41st Annual EIBA (European International Business Academy) Conference,

Rio de Janeiro, December 1-3 2015

Track 5: SMEs, international new ventures and international entrepreneurship

Interactive paper

The internationalization of SMEs: An incremental process?

Noémie DOMINGUEZ, Assistant Professor
IAE Lyon, Magellan Research Center, Jean Moulin Lyon 3 University
6 cours Albert Thomas, 69008 Lyon, France
E-mail: noemiedominguez@univ-lyon3.fr

Ulrike MAYRHOFER, Full Professor
IAE Lyon, Magellan Research Center, Jean Moulin Lyon 3 University
6 cours Albert Thomas, 69008 Lyon, France
E-mail: ulrike.mayrhofer@univ-lyon3.fr

Abstract: SMEs increasingly attempt to accelerate and diversify their international expansion strategies. The purpose of this article is to contribute to a better understanding of the internationalization process followed by SMEs to seize global market opportunities. Using the Uppsala model and born global approach, the authors analyze the internationalization paths of French SMEs operating in traditional manufacturing industries. The empirical study takes the form of five case-studies and is based on 66 interviews. The results indicate that the internationalization process of SMEs continues to follow different stages, but that it is not linear and incremental. The different stages, which are initiated by critical incidents, reflect characteristics of both the Uppsala model and the born global approach.

Key words: Internationalization process, SMEs, Uppsala model, born globals.

The internationalization of SMEs: An incremental process?

INTRODUCTION

Small- and medium-sized companies are deeply affected by changes in the global economy, which offers new opportunities for growth. During the recent period, many SMEs have decided to accelerate their international expansion by reinforcing their presence in foreign countries, including emerging economies (Marchesnay, Mayrhofer and Torrès, 2015). In the field of international business, two theoretical frameworks are widely used to explain the internationalization of SMEs: the Uppsala model (Johanson and Vahlne, 1977, 2009, 2011) and the born global approach (Oviatt and McDougall, 1994, 1997, 2005). The two models have often been opposed in the literature: empirical studies show that certain companies follow an incremental approach, whereas others develop rapidly in an important number of markets. Available findings indicate that companies from traditional industries tend to follow the Uppsala model and that start-ups from high-tech industries often become born globals. This research attempts to challenge these two contrasting views.

The objective of our paper is to contribute to a better understanding of the internationalization process followed by SMEs. The authors analyze the internationalization paths of French SMEs from traditional manufacturing industries over several decades. The empirical study takes the form of five case-studies and is based on 66 interviews. The results indicate that the internationalization of SMEs continues to follow different stages, but that it is not a linear and incremental process. The observed companies tend to increase their internationalization, but during certain stages, they also weaken their commitment to foreign markets. The identified stages, which are initiated by critical incidents, reflect characteristics of both the Uppsala model and the born global approach. The novelty of our research is to reconcile the two

frameworks and to demonstrate that SMEs from traditional manufacturing industries can follow both models.

In the first part of the paper, we will present the two dominant theoretical perspectives on SME internationalization. The second part is dedicated to the analysis of the empirical study conducted for this research. In the third part, we will discuss the findings of our investigations and their theoretical and managerial implications.

1. THEORETICAL PERSPECTIVES ON SME INTERNATIONALIZATION

In this part of our paper, we will present the original and revised versions of the Uppsala model before we will develop the born global approach.

1.1. The Uppsala model

Developed by Johanson and Vahlne (1977), the Uppsala model shows that companies tend to follow an incremental approach when entering foreign markets, allowing them to benefit from learning effects. According to the authors, when companies internationalize, they are confronted with a lack of resources, but also with a lack of knowledge concerning foreign markets. This lack of market knowledge mainly results from psychic distance which can be defined as *"the sum of factors preventing or disturbing the flows of information between firms and markets"* (Johanson and Wiedersheim-Paul, 1975, p. 308) and includes differences in language, education systems, managerial practices, culture and industrial development. Johanson and Wiedersheim-Paul (1975), and Johanson and Vahlne (1977) use the concept of psychic distance to explain the linearity of the internationalization processes. It seems important to emphasize the subjective dimension of psychic distance, which is linked to the

perception of distance by managers. Since the lack of market knowledge represents an obstacle to international expansion, companies will first enter neighbouring countries and limit the commitment of resources by using exports. When the international experience of companies increases, psychic distance becomes less important, and companies start developing into more distant countries and increasing the commitment of resources, thus investing in foreign markets, e.g. through joint ventures or wholly-owned subsidiaries.

According to the Uppsala model, internationalization is a process following several steps: each decision to enter foreign markets is likely to influence the next step of the process. The model consists of two types of variables: state variables (market knowledge, market commitment) and change variables (commitment decisions, current activities). Johanson and Vahlne (1977) show that market knowledge influences internationalization decisions. In the same way, international activities also have an impact on market commitment and thus market knowledge (see figure 1). The proposed model highlights the importance of experience for the international expansion of companies.

****

Put figure 1 here

****

Recently, Johanson and Vahlne (2009, 2011) revised their model to take into account important changes that occurred in the global business environment and respond to the criticism formulated across the years. In fact, the initial model has often been criticized. Several authors point out the determinism and linearity of the Uppsala model (Turnbull, 1987; Coviello and McAulley, 1999; Forsgren, 2002). They consider that the model does neither explain the initiating circumstances of the process nor why, how and when internationalization begins. Furthermore, the speed of internationalization is not constant and

linear (Dominguez, 2015a). Other scholars emphasize that the variables used to analyze the internationalization process offer only a partial explanation of the phenomenon studied (Oviatt and McDougall, 1994; O'Grady and Lane, 1996; Buckley and Casson, 1998). The qualitative, ambiguous and hardly measurable key concepts put forward by Johanson and Vahlne (1979) do not allow for any replication or refutation, thus questioning the model's validity and scientificity (Andersen, 1993; Ojala and Tyväinen, 2006; Steen and Liesch, 2007). Because of the non-integration of individual and strategic dimensions, the model does not provide a full comprehension of international moves. This partiality can also be explained by the lack of consideration of networks, industry-specific factors and firm-specific variables (Evans and Mavondo, 2002; Ojala and Tyrvainen, 2006).

In the new version of their model, Johanson and Vahlne (2009, 2011) consider the growing importance of business networks for the international expansion of companies. They argue that markets are networks of relationships where companies are linked to each other. Therefore, "insidership" in relevant networks becomes necessary for successful internationalization. The possibility of acquiring stable positions in such networks depends on psychic distance as it is perceived by managers as well as learning capacities and experience. Johanson and Vahlne (2009) show that existing business relationships allow identifying and exploiting new opportunities. They have a significant impact on the geographic markets companies will decide to enter and on the market entry mode they will choose. Moreover, relationships offer potential for building trust and commitment, two important aspects for expanding into foreign markets.

