1 INTRODUCTION

The implementation of pro-market policies in emerging economies has profoundly changed the rules of the game, and "the structure, whether of individual markets or an entire political/economic system, is a human-made creation whose functioning is neither automatic nor 'natural'" (North, 2005, p. 162). The incentive and the legal structures within which firms must operate have been drastically altered. Pro-market reforms have changed the relative values of firm resources and capabilities. Small and medium size enterprises (SMEs) no longer enjoy the same degree of protection from foreign competition as they did when import substitution industrialization (ISI) was the trade and economic policy adopted by governments. SMEs are also subject to changes in the rules of the game, as they may face international competition even if they remain local. Domestic SMEs may be forced to meet the productivity level of foreign firms competing in their domestic markets. International competition is no longer a phenomenon that only takes place in foreign markets but also in domestic markets independently of the characteristics of the industry. Even market segments, consisting of non-tradable goods including infrastructure, education and restaurant services, which have traditionally been protected from foreign competition, are facing increasing domestic pressure from foreign competitors and from international market trends (Horn & Shy, 1996; Perraton, Goldblatt, Held & McGrew, 1997). Perhaps one of the major consequences of being part of the international trade regime is the increased role of international markets in determining prices and thus resource allocation within local economies. Hence, local governments may have a reduced role regarding pricing international traded goods. These alterations in the environment are especially important when a firm is viewed as a bundle of resources and capabilities (Barney, 1991; Grant, 1991; Cuervo-Cazurra, 2004; Wernerfelt, 1984) with implicit values and prices associated with them. If the main reason for the competitive advantage of a company used to be an input or output whose supply or demand was controlled by the state, an open market policy may eliminate the main source of economic rent of that company. Under such conditions, an in-depth re-examination of conditions that lead to the realization of economic rents (Amit & Schoemaker, 1993) is crucial.

Small- and medium-sized firms have a large impact on emerging and developed economies alike. As Veloso (1991) points out, SMEs may be an important entity for increasing the level of competitiveness of emerging economies. Some studies, for example, Yasuf (2003), go to the extent of suggesting that growth and employment in developing countries depend on the fate of small- and medium-sized enterprises. In emerging economies, SMEs may serve as a means for upgrading the capabilities of a country by enhancing its competitiveness, and thus contributing to economic growth (Kula & Tatoglu, 2002; Sum, Kow & Chen, 2004). SMEs are seen as having the potential to respond quickly to the needs of their customers in a more flexible and less bureaucratic manner than large firms, given the former's small scale and their particular ownership-managerial structure (Davidsson & Honig, 2003; Ingram & Roberts, 2000, Mintzberg, 1979).

The study of the internationalization processes of small and medium sized firms is a complex process that requires a multidisciplinary approach. To present such a comprehensive approach, this study first examines the strategic processes that firms may undertake to increase their competitiveness and to be able to face increasing competition within local and foreign markets. The second approach consists of the resource-based view and dynamic capabilities. These theories provide the theoretical ground to assess the firm internally and provide a basis for rethinking the way of doing business. The third theory, briefly examined, is the learning perspective, which examines how managers may change their dominant logic, adapt to the new characteristics of the environment, and redeploy and secure new resources and capabilities. The fourth and final approach is network theory. Given the constrained resources of SMEs, they may seek to establish contacts with other local and foreign firms to create networks to compete in local and international markets.

2. RESEARCH QUESTION

While international growth may introduce some added complexity relative to growth and expansion in the familiar domestic markets, it may be unavoidable for SMEs mainly due to the increasing globalization of markets (Levitt 1983) and industries (Porter 1990; Yip, 2003). In this environment, SMEs cannot ignore international competition, even if they decide to remain local. The internationalization of local markets has changed the competitive context within which firms operate and thereby has changed the relative values of firm resources and capabilities.

The central aim of this research is to explain two different types of internationalization strategies that SMEs in emerging economies may implement. One is a tangible internationalization, which is short-term and depends on macro and microeconomic factors exogenous to firms. The second strategy, called long-term internationalization strategy, is a combination of tangible and intangible internationalization. It requires a strong commitment by firms to become competitive at international levels. It may be necessary for SMEs to become international if they are to remain competitive in their local markets. As a result, internationalization is based not only on geographical aspects, which are closely related to firm internationalization -sales in foreign markets- but also on intangible considerations, which are closely related to market internationalization such as new production/managerial processes and organizational capabilities.

Intangible internationalization implies a change in the comprehensive approach to the way firms may have to reconfigure, develop and secure resources, whether those resources are tangible or intangible (Collis & Montgomery, 1995; Hanlon & Saunders, 2007; Itami & Roehl, 1987; Peteraf, 2003). It deals with the internal environment of the firm and it has a weak correlation with the characteristics of the country in which the firm operates. It is distinct from the geographical dispersion of a firm's activities in the sense that *international* refers to the use of existing capabilities, the development of new ones, and ultimately to an increase in the firm's level of competitiveness with foreign companies.

