International Activities in Small Firms: Examining Factors Influencing the Internationalization and Export Growth of Small Firms

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Small firms are becoming increasingly international. Small firms are reported to contribute 25 to 35% of world exports of manufacturers, and about one-fifth of manufacturing small firms receive between 10 and 40% of their turnover from cross-border activities (OECD, 2000). Moreover, small firms seem to get into the international scene at a much earlier age than before, and they are also more actively pursuing strategies that involve international activities (Knight, 1997; McDougall & Oviatt, 2000; McDougall, Shane, & Oviatt, 1994; Reynolds, 1997).

These internationally active small firms also tend to grow faster than their domestic equivalents. The international activities of small firms are consequently attracting growing interest from scholars interested in internationalization, entrepreneurship, and small business growth.

Previous conceptualization and empirical research on firm internationalization has been heavily focused on large multinational enterprises and these models have been used as the lens for understanding firm internationalization in other empirical settings (Ibeh, 2000). An influential theoretical starting point to explain firms’ international development has been different types of stage and process models (Bilkey & Tesar, 1977; Cavusgil, 1980; Johansson & Vahlne, 1977, 1990; Reid, 1981). A basic assumption in these models is that firms internationalize in an incremental, stepwise, and gradual process for gaining increased experiential knowledge and reduced risk (Johanson & Vahlne, 1990; Loustarinen, 1979). According to the Uppsala School of Internationalization (Johansson & Vahlne, 1977, 1990), firms begin with their home markets and then gradually internationalize in a stepwise manner. This means that the organization slowly builds up its knowledge regarding foreign cultures, languages, political systems, level of industrial development and so on (Johanson & Wiedersheim-Paul, 1975).

The gradual stage model of a firm’s international development has been criticized from various angles and numerous studies point out that the stage models may not be fully able to explain the internationalization of small firms in today’s global markets (Andersen, 1993; Andersson, 2000; Bell, 1995; Crick & Jones, 2000; Knight, 1997; McDougall et al., 1994). A study of Australia’s high exporters, for
example, spotlighted the rise of numerous small firms that successfully competed – virtually from their inception – against large, established players in the global arena (Rennie, 1993). The study coined the concept of “born globals”, and it was followed by numerous studies on the same phenomenon under names such as born globals (e.g., Andersson & Wictor, 2003, Knight & Cavusgil, 1996; Madsen, Rasmussen, & Servais, 1999; Madsen & Servais, 1997), global start-ups (Oviatt & McDougall, 1995), international new ventures (McDougall et al., 1994), and instant exporters (McAuley, 1999). Even though the born global phenomenon is probably more common today, when internationalization may be less complicated and risky because of lower trade barriers and cheaper and faster transportation and communication, it is not an entirely new phenomenon. For example, Buckley, Newbould, and Thruwell (1979) studied initial entry modes in the United Kingdom, and Roux (1979) studied French firms. Ganitsky (1989) investigated Israeli instant exporters and Garnier (1982) noted the same phenomenon in a Canadian study. Chang and Grub (1992) found born globals in Taiwan, and Lindmark, Christensen, Eskelinen, Forssström, Sörensen, and Vatn (1994) found born globals in the Nordic countries. Consequently, there is abundant empirical evidence showing that not all firms internationalize gradually in a stepwise manner; some firms internationalize quickly and right from their inception.

Taken together, it seems that the general stage model theory of international activities may not be able to fully explain international activities in small firms. The Uppsala Model does not, for example, explain why some small firms start to internationalize, while others stay in the domestic market. Much is also still unknown as to why some international small firms tend to slow down their expansion, while others continue to expand in different markets. Even though the importance of complementing existing theories of firm internationalization with empirical studies of the international activities of small and entrepreneurial firms has been widely acknowledged (Westhead, Binks, Ucbasaran, & Wright, 2002; Zahra & George, 2002), there are very few empirical studies with this focus. Consequently, there is a need to develop and contextualize previous concepts and models to understand different types of international strategies developed by small firms with diverse characteristics operating in different environments.

Based on the discussion above, we have two main research objectives in this paper. First, we want to identify and empirically test a set of relationships between contingent factors and the international activities of small firms in order to explain why some small firms become international while others choose to operate in the domestic market. Second, we want to investigate whether these contingent factors can also explain why some international small firms continue to expand and grow their international activities, while others do not. The overall aim of the study in this respect is to question the assumption that small firms start with their home markets, and then gradually start to internationalize in a stepwise manner as they grow in size and age. The study examines how various critical contingencies in a company’s internal and external environment, such as firm-specific as well as CEO- and industry-specific characteristics, may determine a firm’s decision to internationalize or not.