The revised model also integrates two types of variables: state variables (knowledge, opportunities, network position) and change variables (relationship commitment decisions, learning, creating, trust-building). It suggests that knowledge and opportunities influence the

decisions to integrate business networks. In the same way, learning, creating and trust-building have an impact on business network positions (see figure 2).

****

Put figure 2 here

****

The Uppsala model has been widely used in the international business literature. Despite its relevance, the model has been questioned, as previously mentioned, notably by scholars developing the "born global" approach.

1.2. The "born global" approach

In the "born global" perspective, internationalization is no longer considered as an incremental and linear process. Scholars of this new approach argue that certain companies attempt, from their creation, to construct competitive advantages by using resources located abroad and to develop rapidly in various foreign markets, including distant countries. Their observations show that companies can choose to internationalize very early, sometimes since their creation. These companies, usually SMEs, rapidly reach a high degree of internationalization, combining different market entry modes. They can establish joint ventures or wholly-owned subsidiaries without any experience in local markets. The internationalization of activities is thus used to develop a competitive advantage in the global market (Knight and Cavusgil, 2004; Kuivalainen, Sundqvist and Servais, 2007; Oviatt and McDougall, 1994; Zucchella and Scabini, 2007).

Oviatt and McDougall (1994) propose a typology of "born globals", based on the coordination of value-chain activities and the number of countries involved: (1) "export/import start-ups", (2) "multinational traders", (3) "geographically focused start-ups" and (4) "global start-ups" (see figure 3). New international "market makers" are companies who develop international activities by using mainly exports or imports in a limited number of countries ("export/import start-ups") or in an important number of countries ("multinational traders"). Key activities of the value-chain (e.g. inbound and outbound logistics) are generally internalized and the other activities are externalized, often abroad, even if foreign direct investments remain limited. The competitive advantage of new international "market makers" is based on the unbalanced distribution of resources and market prices between countries. Their capacity to develop emerging business opportunities and their market knowledge allow them to develop a long-term expertise. "Geographically focused start-ups" attempt to satisfy specific expectations of customers located in certain geographic regions. Their value-chain activities (e.g. R&D, human resources and production) are strongly coordinated across countries. The tacit dimension of this coordination expertise and its difficult imitation can contribute to the development of a competitive advantage. "Global start-ups" use market opportunities to acquire resources and sell products at the global scale. Their competitive advantage is based on the combination of resources that are difficult to imitate and the coordination of several activities in different countries, generally by the creation of long-lasting alliances formed with other actors.

The born global approach has led to important debates in international business literature and has often been opposed to the Uppsala model. Many scholars focus on one of these two approaches to analyze the geographic development of companies. Their findings show internationalization patterns of companies from various geographic contexts and industries

(Mayrhofer and Urban, 2011). In this study, we will use both frameworks to analyze the international expansion of five SMEs located in the Rhône-Alpes region in France and operating in industrial sectors.

2. METHODOLOGY AND PRESENTATION OF EMPIRICAL STUDY

The empirical study, conducted between 2011 and 2014, concerns SMEs from traditional manufacturing industries, located in the Rhône-Alpes region and having one or more subsidiaries abroad. We excluded SMEs relying on export activities, since their international commitment generally remains more limited. Based on 66 interviews, the empirical study was developed in three steps. First, we identified through different data-bases a sample of 128 independent manufacturing SMEs located in the Rhône-Alpes region with at least one subsidiary abroad. Second, we continued with an exploratory study to select SMEs for in-depth case-studies. We realized open interviews with 18 SME managers and 10 promotion agencies who accompany SMEs in their international expansion. We could thus identify five case-studies following a random logic (Yin, 2003). Third, we conducted 25 semi-structured interviews with managers of these five SMEs and 13 interviews with promotion agencies who accompanied them in their internationalization process using a pre-tested interview guide. A content analysis was developed with NVivo to analyze the interviews and to identify the internationalization stages followed by the companies (Dominguez, 2015b).

We will briefly present major characteristics of the five SMEs and then analyze the internationalization path developed by each of them.

2.1. Presentation of sample

The companies selected for our sample are ABC Group, Emball'iso, Hydrola, Mixel Agitateurs and SLAT. As indicated by table 1, the five SMEs, which were created between 1953 and 2000, have total sales between 3.7 and 40.2 million euros and employ between 30 and 230 people. They have developed activities in their domestic market for several years or decades before starting their international expansion.

****

Put table 1 here

****

Several indicators have been used in IB literature to assess the degree of internationalization. Financial indicators such as the return on investments (ROI) and return on assets (ROA) are among the most popular (Majocchi and Zucchella, 2003), but they are not sufficient to fully measure the concept (Rugman and Oh, 2011). In this study, we use two key dimensions to identify the different stages of SME internationalization: (1) the foreign markets where companies develop, since this aspect allows evaluating both the degree and dispersion of their geographic expansion, and (2) market entry modes used, showing the commitment and evolution of foreign operations.

We will now analyze in more details the international development of the five SMEs selected for our empirical study.

2.2. The internationalization process of SMEs

In this section, we will present the internationalization path developed by each company, by identifying the different stages and critical events that have marked their international expansion.

2.2.1. ABC Group

ABC Group is a family-owned company that offers products and services for the installation of mining activities. The company was created in the year 2000 and enjoyed a period of strong growth. It is the largest company of our sample, with total sales of 40.2 million euros and 230 employees in 2013. ABC Group is strongly oriented towards international markets: foreign sales account for 66.1% of total sales and products are sold in 50 countries. As indicated by table 2, the internationalization process of ABC Group can be divided into three different stages.

****

Put table 2 here

****

Stage 1 (2004-2010): start of international expansion by direct exports

The first stage concerns the start of the international development, which is strongly influenced by the arrival of a new CEO in 2004, who replaces his father at the age of twenty years, and his association with a Spanish expert of the protection against landslides, who becomes the vice-president of the group. The company starts its international expansion relying on the networks and technical expertise of its employees and business partners. It first

targets neighboring countries, namely Spain, Austria and Switzerland, and develops direct exports. *"Our international development was 'natural' because we were the leader in France, on a niche market that was already saturated. We had no other choice than internationalize… I devoted my work to the international expansion. Before joining the group, I had been a distributor in Spain for more than 30 years, so I had my own connections and networks in Spain and in France. I was the president of the Spanish association for landslides prevention. It is a small world, everyone knows each other. I had the competences and the network required, so it was easier to enter the Spanish market"* (Vice-President, ABC Group). The collaboration developed with local distributors facilitates the integration of the company into local networks and the gaining of international experience.