On the other hand, tangible internationalization is a more restricted approach because it is defined as a physical presence in a foreign market. It fluctuates with exchange rates, costs of inputs, and other resource endowments that are tied to a particular geographic location. It is a short-term international strategy because it takes advantage of temporary macro- and microeconomic conditions; it may not require changes at the firm level. Intangible and tangible internationalization are not mutually exclusive options. However, they may be different from a strategic perspective.

Figure 2.1. RELATIONSHIPS BETWEEN UNIT OF ANALYSIS, FORMS OF INT'L AND TIME FRAME

Basis	***Form of Int'l***	***Time Frame***
Country	Tangible	**Short-term**
	+	
Firm	Intangible	
		Long-term

It is important to highlight again the differences in the time frame of these two types of internationalization. Tangible internationalization is a short-term internationalization strategy because it takes advantage of temporary macro- and microeconomics conditions; it does not require changes at the firm level. On the other hand, because of the characteristics previously mentioned, a combination of intangible and tangible internationalization has a higher probability to be sustainable in the long-term and mainly depends on the firm's actions to become competitive at international standards, therefore, it will be called long term internationalization.

3 CHARACTERISTICS OF EMERGING ECONOMIES

Emerging economies are a group of countries that play increasingly important roles in the global economy. The business and academic literature usually employ emerging economies and emerging markets as synonyms. The term "emerging market" was originally coined in the late 1980s by the International Finance Corporation (IFC) to describe a fairly narrow list of middle-to-higher income economies within developing countries. According to Hoskisson et al. (2000), "emerging economies" are those newly industrializing countries that have gone through a liberalization process and have adopted market-based policies. Khanna and Palepu (1997, p. 42) suggest that in defining emerging economies, "the most important criterion is how well an economy helps buyers and sellers come together." They point out that the lack of proper institutions—relative to developed countries—make emerging economies more inefficient and incomplete, whereby information problems, misguided regulation, and inefficient judicial systems hamper a fluid communication between buyers and sellers.

Table 2.1.A. EMERGING ECONOMIES COUNTRY-SPECIFIC CHARACTERISTICS

Institutional Constrains	Macroeconomic Factors
• Judiciary systems	• Economic cycles
• Regulations	• High unemployment rate
• Taxation system	• No compensatory assistance
• Labor market	• High inflation rate
• Welfare system	• Balance of payment problems
• Political leverage	

Sources: based on Hoskisson et al. (2000); Khanna and Palepu (1997); Mody (2004)

Bureaucratic legal systems make registration processes lengthier and costlier than in developed economies; as well, taxation and tariffs often are biased toward larger firms that have greater political leverage. Labor markets are frequently highly regulated, imposing additional costs to SMEs and making them less flexible (see Table 2.1.A and 2.1.B).

Mody (2004) proposes another definition that emphasizes a) a high degree of volatility and the transitional nature of their economic, political, social, and demographic dimensions, b) the trade-off between commitment and flexibility in policymaking, and c) the transition from transaction-specific commitments to institutional commitments.

Table 2.1.B. EMERGING ECONOMIES FIRM-SPECIFIC CHARACTERISTICS

Output market	Input market
• Low competitiveness • Limited international experience • Liberalization policies • Globalization	• Asymmetric access to information & to technology • Limited access to local and international capital markets • Poor dissemination of information related to international markets • Labor market

Managerial constrains	Ownership structure
• Lack of managerial expertise • Lack of consulting services • Lack of administrative structure	• Social ties between senior managers • Family-owned business

Sources: based on Hoskisson et al. (2000); Khanna and Palepu (1997); Mody (2004)

The idea of a transition from transaction-specific commitments to institutional commitments is appealing in view of the fact that it also contains the cultural dimension of the problem. According to Acemoglu, Johnson, and Robinson (2005), North (2005) and Spiller and Tommasi (2007), economic performance depends on general economic rules, how those rules are enforced, the specific institutional structure of each market, and the economic changes they have undergone, to a different extent, in areas such as lower tariffs, financial deregulation, and labor market and tax reforms.

The present research considers emerging economies as those that have the following characteristics: a) they have gone through a process of liberalization (Hoskisson et al., 2000), b) they have opened their domestic markets to the members of commercial or regional blocs (on unilateral or bilateral basis) (Hoskisson et al., 2000), c) they lack reliable institutions and stable institutional commitments (Khanna & Palepu, 1997; Mody, 2004; Rodrik, Subramanian, & Trebbi, 2002.), and d) they remain less sophisticated than markets in developed economies (Khanna & Palepu, 1997; Mody, 2004) (see Table 2.1.A. and 2.1.B). In short, the prevailing characteristics of emerging economies amplify asymmetries in accessing and participating in the rapidly globalizing international inputs and outputs markets effectively.