The paper will proceed as follows. First, we present a literature review with concepts and arguments from international business and small firm literature; we identify contingent factors that can be hypothesized to influence the international activities of small firms. Thereafter follows the methods section in which we present
the sample and variables of the empirical study. Then we present the analysis and the results, and the paper ends with a discussion and conclusions.

**Literature Review**

Several theories exist to explain why and how firms develop their international activities (Ibeh, 2000). Common assumptions are that firms are risk averse, that they go international to reduce risk (Knickerbocker, 1973), and that firms progress from domestic to international markets in an orderly and risk-averse manner (Johanson & Vahlne, 1977). Domestic business conditions have, however, become increasingly influenced by international economic factors, and the ability for small firms to isolate themselves from foreign competition has decreased, especially for firms that operate in global industries. This is illuminated by the integration of the European market, where deregulations have made it easier for small firms to deliver products beyond the region where the firm is located (Andersson, 2000). Hence, due to the pace of technological change, declining government-imposed barriers, and the rapid globalization of markets (Hitt, Ireland, Camp, & Sexton 2001), the time is ripe to question and investigate earlier conceptualization and explanations of why firms are involved in international activities.

We will develop the research model of this paper using concepts and arguments from literature on internationalization, entrepreneurship, and small business. The paper will hypothesize about the relationship between the internationalization of small firms and six contingent factors: (a) the size of the firm, (b) the age of the firm, (c) the technology level in the firm, (d) the age of the CEO, (e) the occurrence of planning in the firm, and (f) the perceived dynamism in the firm's environment. This contingency approach to internationalization views foreign expansion and export as dependent upon the specific situation of the small firm. Hence, export is seen as being influenced by variations in firm resources, managerial characteristics, planning procedures, and market opportunities (or lack of market opportunities). The size and age of the firm as explanatory factors for increased international activities are derived from the stage and process literature. This stream of literature claims that knowledge in the firm is acquired over time, which in turn will lead to increasing international commitment as organizations develop over time (e.g., Johanson & Vahlne, 2003). The occurrence of planning in the firm is derived from literature on strategic planning in small firms that claims that strategic planning is crucial for firms' survival, as well as continuous domestic and international growth (e.g., O'Gorman, 2000). The technology level, the age of the CEO, and the perceived dynamism in the firm's environment is derived from literature on international new ventures that claims that the CEO or entrepreneur in the firms, as well as the technology level and industrial environment, affects international development (Andersson & Wictor, 2003; McDougall, Oviatt, & Shrader, 2003). The basis for these six factors will be further discussed in the following section.

**Firm Size and Age**

Both firm size and firm age have traditionally been used as the main predictors of a firm's international activities. The stage theory of internationalization assumes
that firms progress from domestic to international markets in an orderly and risk-averse manner and suggests that there is a need for a critical mass in firm size before internationalization may take place (Johanson & Vahlne, 1977). Important arguments in explaining the internationalization of firms are thus the control over resources (financial, technological, personnel) and the advantages of economies of scale. The theory tells us that small organizations internationalize stepwise. The majority of small firms suffer from severe resource constrains (Stinchcombe, 1965; Storey, 1994) and many researchers maintain that large firms are therefore more likely to compete in international markets than small firms (Bonaccorsi, 1992; Calof, 1993). By growing larger, firms will be able to commit greater resources to international activities and gradually increase their share of sales derived from international markets. Hence, the larger the firm, the more resources available for developing the firm’s international activities. Based on these arguments we propose the following hypothesis:

H1: The international activities in small firms are positively related to size of the firms.

Another argument explaining gradual and stepwise internationalization is that firms need to develop their knowledge of foreign markets before they can allocate extensive resources to these markets (Johanson & Vahlne, 1977, 1990). Understanding new cultures, languages, and distribution systems is a time-consuming and gradual process. Thus, firms may have to develop certain routines, skills, and legitimacy for some years to overcome the liability of newness and smallness (Stinchcombe, 1965) and to reach a minimum economic size that is needed for success on the international market. Gaining knowledge consequently reduces the perceived risk of operating in foreign markets and can motivate the international expansion of the firm (Johanson & Vahlne, 1977). Hence, the age of the firm may be important in explaining the internationalization of small firms. This leads us to the following hypothesis.