Stage 2 (2010-2013): acceleration of internationalization through eight foreign subsidiaries

During the second stage, ABC Group intends to seize growth opportunities offered by foreign markets and to increase the control of the global value chain. The company decides to rapidly extend its international distribution network to other European markets, but also to North and South America. In 2013, the company operates in 50 countries. In parallel, the group decides to implement eight production and sales subsidiaries abroad, using partial and full acquisitions as well as greenfield investments. The entry of two venture capitalists in the capital of the company provides the necessary financial resources. This accelerated international expansion allows diversifying the offer, accumulating international experience and developing local networks. Foreign sales become increasingly important and reach 66% in 2013.

Stage 3 (since 2013): strategic reorientation and focus on high growth markets

This rapid internationalization, weak financial results and the pressure of shareholders following the company's introduction at the stock market in 2013 necessitate a profound

reorganization of activities, which marks the third stage of the identified process. This reorganization is accompanied by a reduction of the number of foreign distributors and the restructuration of local subsidiaries. The company also decides to use foreign subsidiaries to serve third markets, thus limiting the commitment of resources.

2.2.2. Emball'iso

Emball'iso is a family-owned company that develops, produces and sells plastic packaging for various industries such as the agri-food and pharmaceutical industries. The company was created in 1990 and enjoyed strong growth both in France and abroad. In 2013, its total sales achieve 20 million euros and it employs 60 people. Emball'iso has rapidly developed in international markets which represent 70% of its total sales. The products are sold in 20 countries. As indicated by table 3, the internationalization process of Emball'iso follows three different stages.

****

Put table 3 here

****

Stage 1 (1994-2005): start of foreign operations by indirect exports

Emball'iso starts its internationalization five years after its creation. During the first stage, the company mainly follows its customers to seize market opportunities through indirect exports. Despite his interest for foreign markets, the CEO lacks international experience and adopts a reactive behavior to expand abroad. The first exports take place in the United Kingdom in 1994 when the company receives orders from its French customers operating in the UK. In

1995, the SME starts exporting to Asia, again mainly through its French customers. Products are sold to China and Singapore through indirect exports. These orders raise the SME's awareness regarding the existence of unserved business opportunities in Europe and Asia, provide knowledge about foreign markets and convince managers to act more proactively.

Stage 2 (2000-2008): acquisition of three companies in Europe

During this stage, the company continues to respond to market opportunities abroad by exporting to Europe and Asia, but also by implementing local subsidiaries in Europe. In 2000, the SME acquires a German supplier facing important financial difficulties and establishes a production subsidiary in Germany. This first acquisition also aims to reduce the risk of dependency on a unique supplier of raw material. Following the success of this first acquisition, Emball'iso decides to buy a production facility of a former competitor facing bankruptcy in the United Kingdom. In 2005, it purchases a production facility of a German company that is also facing bankruptcy to diversify into new fields of activity. This third operation appears to be a failure, mainly because of internal difficulties due to the lack of knowledge concerning the specifics of the food-packaging market and the sharp increase of the price of raw material. Emball'iso thus decides to sell the company.

Step 3 (since 2008): establishment of greenfield subsidiaries in Asia and the United States

Since 2008, Emball'iso accelerates its international expansion and increases its commitment to foreign markets. The products are sold in Europe, North America and Asia. Following the failure of the acquisition in Germany, the company chooses to create greenfield subsidiaries. In 2008, a first production subsidiary is established in Shanghai. This choice allows the company to reduce production costs and to develop in the Chinese market. In 2009, a 50-50 joint venture is formed with a local partner to implement a production facility in Singapour.

These two operations show the managers' expectations regarding the high growth potential of Asian markets. Emball'iso aims at getting closer to potential customers and anticipates, at the same time, major public investments in the biotechnology sector. The investments made require considerable resources and the company decides to restructure its foreign activities to improve their performance. *"We are presently trying to formalize our procedures and create job descriptions. We feel a growing need to rethink our organization as the subsidiaries require more attention and resources every day and… the way we work today does not allow us to fully support them, to answer our customers' needs and to innovate"* (International manager, Emball'iso). In 2014, the SME decides to implement a greenfield subsidiary in the US market.

2.2.3. Hydrola

Hydrola is a managerial SME that develops, produces and sells hydraulic, mechanical and pneumatic components for various industries. It is the smallest company of our sample, with total sales of 3.7 million euros and 30 employees in 2013. The company was created in 1978 and focused on its domestic market for more than 25 years before starting its international activities. The internationalization of Hydrola can be explained by the arrival of a new CEO and the adoption of information and communication technologies. The company internationalized very rapidly and its foreign sales account for 43.2% of total sales in 2013. Products are sold in 60 countries. As indicated by table 4, the internationalization process of Hydrola follows only two steps.

****

Put table 2 here

****

Stage 1 (2005-2008): expansion to neighboring markets through exports

The first stage lasts from 2005 to 2008. During this period, the SME first follows its customers abroad via indirect exports. Because of the saturation of the domestic market and growing competition, the company first creates a website in French and then in other languages due to the increasing number of website visits from foreign customers. After this initiative, the company receives orders from various markets, first from Morocco, Tunisia and francophone African countries, and then from Mexico and Latin America. *"We created our website in 2005. The referencing we made on google generated a lot of traffic, from French and francophone customers. Orders were mainly coming from Maghreb countries, black and francophone Africa. We rapidly understood that we could take position on these markets simply by answering their demand. We translated our website into English and realized that we could also take position on other markets abroad. Step by step, it generated new demands, coming from a wide range of countries"* (CEO, Hydrola). In 2006, Hydrola starts developing direct exports and acquires more international experience.

Stage 2 (since 2008): establishing subsidiaries in emerging markets

The second stage starts in 2008 and is marked by the creation of a sales subsidiary in Mexico. A market study conducted by a student during his internship indicates promising growth perspectives. However, the significant distance between France and Mexico, the insufficient knowledge of local market characteristics and the lack of experience explain that the created subsidiary faces important difficulties. Hydrola thus decides to restructure the local subsidiary and to recruit a new management team. In parallel, the company decides to implement two new subsidiaries in Tunisia and Senegal where the company already gained some experience via exports. The historic links with France and the growth potential of African countries facilitate these two operations.