3 LITERATURE REVIEW

The theoretical foundation of this study is that the firm does matter and can influence its environment to adapt successfully to new circumstances (Rumelt, 1991). The characteristics of a firm have an important influence on how it reacts to market shocks. This standpoint opposes the views of the “classical school” of industrial organization (Bain, 1951; Scherer, 1971; Stigler, 1963), which considers industry effects to be the major influences explaining the conduct and performance of firms. The classical school assumes homogeneity within an industry, therefore, firms tend to survive or fail depending on the structure of the industry in which they operate.

3.1 Strategic Approaches

While firms have an important degree of freedom to make their own decisions, the effect of the environment cannot be discounted. This matter becomes critically important in the context of emerging economies with liberalization policies. In this case, firms are not only facing changes in the structure of the industry in which they operate, but also in the surrounding and institutional environments. To be aware of the different courses of action available, decision makers must understand all the pro-market reforms and not just the reforms that most affect their own industry. Therefore, knowledge of reforms and their implications becomes a valuable asset.

Senior managers have the role of analyzing, interpreting, and making sense of clues to formulate and implement strategies. The lack of resources that usually characterizes SMEs may be accentuated by the business environment of emerging economies such as inadequate managerial expertise, administrative structures, and difficult access to consulting services—among other characteristics of emerging economies (Chen & Glen, 2004; Ingram & Roberts, 2000; Jack, Dodd, & Anderson, 2004). This may be a significant weakness if they affect the ability of the firm to understand and respond to economic and regulatory changes. Managerial constraints can be a significant weakness if they affect the ability of the firm to understand and respond to changes in the environment. When countries are involved in liberalization processes, and the rules of the game as well as the environment are changing fast, it may be important for decision makers to perceive clues that can allow them to predict what is going on and what to expect. To do that, managers must have some knowledge about the external and internal environment. Senior managers have the capacity to act as catalysts to understand and create a new interpretative frame that provides purpose and direction to the members of the organization (Westley, 1990); hence, they may have the responsibility to engage the rest of the company in a long-term internationalization.

The ownership structure of SMEs consists of a small number of people who usually share friendships or family ties. Hence, key positions may not be filled by professional managers with a no-equity involvement in the company. Andrews' notion of synthesis acquires even more relevance for these SMEs because limited information is not only a consequence of bounded rationality and incomplete markets but also of lack of managerial expertise. Furthermore, because of their size, SMEs are at a disadvantage in terms of economies of scale and scope compared to large firms. As a result, the literature suggests that SMEs may benefit from being part of a network, which is not a trivial or costless endeavor.

Given the characteristics of SMEs in emerging economies, it is unlikely that intended strategies will be the realized strategies. Emergent strategies (Mintzberg, 1972) may replace the ones made *a priori* because threats or opportunities exist that were unseen before, or changes in the environment must be addressed by senior managers. Manager-owners do have an idea of what they want for their firms but there is no clear course of actions or detailed plan to achieve their objectives. As a matter of fact, manager-owners are constantly incorporating new ideas from the environment and from feedback from past actions. The idea that the intended strategy, *a priori*, may or may not be the realized one (Mintzberg, 1972; Mintzberg Ahlstrand & Lampel, 1998) allows the incorporation of instability, friction, and especially the learning process that managers go through; this concept is compatible with the notion of the manager as architect (Andrews, 1987). Emergent strategies are fundamental to cope with unexpected environmental changes but may not be a viable way to undertake a long-term international business. In emerging economies, managerial expertise is considered as a valuable resource given that professional managers are not available in the same numbers as in developed countries. In addition, large firms may be more attractive to highly qualified personnel than SMEs because they tend to offer better professional and economic rewards and have better opportunities to cope with economic downturns. Furthermore, large companies, especially MNEs, may offer a more promising professional future for brighter professionals. Given the dynamics of emerging economies, there is likely the need for someone to be able to interpret the changes in the environment. Senior managers are the main vehicle for coping with changes in the institutional, regulatory, and economic environment. The influential role of senior managers may lead to a concentration of information and knowledge that may encourage opportunistic international operations instead of a long-term approach due to bounded rationality and physical limitations.

Proposition 1(A): The greater the experience of senior managers with highly competitive business environments, the greater the likelihood of long-term internationalization.

