | 15,00 | 1,70 | 20,00 | 4,00 | 5,00 |
| | Std. Dev. | 13,09 | 5,72 | 29,18 | 12,62 | 7,74 |
| | Maximum | 93,00 | 44,00 | 85,00 | 45,00 | 26,00 |
| Total service | N | 63 | 63 | 21 | 21 | 19 |
| | Mean | 18,84 | 27,55 | 17,52 | 7,43 | 8,12 |
| | Median | 17,00 | 1,40 | 8,00 | 3,50 | 5,50 |
| | Std. Dev. | 18,62 | 143,03 | 24,62 | 8,85 | 7,02 |
| | Maximum | 134,00 | 975,00 | 80,00 | 30,00 | 24,00 |
| Total | N | 71 | 69 | 17 | 16 | 16 |
| | Mean | 28,31 | 3961,10 | 33,06 | 10,95 | 9,28 |
| | Median | 18,00 | 2,00 | 20,00 | 5,00 | 4,00 |
| | Std. Dev. | 66,96 | 61193,74 | 30,77 | 14,85 | 13,49 |
| | Maximum | 1014,00 | 950000,00 | 98,00 | 80,00 | 75,00 |
| | N | 243 | 241 | 81 | 80 | 78 |

Table 3. Logistic regression classification results: dependent variable domestic vs. international

| Observed | Predicted | | |
|--------------------|-----------|---------------|--------------------|
| | Domestic | international | Percentage Correct |
| Domestic | 136 | 19 | 87.7 |
| International | 55 | 36 | 36.0 |
| Overall Percentage | | | 69.3 |

Table 4. Logistic regression model coefficients: dependent variable domestic vs. international

| Independent variable | B | S.E. | Wald | df | Sig. | Exp(B) |
|----------------------|--------|-------|-------|----|------|--------|
| Age | -.003 | .006 | .258 | 1 | .611 | .997 |
| Turnover | .000 | .000 | .034 | 1 | .854 | 1.000 |
| Product firm | -3.596 | 1.697 | 4.492 | 1 | .034 | .027 |
| Both prod&serv | -1.585 | 2.042 | .602 | 1 | .438 | .205 |
| Niche market | .005 | .118 | .002 | 1 | .966 | 1.005 |
| Niche & product | .444 | .166 | 7.159 | 1 | .007 | 1.559 |
| Niche & both | .194 | .193 | 1.001 | 1 | .317 | 1.214 |
| Constant | -1.106 | 1.174 | .887 | 1 | .346 | .331 |

Table 5. General linear model results, DOI as dependent

| Dependent | % sales intl | | | # of countries | | | Time | | |
|----------------|--------------|--------|----------|----------------|-------|----------|-----------|--------|----------|
| | b | t | η^2 | b | t | η^2 | b | t | η^2 |
| Constant | 7.495 | .678 | .006 | 2.226 | .416 | .002 | .025 | .006 | .000 |
| Product | 29.091** | 2.374 | .073 | .810 | .140 | .000 | -4.658 | -1.072 | .016 |
| Both | 29.938** | 2.254 | .066 | 6.412 | 1.025 | .015 | -1.164 | -.244 | .001 |
| Age | -.156 | -.921 | .012 | .134* | 1.772 | .042 | .505*** | 8.785 | .528 |
| Turnover | .226** | 2.442 | .076 | .224*** | 5.406 | .292 | -.035 | -1.111 | .018 |
| Mainstream | 20.855 | 1.461 | .029 | 2.924 | .439 | .003 | -.604 | -.120 | .000 |
| Prod x ms | -7.536 | -.447 | .003 | .603 | .077 | .000 | 2.625 | .447 | .003 |
| Both x ms | -39.373** | -2.057 | .056 | -7.889 | -.899 | .011 | -.325 | -.048 | .000 |
| R ² | .233 | | | .347 | | | .554 | | |
| F | 3.122*** | | | 5.381*** | | | 12.229*** | | |