2.2.4. Mixel Agitateurs

Mixel Agitateurs is a family-owned company developing, producing and selling industrial agitators. The company was created in 1969. In 2013, total sales reach 10 million euros and it employs 69 people. Compared to the other SMEs of our sample, the internationalization of the company remains limited: foreign sales only account for 20% of total sales and products are sold in 30 countries. As indicated by table 5, Mixel Agitateurs follows an internationalization process in four stages (see table 5).

****

Put table 5 here

****

Stage 1 (1991-1995): expansion to a variety of foreign markets

The international expansion of Mixel Agitateurs is initiated, in the late 1980s, by the arrival of a new CEO who succeeds his uncle, the founder of the company. The new CEO has an international vision, having gained a professional experience of two years in Singapore. Because of the saturation of the domestic market, difficulties of the chemical industry and stronger competition, he draws on his experience and his interest for foreign markets to change the company's strategy. He initiates contacts abroad and starts developing export activities with the Belgian Solvay Group. During this first stage of internationalization, the company also receives orders from Morocco and starts selling products in this country. Convinced by market opportunities in Asia, the new CEO regularly participates in collective missions organized by French promotion agencies and in trade fairs for manufacturing SMEs abroad. These actions help him testing local market responsiveness and promoting exports to

China, India and Japan. *"I was coming back from Asia, from an emerging country, so I had a certain sensitiveness and I was not afraid. All my traditional competitors were sharing the same situation and decided to go to Switzerland, Belgium, Italy, Spain, etc. I was tired of being always confronted to them, so I decided to go where none of them would go, to challenge new competitors facing other issues. It was almost impossible to differentiate our products in France. I was going to countries were massive investments were made every day: the bigger the cake, the wider the opportunities for us… We did not jump into the venture alone. We wanted to be helped because, to be honest, we did not have the resources required to enter those countries. A regional promotion agency organized the whole trip with other SMEs. This kind of event was really interesting for us as we managed to share the costs and to strengthen our negotiating power. We were thus more visible and credible for local clients"* (CEO, Mixel Agitateurs). At the same time, the company also seizes the opportunity to enter the Swiss market despite the intense competitive rivalry. This ambitious international expansion leads to internal difficulties, because the organizational culture of the company insufficiently integrates the international dimension.

Stage 2 (1995-1996): first market failure abroad

The second stage (1995-1996) is marked by the tentative to implement activities abroad. The CEO selects the location of Hong Kong, mainly because of the opportunity to take over a local sales office. Because of its limited resources, the SME decides to collaborate with three other companies to establish its first foreign sales subsidiary. However, the local entity does not reach the fixed objectives, mainly because of problems linked to the management of local staff. Mixel Agitateurs decides to withdraw from the sales office because of a lack of orders from China and the costs the company had to face, which were higher than expected.

Stage 3 (1996-2004): rethinking international market expansion

Between 1996 and 2004, the company refocuses on traditional markets and mainly follows its customers abroad. At the end of the 1990s, the company signs its first contracts in China, one with Véolia, a French customer, and another one with a multinational company from Japan that the CEO met at a trade fair. These contracts allow the company to gain experience in the Chinese market and to get access to local networks.

Stage 4 (2004-2012): accelerated expansion to China

Between 2004 and 2012 (fourth stage), Mixel Agitateurs accelerates its international expansion and increases its local commitment. In 2004, the company establishes a production subsidiary in Beijing. This greenfield investment is motivated by increasing exports to China, the growing demand for industrial products in the Chinese market, the high growth potential of Asian markets and the necessity to locate activities close to customers' production facilities. The company develops a collaboration with Véolia, but the relationship appears to be unstable due to changes of staff in the customers' subsidiaries. The SME decides to recruit a new subsidiary manager who had gained a significant experience in Asian markets after a position occupied in a French multinational company. This allows the company to increase its control over local operations and to reinforce its expansion. Convinced by a promotion agency about the growth potential and the necessity to establish locally to serve the market, Mixel Agitateurs creates simultaneously a production facility in Brazil, even if it has no prior knowledge of the country. Because of a lack of experience and preparation, Mixel Agitateurs underestimates the complexity of the Brazilian market. The subsidiary faces important difficulties and the company finally decides to concentrate on sales activities. *"Going to Brazil was premature, we had gone too fast. A promotion agency convinced me that we absolutely needed to open something there. The data they gave me were amazing. Now, with*

the benefit of hindsight, I can see the whole complexity of this market. Everything is complex and expensive there: our products are less expensive when they are produced and exported from France and sold with 170% taxes than when they are produced in Brazil. For all these reasons, we had to rethink our local strategy. We had to options: close everything and leave the market or stay present but stop the production… We decided to close the production facility to keep the sales and support subsidiary for our customers" (CEO, Mixel Agitateurs).

2.2.5. SLAT

Founded in 1953, SLAT is an independent SME who designs, manufactures and sells secure power supply solutions. This field of activity requires technical certifications in local markets, which has an important impact on the pace of internationalization. The company is certified under various standards, e.g. NF standards ('normes françaises' - French standards), European Community (EC) standards, ISO 9001 and 14001 (International Organization for Standardization, international standards). In 2013, the company's total sales reach 15.3 million euros and its workforce is composed of 70 people. Because of certification requirements and the specific characteristics of its offer, the degree of internationalization remains weaker than for the other SMEs of our sample: foreign sales account for 26.1% of total sales and products are sold in 30 countries. Table 6 shows the internationalization process of SLAT, which allows to differentiate five different stages.

****

Put table 6 here

****

Stage 1 (1970s-1999): opening to foreign markets through indirect exports

The first stage (end of 1970s until 1999) concerns a period of more than two decades where the company follows certain customers through indirect exports. It accompanies French groups like Alcatel in the telecommunication sector and Renault for plant construction projects in their expansion to Latin America. At the end of the 1980s, SLAT is purchased by a US pension fund who later sells it to Quante group, a subsidiary of Deutsche Telekom. The SME thus becomes the French subsidiary of a German company.

Stage 2 (1999): first foreign market failure

At the end of the 1990s, the company is confronted with difficulties in the telecommunication sector which is facing a period of crisis and it therefore attempts to find new market opportunities. In 1999, SLAT decides to enter the Chinese market in order to benefit from the important growth of this industry in China. During this second stage, SLAT obtains the certification of its products by the local ministry for telecommunications for a period of three years. Nonetheless, this expansion move appears to be unsuccessful, mainly because of a lack of consideration of the institutional and cultural characteristics of the host environment. This international failure represents an important shock for the company and its employees.