SMEs are also characterized by having a less developed organizational structure (Aragon-Sanchez & Sanchez-Marin, 2005; Covin & Slevin, 1989; Pelham & Wilson, 1995) and by controlling fewer resources than their larger counterparts (Baker & Nelson, 2005; Chetty & Campbell-Hunt 2003; Lu & Beamish, 2001; Brouthers & Nakos, 2004). From a strategic perspective, this may undermine SMEs' ability to obtain and to share internal and external information, to scan and to be alert in order to identify new opportunities or potential new threats in their domestic and foreign markets. The senior manager role is especially important for SMEs. The manager plays the role of a broker marshalling the different resources and capabilities of the firm to achieve certain goals. Andrews (1987) compares the role of the senior manager to an architect who is in charge of doing the synthesis. Given the strategic importance of engaging in a long-term internationalization and the higher degree of complexity of the environment, senior managers may have to rely more on other employees' expertise. Consequently, in order to enhance the likelihood of discovering new business opportunities (Hayek, 1978; Politis, 2005), and to actively pursue them (Alvarez & Barney, 2007; Eckhardt & Shane, 2003; Kirzner, 1997), senior managers may have to increase the level of communication within the company (Baum, Locke & Kirkpatrick, 1998). This may require allowing employees to express their opinions about strategic aspects such as manufacturing processes of existing products or potential new products directly to those in charge. Emerging economies' relatively high score on Hofstede's power distance scale, which measures the extent to which members of a society accept and expect hierarchical relationships, reflects the fact that authoritarian and paternalistic leadership managerial approaches are rather common organizational culture features (Hofstede, 1991). The relatively high score on Hofstede's uncertainty avoidance index, which indicates to what extent members of a society feel uncomfortable in either novel or unknown situations also may suggest a potential lack of exchange of ideas and information between managers and employees. Giving employees the opportunity to know more about the company and listening to their ideas about strategic aspects may be a risky approach. If managers do not take into consideration the socio-cultural characteristics of their employees, instead of encouraging the exchange of ideas and knowledge, they may be creating an uncomfortable work place where employees will be further alienated. Hence, the communication process might have to be carefully planned by managers in order to gain employees' trust and show them the benefit of this approach.

Proposition 1(B): The greater the communication by senior managers of the relative importance of resources within the firm, the greater the likelihood of long-term internationalization.

3.2 An internal perspective on the firm

An analytical examination of the resources of a firm may help to develop an understanding not only of possible short-run business strategies but also of future diversifications (Montgomery & Wernerfelt, 1988), growth strategies (Delmar, Davidsson & Gartner, 2003; Penrose, 1959; Stinchcombe, 1965.), and the sustainability of long-term rents (Rumelt, 1984; Wernerfelt, 1984). Emerging economies have gone through a process of liberalization and have opened their markets to international competition. The rationale behind this change is to force local companies to become more efficient and competitive to allow increased economic opportunity.

SMEs can compete in the international arena, but they also have to face international competition from foreign SMEs (Knight, 2000 & 2001) as well as from MNEs.

The resource-based view considers firms as a bundle of different kinds of resources, a set of commitments to certain technologies, human resources, processes, and know-how that the manager-owner marshals. As such, no unanimous definition exists of what constitutes a "resource." Wernerfelt (1984, p. 172) argues that "resources" can be "anything that could be termed a strength or weakness for a given firm. Clearly, while any factor or activity can be labeled as a resource, and its relative importance is dependant on the context, as Porter (1991, p. 108) points out, "resources are not valuable in and of themselves, but they are valuable because they allow firms to perform activities…business processes are the source of competitive advantage." As such, the next logical step is to identify those resources that can be a source of advantage. Under liberalization, SMEs are no longer protected from foreign competition, and customers are more sophisticated and aware of alternative products and services. Markets rather than government forces determine prices and resource allocations. Before liberalization, had a unique legal protection that made it easier for them to secure resource flows and so survive for a relatively longer period without making major changes in the way they conducted their business. Another important consideration is the influence of political power that supported industries and firms that otherwise would have closed due to their relative inefficiency when compared to international standards.

In the context of a SME another distinction is important: different resources have different characteristics and consequently, different managerial challenges (Wernerfelt, 1989). As Penrose (1959) points out, an optimal pattern of firm expansion may exist, which requires a balanced use of internal and external resources in a particular sequence. This issue is particularly important in the context of the present study because it is usual that SMEs in emerging countries are controlled, managed, and run by one or a small group of individuals that have a deep but tacit knowledge of the firm. What really matters at this point is a clear identification—not just a vague idea—of the different resources on which a firm can depend. The resource-based view assumes not only economic rationality but also efficiency as one of the key motives that drives the decision making process. This approach is suitable for analysis of resource selection, development and use. An explanation of the origin of a firm's bundle of resources is not discussed, since it is beyond the scope of this paper.

The analysis of resources is especially important in regards to SMEs not only because small- and medium-sized businesses often are managed by their owners, but also because they often lack sophisticated managerial structures. SMEs also have fewer specialized functions than MNEs, hence, managers tend to focus on decisions related to day-to-day activities while neglecting long-term managerial considerations, such as changing trends in international markets, new technologies, and the development of new capabilities that might be required to remain competitive or to enter new markets (Dawar & Frost, 1999; Greve & Salaff, 2003; Zahra, Ireland & Hitt, 2000). As a result of this characteristic, SMEs have less information and awareness about trends in the marketplace and how it is changing. Also, it is more difficult for them to adequately evaluate their strengths and weaknesses. In a more stable environment, like that faced by SMEs before the onset of globalization and liberalization, it may not have been a major concern, but today, it may very well be crucial.