Stage 3 (1999-2004): returning to indirect exports

The Chinese experience is followed by a second period of indirect exports, which involve less commitment and risks. This third stage of internationalization concerns the period between 1999 and 2003. The company follows several important customers who use its products for their expansion into European, Latin American and Asian markets. In 2000, the German Quante group is acquired by 3M (Minnesota Mining and Manufacturing Company) and SLAT thus becomes the French subsidiary of a US group. In 2004, 3M nominates a new CEO for its

French subsidiary, a French engineer with an international experience acquired in Germany and the Middle East. The new CEO decides to restructure the company, reorient its business activities and invest in foreign operations.

Stage 4 (2004-2011): adopting a proactive strategy to enter foreign markets

During the fourth stage, the company adopts a proactive expansion strategy by developing both indirect and direct exports to Europe (including Germany), Latin America and Asia. The company achieves increased profits and, in 2009, it is bought by its CEO and the Administration and Finance Director through an LBO (Leveraged Buy Out): they acquire 30% of its capital, the fund Initiative & Finance holds 65% and other employees hold 5%. Since 2011, SLAT accelerates its international expansion by developing export activities to Europe, Latin America and Asia, and increases its commitment to foreign markets. The company opens a sales subsidiary in Germany. The SME decides to focus on the German market which has very stringent technical norms that enjoy a strong international reputation. It succeeds in obtaining the TÜV (*Technischer Überwachungsverein*, a German standard) and VDS (*Verband der Schadenversicherer*, a German standard) certifications and succeeds in developing in Germany. The sales subsidiary is also used for expanding into neighboring countries like Austria, Switzerland and Poland.

DISCUSSION OF FINDINGS AND IMPLICATIONS

The analysis of the five case-studies shows that the internationalization of SMEs continues to follow different stages, but that it is not a linear and incremental process. We will first describe the identified stages of internationalization before presenting the theoretical and managerial implications of our research.

3.1. Stages of the internationalization process

The analysis presented in this paper allows identifying the internationalization process of SMEs from traditional manufacturing industries. The process is composed of several stages whose duration varies according to the companies, from one year to more than two decades. The number of stages extends from two to five.

It seems interesting to note that all companies of our sample started their internationalization by developing export activities, as described in the Uppsala model. These often take the form of indirect exports where companies follow their customers operating in international markets. This first stage lasts for several years and even for more than two decades for one company (SLAT). Export activities mainly concern neighboring countries before being extended to more distant markets, which highlights the key role of psychic distance. During the first stage, companies acquire the international experience needed to continue their development abroad (Casillas and Moreno-Menéndez, 2013). Our results indicate that promotion agencies and institutions can play a key role in this stage since they help SMEs to engage in the internationalization process.

During the second step of internationalization, the five companies of our sample decide to increase their international development. This period lasts between one and eight years. ABC Group establishes eight production and sales subsidiaries abroad, through greenfield investments and partial or full acquisitions, and expands into 50 countries (Europe, North and South America). This was made possible through the association with two venture capitalists. Emball'iso acquires three companies in Germany and the UK to implement production facilities and develops, at the same time, its exports to European and Asian countries. Hydrola creates a sales subsidiary in Mexico and establishes two subsidiaries in Tunisia and Senegal, and develops its international activities in 60 countries. Mixel Agitateurs collaborates with

three other companies to open a sales office in Hong Kong, while continuing its export activities in Europe, North Africa and Asia. The sales office does not reach the fixed objectives and the company decides to withdraw from the operation. In the late 1990s, SLAT decides to enter the Chinese market through direct exports and obtains the local certification for its products, while developing direct and indirect exports in Europe and Latin America. The expansion into China remains a failure. Our analysis shows that, during this second stage of internationalization, companies appear to be more or less successful.

The performance of actions developed in foreign markets has a major impact on the third stage, both on the selection of markets and the corporate strategy. Because of negative financial results, ABC Group decides to weaken its international commitment, by reducing the number of foreign distributors, and to reorganize foreign subsidiaries. Following the difficulties faced with one of the acquired companies, Emball'iso favors greenfield investments by establishing a wholly-owned subsidiary in China and a 50-50 joint venture with a local partner in Singapore. Mixel Agitateurs refocuses on traditional markets by following its customers abroad and decides to enter the Chinese market through indirect exports. After its tentative to conquer the Chinese market, SLAT also chooses to concentrate on its former markets through indirect exports. Our findings suggest that a failure in international markets is usually followed by a period where the company weakens its commitment to foreign markets. They show that internationalization is not a linear process, since temporary recursive moves (consecutive to a failure) are possible and give the company the opportunity to rethink its strategy.

ABC Group, Emball'iso and Hydro started their internationalization during the past two decades and they are currently in their second or third stage. Mixel Agitateurs started exporting activities in the early 1990s and a fourth stage can be identified, marked by an acceleration of its international expansion. SLAT began its export activities at the end of the

1970s and two other stages can be identified. The fourth stage corresponds to the development of a proactive expansion strategy characterized by indirect and direct exports to European, Latin American and Asian countries. The fifth stage concerns the creation of a sales subsidiary in the German market and the acceleration of foreign growth.

3.2. Towards a reconciliation of the Uppsala model and the born global approach?

The findings of our empirical study have important theoretical and managerial implications. First, they show that the five companies follow internationalization processes which are neither linear nor incremental. According to the stage, the identified patterns reflect characteristics of the Uppsala model and the born global approach. All companies start their international expansion by following the Uppsala model and develop export activities in neighbouring countries before penetrating more distant markets. This first stage allows them to gain international experience. However, during the second stage, some of them set very ambitious objectives and rapidly increase both the number of foreign markets and their international commitment. Their initiatives, which follow certain patterns of the born global model, are more or less successful and companies then tend to weaken their investments and to refocus on their former markets. It is also important to note that market entry modes mainly take the form of exports and wholly-owned subsidiaries (greenfield investments and acquisitions). SMEs do not seem to favor joint ventures and other forms of partnerships for their international operations.

Second, our analysis highlights that several factors play a crucial role for internationalization decisions. The SMEs of our sample thus seem to perceive the importance of acquiring experience in international markets (Casillas and Moreno-Menéndez, 2013) and to establish foreign networks (Coviello, 2006; Nowiński and Rialp, 2015; Senik, Scott-Ladd, Entrekin and

Adham, 2011). At the same time, they also attempt to conquer new markets, notably in emerging countries, even without prior experience.

Third, our study suggests that internationalization stages are often triggered by critical incidents or new market opportunities, as emphasized by Bell et al. (2003). For example, the arrival of a new CEO or organizational changes can lead to important adjustments concerning the international development of companies, since it allows them to overcome past failures and to develop new strategies. In the same way, the growth potential offered by emerging markets can lead SMEs to accelerate their international expansion and to increase their commitment to foreign markets.

Fourth, our observations indicate that the performance linked to international expansion varies considerably across the different stages. They show that SMEs from traditional manufacturing industries who invest in distant markets without sufficient knowledge take important risks that can lead to the failure of foreign operations. SME managers should thus be aware that it is essential to consider local market characteristics before establishing subsidiaries.

Finally, we can argue that the findings of our research emphasize the necessity to reconcile the Uppsala model and the born global approach, since the same companies can combine different patterns of both frameworks, according to internal and external factors that characterize their international development. The choices made in terms of internationalization are highly context-specific and not definitive. An SME can thus switch from a processual approach to a born global one according to environmental changes and strategic moves (Dominguez, 2015b).

CONCLUSION

The competitiveness and performance of SMEs, who often concentrate on niche markets, are based on their capacity to acquire market positions that allow them to create favorable conditions for growth. The empirical investigation conducted for this research emphasizes the diversity of responses provided by SMEs to meet the challenges of market globalization. It shows that increased global competition does not impose one single model of internationalization. Even if SMEs adapt to changes in the global environment and aim to diversify their geographic expansion, including emerging markets, they follow different stages that are not necessarily linear or incremental. Despite limited resources, SMEs appear to develop ambitious growth strategies. Our empirical study also shows that SMEs tend to locate their production and sales facilities abroad and to keep research and development activities in their home country. We can also observe that SMEs prefer to establish wholly-owned subsidiaries rather than joint ventures. This can be explained by the fact that SMEs often operate in niche markets where they need to protect their R&D resources. Our findings also highlight that SMEs tend to accelerate their geographic expansion and to increase their commitment to foreign markets, but that this trend can be interrupted by failures of certain actions, which usually slow down the internationalization process.

Our research presents several limitations and research perspectives. It seems necessary to follow the internationalization process for a longer period in order to identify characteristics of stages where internationalization increases and those marked by less commitment to foreign markets. It also seems interesting to extend the study to other geographic contexts in order to analyze how the home-country or home-region affects internationalization paths of SMEs. In fact, the economic, institutional and cultural characteristics of the home-country are likely to have an impact on the way companies internationalize their activities. Our empirical

study focuses on SMEs from traditional manufacturing industries and should be extended to other industries, including service industries, in order to determine the influence of industry effects on the internationalization processes identified.

Bibliography

Andersen, O. (1993), On the internationalization process of firms: a critical analysis, *Journal of International Business Studies*, vol. 24, n°2, p. 209-231.

Bell J., McNaugthon, R. & Young, S. (2001), Born-again global' firms: An extension to the 'born global' phenomenon, *Journal of International Management*, vol. 7, n°3, p. 173-189.

Bell J., McNaugthon, R., Young, S. & Crick, D. (2003), Towards an Integrative Model of Small Firm Internationalization, *Journal of International Entrepreneurship*, vol. 1, n° 4, p. 339-362.

Buckley, P.J. & Casson, M.C. (1998), Analyzing foreign market entry strategies: extending the internalization approach, *Journal of International Business Studies*, vol. 29, n° 3, p. 539-561.

Casillas, J.C. & Moreno-Menéndez, A.M. (2013), Speed of the internationalization process: The role of diversity and depth in experiential learning, *Journal of International Business Studies*, vol. 45, n°1, p. 85-101.

Coviello, N.E. (2006), The network dynamics of international new ventures, *Journal of International Business Studies*, vol. 37, n°5, p. 713-731.

Coviello, N.E. & McAuley, A. (1999), Internationalisation and the smaller firm: A review of contemporary empirical research, *Management International Review*, vol. 39, n°3, p. 223-256.

Dominguez, N. (2015a), L'internationalisation des PME: un processus arythmé et non-linéaire, *5th Atlas AFMI Conference*, May 12-14, Hanoï.

Dominguez, N. (2015b), *Internationalisation des PME et déploiement des strategies tête-de-pont*, Doctoral thesis, Jean Moulin Lyon 3 University.

Evans, J. & Mavondo, F.T. (2002), Psychic distance and organizational performance: An empirical examination of international retailing operations, *Journal of International Business Studies*, vol. 33, n°3, p. 515-532.

Forsgren, M. (2002), The concept of learning in the Uppsala internationalization process model: a critical review, *International Business Review*, vol. 11, n°3, p. 257.

Johanson, J. & Vahlne J.-E. (1977), The internationalization process of the firm - A model of knowledge development and increasing foreign markets commitments, *Journal of International Business Studies*, vol. 8, n°1, p. 25-34.

Johanson, J. & Vahlne J.-E. (2009), The Uppsala internationalization process model revisited : From liability of foreignness to liability of outsidership, *Journal of International Business Studies*, vol. 40, n°9, p. 1411-1431.

Johanson, J. & Vahlne J.-E. (2011), Markets as networks: implications for strategy-making, *Journal of the Academy of Marketing Science*, vol. 39, n°4, p. 484-491.

Johanson, J. & Wiedersheim-Paul, F. (1975), The internationalization of the firm - Four Swedish cases, *Journal of Management Studies*, vol. 12, n°3, p. 305-322.

Knight, G.A. & Cavusgil, S.T. (2004), Innovation, organizational capabilities, and the born-global firm, *Journal of International Business Studies*, vol. 35, n°2, p. 124-141.

Kuivalainen, O., Sundqvist, S. & Servais, P. (2007), Firms' degree of born-globalness, international entrepreneurial orientation and export performance, *Journal of World Business*, vol. 42, n°3, p. 253-267.

Majocchi, A. & Zucchella, A. (2003), Internationalization and Performance: Findings from a Set of Italian SMEs, *International Small Business Journal*, vol. 21, n° 3, p. 249-268.

Marchesnay, M., Mayrhofer, U. & Torrès, O. (2015), L'internationalisation : une question de taille ?, *Economies et Sociétés – Série « Economie de l'entreprise*, N° 23, 1, p. 67-81.

Mayrhofer, U. & Urban, S. (2011), *Management international. Des pratiques en mutation*, Pearson Education, Paris.

Nowiński, W. & Rialp, A. (2015), The impact of social networks on perceptions of international opportunities, *Journal of Small Business Management* (in press).

O'Grady, S. & Lane, H.W. (1996), The psychic distance paradox, *Journal of International Business Studies*, vol. 27, n° 2, p. 309-333.

Ojala, A. & Tyrväinen, P. (2006), Business models and market entry mode choice of small software firms, *Journal of International Entrepreneurship*, vol. 4, n° 2/3, p. 69-81.

Oviatt, B.M. & McDougall, P.P. (1994), Toward a theory of international new ventures, *Journal of International Business Studies*, vol. 25, n°1, p. 45-64.