When a country opens its economy to the rest of the world, the availability of inputs and final goods increases given the fact that trade barriers are lowered or disappear. Resources that were previously rare, difficult to imitate and to substitute due to legal protection may become relatively easier to substitute and relatively abundant after the liberalization process. Domestic prices tend to converge to the international prices in the case of tradable goods, therefore forcing local firms to become more competitive even if they are not competing internationally. As a consequence, firms may have to align their strategies with the comparative advantage of the home country, and reassess the relative value of the resources which may no longer be the foundation of their competitive advantage. Managers developing a strategy for the SME's international expansion generally need to know what their resources are and the nature of the input and output markets in which they are competing. Resources deeply influence the expansion strategies that SMEs choose and which resources and capabilities to acquire in order to achieve their strategic plan. Moreover, given the characteristics of SMEs in emerging economies as mentioned previously, SMEs that mainly base their competitiveness on their own resources are constrained in terms of their international expansion. The extent to which SMEs have a strategy to compete in international markets, or survive the pressure in their local markets, is directly related to the extent that they have a clear understanding of the resources that add value to their activities and the complementary resources needed.

Proposition 2: The greater the senior managers' understanding and recognition of the resources controlled by their SMEs, the higher the likelihood of having long-term internationalization.

3.3 Dynamic Capabilities

While the resource-based view provides a useful framework to help identify resources and to base the decision-making process on efficiency considerations, it does advance an understanding of the dynamics that occur while a firm is learning. The equilibrium-oriented perspective gives the Resource-Base View a static approach that can be relaxed by allowing learning, uncertainty, and shocks to be considered (Foss & Montgomery, 1995). An analysis of resources is not enough to explain why a firm may have an opportunistic or long-term internationalization strategy.

Capabilities exist when two or more resources are combined to achieve a goal. The present study introduces the concept of “capability” because it “emphasizes the key role of strategic management in appropriately adapting, integrating and reconfigurating internal and external organization skills, resources, and functional competences to match the requirements of changing environment” (Teece, Pisano. & Shuen, 1997, p. 515). In light of this definition of “capability,” it is important to note that the relative endowment of firms may not necessarily relate to their financial performance because “only the service that the resource can render and not the resources themselves provide inputs into the production process” (Penrose, 1972, p. 25), rendering the deployment and combination of those services critical to the rent generation of the firm. It is well known in the literature that resources can be both tangible and intangible while capabilities are always intangible. Resources also have the characteristic that they can or cannot be traded in the market, but capabilities cannot be traded unless the company or a business unit is purchased. The environment in which SMEs work today can be considered as moderately dynamic, even if the vast majority of these firms are not in what usually are considered dynamic industries (such as high-tech or pharmaceutical). The main reason for this phenomenon is the increase in the degree of competition faced by SMEs.

Firms, whether they are in developed or emerging economies, require the exploitation of existing firm-specific capabilities and the development of new ones (Penrose, 1959; Teece, 1982; Wernerfelt, 1984). However, as Teece et al. (1997) stress, it is not only important to exploit those internal and external capabilities but also to engage in new capability development. Dynamic capabilities allow an analysis of what kind of strategic decisions managers may take when confronted with the changing nature of international markets. Managers conceive “strategy” as a “continuing search for rent” (Bowman, 1974, p. 47). Over time, SMEs have seen the nature of their rents change. Before the economy was open to foreign competition, rents tended to flow from the asset structure. Two types of rents follow this description. The first is the “Ricardian rent” that can be achieved by owning a resource that is scarce (Ricardo, 1951), for example, patents, locational advantages, and copyrights. The other rent is called “monopolistic rent,” which is achieved through governmental protection or by collusive arrangements when barriers to potential competitors are high (Bain, 1968). For the vast majority of firms that were competing in closed economies, these two kinds of rents may no longer be achievable when competing in the international arena and even in local markets. Pro-market reforms normally reduce governmental influence in resource allocation and consequently, the relative prices of inputs and outputs tend to converge to their international prices. Resources that once may have been scarce within a country may become abundant, or a close substitute becomes easily available after firms achieve access to international markets.