Oviatt, B.M. & McDougall, P.P. (1997), Challenges for internationalization process theory: The case of international new ventures, *Management International Review*, vol. 37, n°2, p. 85-99.

Oviatt, B.M. & McDougall, P.P. (2005), Toward a theory of international new ventures, *Journal of International Business Studies*, vol. 36, n°1, p. 29-41.

Reid, S.D. (1981), The decision-maker and export entry and expansion, *Journal of International Business Studies*, vol. 12, n° 2, p. 101-112.

Rugman, A.M., & Oh, H.C. (2011), Methodological issues in the measurement of multinationality of US firms, *Multinational Business Review*, vol. 19, n° 3, p. 202-212.

Senik, Z. C., Scott-Ladd, B., Entrekin, L. & Adham, K.A. (2011), Networking and internationalization of SMEs in emerging economies, *Journal of International Entrepreneurship*, vol. 9, n°4, p. 259-281.

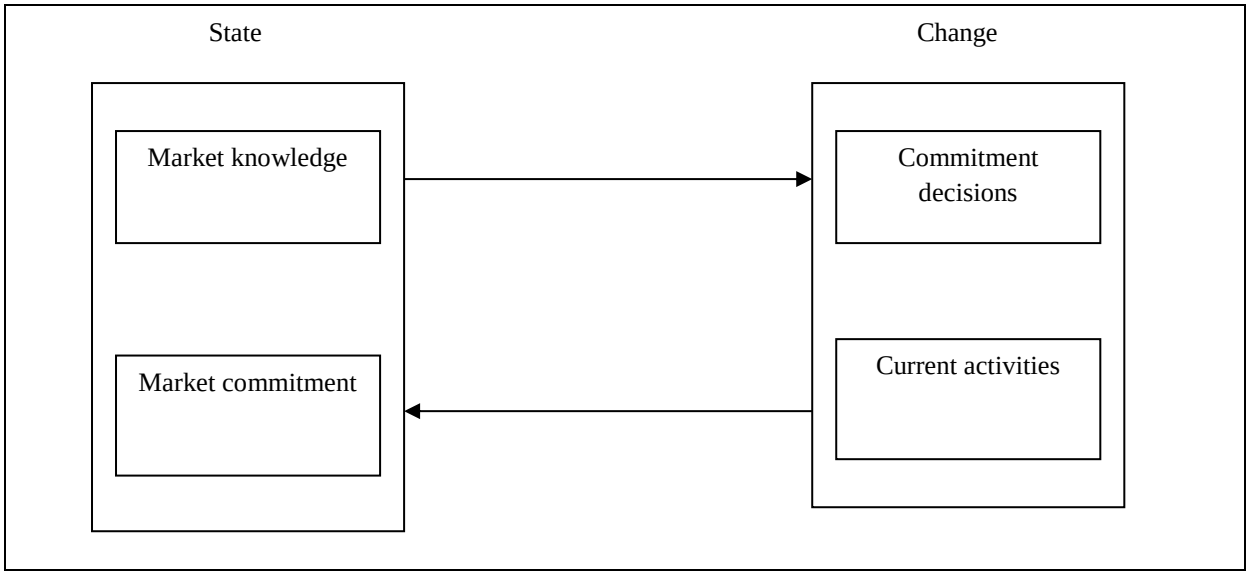
Steen, J.T. & Liesch, P.W. (2007), A note on Penrosean growth, resource bundles and the Uppsala model of internationalization, *Management International Review*, vol. 47, n°2, p. 193-206.

Turnbull, P.W. (1987), *A challenge to the stages theory of the internationalization process*, Praeger, New York.

Yin, R.K. (2003), *Case Study Research: Design and Methods*, 3rd ed., vol. 5, Sage, Beverly Hills.

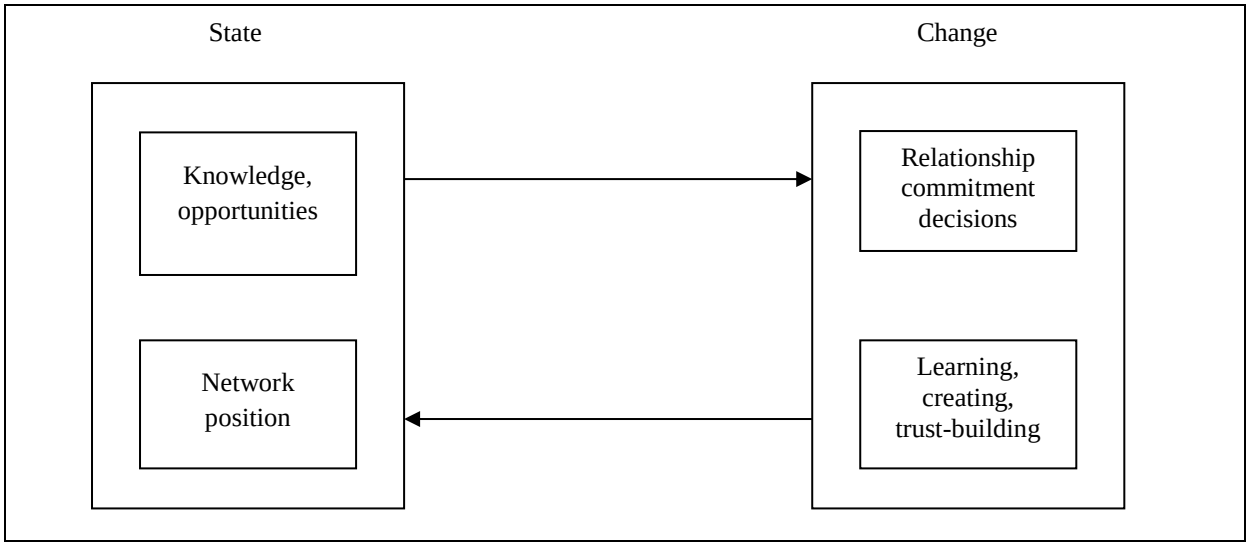
Zucchella, A. & Scabini, P. (2007), *International entrepreneurship: theoretical foundations and practices*, Palgrave Macmillan, Basingstoke.