The new type of rent is usually referred to as “Schumpeterian rent”. It tends to flow not just from the asset structure of the firm but also from the firm’s ability to reconfigure and transform itself. It may be achieved through risk–taking and entrepreneurial insight (Cooper, Gimeno-Gascon, & Woo, 1991; Rumelt, 1987; Schumpeter, 1934). Schumpeterian rents frequently require strong commitments to skill acquisition, learning and the accumulation of organizational and intangible or “invisible” assets (Itami & Roehl, 1987). A company may not have better resources but achieves rents because it makes better use of them (Penrose, 1959), therefore it can still be competitive in international markets. Senior managers, and the organization as a whole, are immersed in an unstable environment where organizational and managerial processes may be important for the survival of the firm. Dynamic capabilities are those new routines and organizational processes that can be manipulated by a firm to reconfigure its resources to be competitive.

Dynamic capabilities are indeed important to the future of SMEs in emerging economies, as they refer to the steps that firms must take not only to be competitive but to survive in a world increasingly more integrated. The idea behind dynamic capabilities is the capacity to reconfigure skills, resources, and organizational skills. As previously mentioned, to engage in long-term internationalization, SMEs may need to 1) improve their organizational structures by creating decentralized organizational processes, 2) examine the environment to identify changes in it, 3) assess markets and competitors (Dawar & Frost, 1999), and 4) reconfigure their abilities before the competition (Amit & Schoemaker, 1993; Teece et al., 1997). Dynamic capabilities are based on the critical assumption that sustained competitive advantage is dependent on the effective manipulation of knowledge resources (Eisenhardt et al., 2000). As mentioned before, it is important for firms to know what kind of resources they have available to be competitive, but that is only the beginning of the journey. According to Hoskisson et al. (2000) a majority of emerging economies have gone through a process of market liberalization. Hence, it follows domestic firms eventually may have to compete not only with MNEs but also with foreign SMEs. Ricardian rents are more difficult to sustain because the economy is open to foreign competitors and the probability of finding a substitute has dramatically increased with liberalization and globalization.

Firms in emerging economies have to learn to adapt quickly to new circumstances. Due to the characteristics of the environment in closed-economies, SMEs do not possess the experience to deal with complex situations such as foreign competition and markets . Moreover, markets in emergent economies are not as complete or deep as in developed economies, therefore, some resources may not be available to SMEs. As a result of this lack of experience, SMEs have to increase their knowledge base and their exposure to activities that allow them to overcome their constraints. Given the characteristics of SMEs and emerging economies, an understanding of how firms renew competences to respond to shifting environments may prove crucial to meet international standards (Greve & Salaff, 2003; Zahra, Ireland & Hitt, 2000).

Strategic processes and the knowledge of the characteristics that SMEs possess may be important to unite all the efforts to pursue international expansion. Resources in themselves cannot provide a long-term competitive advantage. Rents depend not only on the structure of the resources but also on the ability of firms to reconfigure and transform those resources. The likelihood that a SME will pursue international expansion is greatest in the presence of an ability of a firm to reconfigure and transform its resources through strategic process.

Proposition 3: The greater the emphasis of senior managers on new capabilities, the greater the likelihood of having a long-term internationalization

The capacity to exploit a new set of opportunities depends, partly, on the strategic decisions made by managers. In some cases, these opportunities require at least a reconfiguration of the activities of the firm, but more often, they require the incorporation of new resources, and especially new processes. If a firm is going to survive, it is critical that a new shared-meanings frame emerge from the collective sensemaking process. SMEs need to unlearn many practices and routines to embrace new ones (Leonard-Barton, 1992; Siggelkow & Rivkin, 2005) that can be used to cope with the new requirements (Rundh, 2001) set by a more sophisticated demand and greater external competition. The managers may have to focus on implementing a strategic learning process (Hamel & Prahalad, 1994), and to act as architects, interpreting events, objects, and situations to make them meaningful for the members of the firm (Peters & Waterman, 1982). It is important that not only individuals learn but also the firm, therefore, encoding is crucial to develop organizational memory (Argyris & Schon, 1978; Nilakanta, Miller & Zhu, 2006). The literature suggests that SMEs should enhance their learning, by coding the idiosyncratic knowledge and making it available to selected members in the company (Antonelli, 2008; Hall & Andriani, 2002; Shin, 2004). There is no doubt that some individuals possess knowledge that is a valuable and difficult-to-imitate resource for the firm, such as a deep business or personal relationship/knowledge with/of the business community or government. Different levels of learning creation exist in an organisation—at the individual and social levels—and each level has its own characteristics

SMEs may need to update and reconfigure the scope of their knowledge-base. Without organizational learning, it is highly unlikely that a firm can successfully reconfigure and acquire new resources or capabilities in a changing environment (Zollo & Winter, 2002). Labour markets in emerging economies are not as deep and sophisticated as in developed economies. In addition, emerging economies are characterized by frequent economic cycles, inadequate welfare systems, and rigid labour markets due to labour laws and underdeveloped financial markets. Therefore, there is little doubt that larger firms have a better chance to survive and grow in this kind of environment, providing a more stable workplace for their employees. Consequently, SMEs are at a disadvantage when the small numbers of professional managers and highly qualified workers can choose between working for SMEs or larger firms. Externally, they may need to find new sources to secure resources without owning them, for example, information about international markets, managerial expertise, or new technology. Changes in the knowledge-base may prove to be a requirement for a long-term internationalization strategy, but they probably would be requisite for any firms competing in an industry with tradable products. Given the characteristics of SMEs, the chance to increase the knowledge base may be reduced considerably if they act as independent, self-sufficient entities. Hence, SMEs may have to collaborate with SMEs and large enterprises (Jack, Dodd, & Anderson, 2004; Karra & Phillips, 2004). The opportunities for learning may be greatly influenced by the strategic processes of the SMEs (Beer, Voelpel, Leibold & Tekie, 2005). It may be acquired more efficiently if it is a deliberate practice established during the strategic process and reinforced with the use of the firm's capabilities as defined in a previous section (Gourlay, 2006b; Jordan & Jones, 1997; Quintas, Lefere & Jones, 1997).

Proposition 4: The more dispersed the knowledge base within the SME, the greater the likelihood of a SME pursuing long-term internationalization.

3.4 How SMEs Access and Secure Resources

It is becoming increasingly difficult to define precisely where an industry begins and ends. Companies have to collaborate with, and learn from, leading edge customers and suppliers wherever they are located. Firms may have to focus on corporate competencies integrated systems, sharing opportunities and risks with other firms that may provide the flexibility to work in a rapidly changing business environment.

SMEs, compared to larger firms, face major challenges in terms of securing resources, and these challenges are increased by the characteristics of emerging economies. Increasingly, networking is seen primarily as a "means of raising required resources" (Ramachandran & Ramnarayan, 1993, p. 515). According to Podolny and Page (1998, p. 59), an economic network is a group of agents that pursue repeated, enduring exchange relations with one another. The entrepreneurship literature has studied the significance of networks to small firms (Arenius & DeClercq, 2005; Birley, 1985; Hoang & Antoncic, 2003), particularly as a means to obtain resources that smaller firms would not otherwise be able to acquire for their business (Elango & Pattnaik, 2007; Fernández, & Nieto, 2005; Starr & MacMillan, 1990). Networks are important instruments to ease the constraints facing SMEs in terms of access to capital, labor markets, information and technologies. A broad circle of friends and acquaintances can introduce manager-owners to a wider circle of resource holders, including suppliers, investors, employees, distributors, customers, and regulators (Davidsson & Honig, 2003). In fact, there is already some evidence in entrepreneurship research that entrepreneurs with larger networks identify more opportunities (Hills, Lumpkin, & Singh, 1997) and may enhance the firms' performance (Zaheer & Bell, 2005). In their domestic markets, SMEs face increased foreign competition and institutional inefficiencies that favor larger enterprises. In addition, SMEs still do not have the experience and standards needed to expand into international markets.

Emerging economies are characterized by macroeconomic and political fluctuations, so flexibility and the ability to muddle through unstable circumstances may be important to becoming competitive. The ability to access, commercialize, and act as a broker of new resources, especially knowledge, is key to improving the competitive levels of SMEs. If a social relationship exists, manager-owners may be able to elicit a resource commitment based on readily available interpersonal ties that eventually may lead to improved performance outcome (Chetty & Agndal, 2008; Zhou, Wu, Luo, 2007). These ties are most likely to occur in family or kinship networks where close relatives feel motivated or obligated to assist each other although there is an expectation such favors will be reciprocated in the long term (Chen & Glen, 2004).

SMEs are mainly family-owned firms or businesses—with a highly concentrated ownership structure focused on individuals—in which non-economic relations have an important influence in business decisions. A SME may be part of a network not only because it may find complementary resources but also because managers may have friendship ties with other mangers. Non-economic reasons may be as important as economic reasons. Socially competent managers may also be more adept at capability building, because of their ability to form non-pecuniary (friendship) ties with various stakeholders, customers, employees, suppliers, distributors, and even competitors (Davidsson & Honig, 2003; Ingram & Roberts, 2000). Given the particular ownership structure of SMEs, their managers are usually personally involved in most aspects of the operations of their firms. In particular, they tend to centralize important decisions and personally manage the relationships with key players in their environment. Consequently, it is highly probable that managers' individualism and the perception of trust play an important role in deciding whether to be a member of a particular network or not. Those personal ties may also increase the social capital of the networks, reducing the probability of opportunistic behaviors and increasing cooperative behaviors over time. Furthermore, given the level of institutional development in emerging economies, market information based on internationally accepted accounting principles may not be available, tax systems are not as sophisticated as in developed countries, and SMEs may have restricted access to financial markets. Therefore, relevant information probably would be exchanged through personal networks rather than markets.