Figure 1: Basic mechanisms of internationalization: state and change aspects



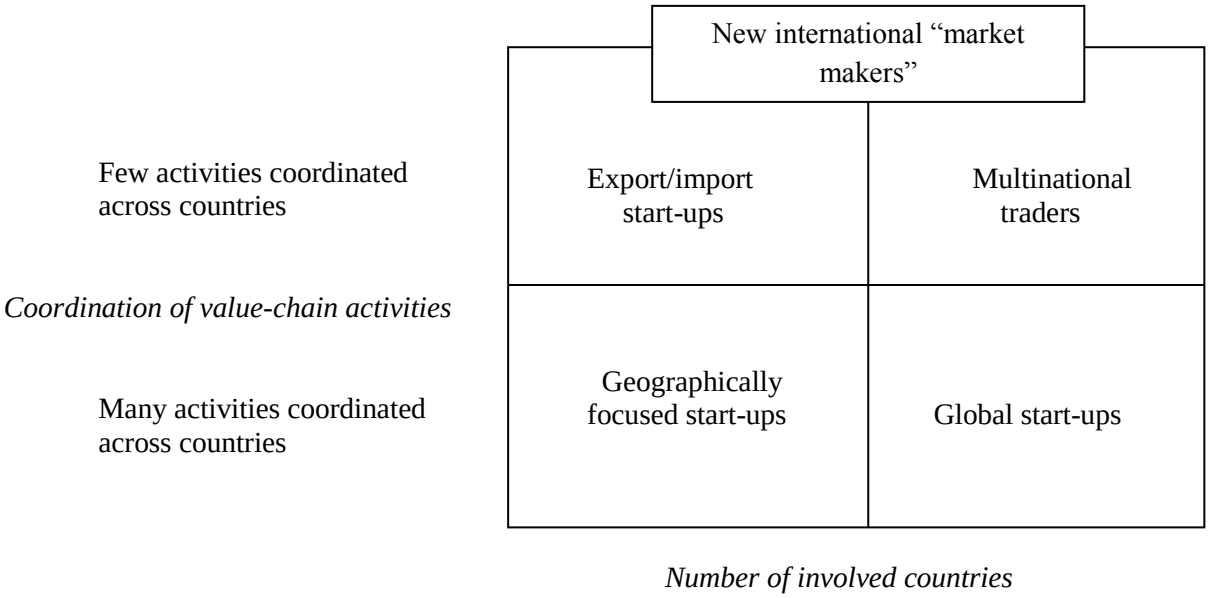
Source: Johanson and Vahlne (1977), p. 26

Figure 2: The business network internationalization process model



Source: Johanson and Vahlne (2009), p. 1424

Figure 3: A typology of "born globals"



Source: Oviatt and McDougall (1994), p. 59

Table 1: Major characteristics of the five SMEs

	ABC Group	Emball'iso	Hydrola	Mixel Agitateurs	SLAT
Date of creation	2000	1990	1978	1969	1953
Type of company	Family-owned SME	Family-owned SME	Managerial SME	Family-owned SME	Managerial SME
Total sales (2013)	40.2 M€	20 M€	3.7 M€	10 M€	15.3 M€
Total sales abroad	26.7 M€ (66.1%)	14 M€ (70%)	1.6 M€ (43.2%)	2 M€ (20%)	4 M€ (26.1%)
Workforce (2013)	230	60	30	69	70
First international expansion	Direct exports to Italy in 2004	Indirect exports to England in 1995	Direct and indirect exports to Tunisia and Morocco in 2005	Direct exports to Belgium, Switzerland and Morocco in 1990	Indirect exports to Latin America at the end of the 1970s
First subsidiary abroad	Partial acquisition of an Italian company in 2010	Acquisition of a production subsidiary in Germany in 2000	Creation of a sales subsidiary in Mexico in 2008	Creation of a production subsidiary in China in 2005	Creation of a sales subsidiary in Germany in 2011
Number of foreign markets	About 50	About 20	About 60	About 30	About 30

Table 2: ABC Group - an internationalization process in three stages

Periods	**2004–2010**	**2010–2013**	**Since 2013**
Stages	Stage 1: Beginning of international expansion	Stage 2: Creation of an international distribution network; greenfield subsidiaries and partial or full acquisitions	Stage 3: Reorganization of international expansion and optimization of resources
Foreign markets	Spain, Austria, Switzerland	50 countries (Europe, North and South America)	50 countries (Europe, North and South America)
Entry modes	Direct exports	Direct exports, greenfield subsidiaries and partial or full acquisitions	Direct exports, greenfield subsidiaries and acquisitions

Table 3: Emball'iso - an internationalization process in three stages

Periods	**1994-2000**	**2000-2008**	**Since 2008**
Stages	Stage 1: First exports thanks to specific products	Stage 2: Acceleration of foreign expansion and increase of commitment: entry by acquisitions	Stage 3: Acceleration of expansion and increase of commitment: entry by greenfield subsidiaries
Foreign markets	Europe and Asia	Europe and Asia	20 countries (North America, Europe, South-East Asia)
Entry modes	Indirect exports	Exports and subsidiaries	Exports and subsidiaries

Table 4: Hydrola - an internationalization process in two stages

Periods	**2005-2008**	**Since 2008**
Stages	Stage 1: First contacts with foreign markets and development of exports	Stage 2: Acceleration of foreign expansion and increase of commitment
Foreign markets	Francophone Africa, Maghreb (Morocco and Tunisia) and Latin America (Mexico)	60 countries (Francophone Africa, Maghreb, Latin America, Europe, Middle East)
Entry modes	Direct and indirect exports	Exports and sales subsidiaries

Table 5: Mixel Agitateurs - an internationalization process in four stages

Periods	**1991-1995**	**1995-1996**	**1996-2004**	**2004-2012**
Stages	Stage 1: First contacts with foreign markets through exports	Stage 2: Tentative to establish abroad – failure	Stage 3: Massive development of exports	Stage 4: Acceleration of foreign expansion and increase of commitment
Foreign markets	Belgium, Morocco, Switzerland, India, China, Japan	Hong Kong	Europe, Asia (including China), Latin America (including Brazil)	30 countries, mainly Europe, Asia (China), Latin America (including Brazil)
Entry modes	Direct exports	Exports and sales office	Exports	Exports and subsidiaries

Table 6: SLAT - an internationalization process in five stages

Periods	**End of 70s-1999**	**1999**	**1999- 2003**	**2004-2011**	**Since 2011**
Stages	Stage 1: First contacts with foreign markets through French customers	Stage 2: First tentative to penetrate Chinese market - failure	Stage 3: International expansion through customers	Stage 4: Development of a proactive expansion strategy	Stage 5: Acceleration of foreign expansion and increase of commitment
Foreign markets	Latin America	Europe, Latin America, China	Europe, Latin America, Asia	Europe (including Germany), Latin America, Asia	Europe (including Germany and Eastern Europe), Latin America, Asia
Entry modes	Indirect exports	Direct and indirect exports	Indirect exports	Direct and indirect exports	Exports and sales subsidiary