According to Burt (1992, p. 65), the existence of a "relationship of nonredundancy between two contacts" creates social capital for the actor who is able to link up with a member of the network that possesses complementary resources. Those managers that act as brokers enlarge the set of opportunities for their SMEs by creating a brokerage opportunity between their contacts, thus giving the firm potentially useful information and control benefits. The present study argues that even redundant contacts can benefit SMEs given the institutional failures in emerging economies. Several authors (Birley & Westhead, 1990; Bonaccorsi, 1992; Elango & Pattnaik, 2007; Upton, Teal & Felan, 2001) argue that SMEs may have to participate in networks to learn and to expand their pools of resources. A network with a larger firm may help overcome inherent constraints of size and to achieve the efficiencies required for world-class competitiveness (Etemad, Wright, Dana, 2001).

Gnyawali and Madhavan (2001) suggest that a firm's internal resources can be complemented by "capabilities created within a network of competing and cooperating firms rather than within the boundaries of a large vertically integrated organization" (Langlois, 1992, p. 4). Therefore, networks may help to increase a SME's set of opportunities. In addition, external economies may help SMEs to make the best of their flexibility and entrepreneurial characteristics. SMEs from emerging economies have been insulated from international competition for a long period of time, which has affected the way their managers conduct business. Managers may not be used to highly dynamic and competitive markets, or to collaborate with their direct competitors. A network can provide the resources to overcome high intermediate costs, fixed costs of complying with regulations, ease labor constraints and the limited capacity to market products, scan the environment, and increase political leverage. Networks can be an efficient source to acquire knowledge about managerial expertise, international markets, and how to incorporate new technologies and vital information in a relatively short time (Davidsson & Honig, 2003; Karra & Phillips, 2004). Kale, Singh, and Perlmutter (2000, p. 232) caution scholars and managers "to pay greater attention to how a firm manages the alliance, post formation, especially with regards to building relational capital and managing conflicts.” The capability of firms to manage their network can be considered a resource. Consequently, it may enhance the flow of information, the access to intangible resources and affect the firm’s performance (Adler & Kwon, 2002; Zaheer & Bell, 2005) and networks also can be considered as an entry barrier.

In conclusion, networks are a vital instrument that SMEs can use to gain legitimacy networks (Adler & Kwon, 2002; Aldrich & Zimmer, 1986; Zaheer & Bell, 2005), and to learn and expand their knowledge base about new techniques, technologies, managerial expertise, and international markets. In contrast to the resource-based view, network theory suggests that SMEs do not necessarily have to own, to develop or buy resources in order to secure their use. Firms may find resources in networks but they need to build the appropriate capabilities to locate and to marshal internal and external resources: to act as a broker. Once again, the strategic process may play a fundamental role to take advantage of networks by identifying potential partners and engaging in business activities. The next step for SMEs is to expand their networks from the domestic to the international level. By putting these changes into effect, SMEs will move from learning *from* other firms to eventually learning *with* the members of networks, and therefore, increase the likelihood of achieving long-term internationalization. This type of strategy is the result of an explicit process that requires being reviewed when new resources and capabilities become available to the firm through learning and networking. It is a two-way iterative process between strategizing, learning, and networking.

Proposition 5: The greater the pooling of SMEs with similar constraints, the greater the likelihood those SMEs can have a long-term internationalization

4 CONCLUSIONS

Given the previous discussion, international expansion of SMEs from emerging economies may be more beneficial if it is a planned process, beginning with objectives, to resources and organizational structures needed to achieve those objectives. Increasing competitiveness may no longer be optional for those SMEs that seek to engage in long-term international operations or those competing in tradable goods industries. It may be valuable for SMEs to develop explicit strategic processes to meet world-class standards. Given that international marketing plans are firm specific, following another SME’s successful strategy could lead to failure. Identifying the existing resources, what organizational structures and investments are required to achieve a set of international objectives can prove to be the difference between successful or failed internationalization. Promoting and stressing the development of organizational structure and mechanisms to identify current resources and the investments needed to develop new ones could be important components of a strategic process. In addition, it may be useful to promote a learning culture within the firm to update the firm’s capabilities and to transform the opportunities of being in a network into economic benefits.

The changes in the environment have increased the importance of knowledge acquisition. New rules and new competition have increased the need for flexibility, and shortened the period of time required to adapt to the new parameters. SMEs may find that the strategic processes will have to focus on expanding the knowledge base of the firm. SMEs do not necessarily need to own the resources or to internalize activities in order to have international operations. SMEs can draw resources from networks, not only allowing SMEs to engage in international activities, but also providing the opportunity for them to do so in less time. The networks approach complements the resource-based view suggesting that SMEs may benefit from knowing their resources, make them available to their employees (e.g. knowledge) and analyze what resources may be needed in the future. Being a partner in networks provides flexibility in the sense that SMEs have a larger pool of resources from which to draw on but that they do not own.

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