H2: The international activities in small firms are positively related to the age of the firms.

**The Technology Level of the Firm**

Researchers have found that the level of technology may be an important factor in explaining the internationalization of small firms and that high-technology companies are more international than low-technology companies (Crick & Jones, 2000). A process of rapid internationalization may, for example, be essential for achieving necessary sales volumes before the technology becomes obsolete or imitated by other firms (Lindqvist, 1997). Furthermore, much of the literature treating the born global phenomenon has been connected with new industries and high-technology-based sectors (Crick & Jones). However, the phenomenon has in later research been found also in other “old” and mature sectors, such as the arts and crafts business (McAuley, 1999). Madsen & Servais (1997) connect that with the size of the home market. Born global firms originating from large home markets are mostly found in high-technology-based sectors, while born globals in smaller
countries are mostly found in other sectors. The information technology and e-commerce sectors are examples of industries with new technology that sometimes can be regarded as high-tech industries. We propose the following hypothesis:

H3: The international activities in small firms are positively related to technology level of the firm.

CEO Age

A key variable in explaining the internationalization of small firms is the decision-maker in the firm (Andersson, 2000, 2002). Surprisingly, relatively few studies have empirically explored the relationship between CEO characteristics and firms' internationalization (Westhead, Wright, & Ucsbasaran, 2001). Bloodgood, Sapienza, and Almeida (1996) found that greater international work experience among top managers was strongly associated with greater internationalization of new high-potential ventures in the U.S. Westhead, Wright, and Ucbasaran (2001) also found that older founders with more resources, denser information and contact networks, and considerable management know-how were significantly more likely to become exporters, especially where industry-specific knowledge and experience were important. McDougall et al. (1994) and Madsen and Servais (1997), moreover, both concluded that the background and experience of the entrepreneurs had a large influence on the appearance of born globals. Moreover, McDougall et al. (2003) found that international experience, industry experience, and technical experience were significantly different between international and domestic new ventures. In small firms, the decision power is often concentrated in the hands of one or a few persons and the CEO has a unique and influential role in the organization (Begley & Boyd, 1987; Chandler & Jenson, 1992). The age of the CEO may, in this respect, reflect the life-long experience and personal network of an individual.

Hence, we propose the following hypothesis:

H4: The international activities of small firms are positively related to age of the CEOs.

Formal Planning Meetings

Planning is often considered to be a crucial element in small firms' ability to survive and grow (O’Gorman, 2000). Research into strategic planning has given empirical support that engagement in continually reviewing strategies and long-term plans in small firms may increase the strategic alternatives available to the firm (e.g., Lyles, Baird, Orris, & Kuratko, 1995; Mueller & Naffziger, 1999; Robinson & Pearce, 1984). Studies have shown that firms with market planning are much more likely to engage in international activities (Aaby & Slater, 1989; Ibhe, 2000); however, few CEOs find enough time to focus on such strategic planning procedures (Castaldi & Wortman, 1984; O’Gorman; Robinson, 1982). Moreover, many owner-managers have no marketing experience, and even less knowledge of export markets (O’Gorman). Hence, small firms tend to devote time and resources to
innovation and product development, while little attention is spent on finding new markets for the products. Strategic planning may, in this respect, result in the consideration of domestic as well as international alternatives which otherwise may not have been thought of (O'Gorman). The above discussion suggests that small firms' formalized meetings – for the purpose of planning, reviewing, and developing strategies and long-term plans – influence international activities of the firm.

H5: The international activities of small firms are positively related to the number of formalized meetings.

Industry Environment

The specific industry environment in which organizations operate can have an impact on the strategic direction of a firm (Miller & Friesen, 1984). A fast-changing and dynamic environment may, for example, provide firms with opportunities for pursuing innovative strategies, but may also lead to greater pressure – from competitors, technological progress, rivalry among competitors, regulatory developments, and so on (Zahra, 1991, 1993; Zahra, Neubaum, & Huse, 1997). Such continuity of changes may create new venturing opportunities, but it also intensifies rivalries by encouraging new firms' entry into the market. Boter and Holmquist (1996) found that the industry environment was a greater determinant than nationality when it came to understanding the international behaviour of small firms. They distinguished between two types of companies: conventional and innovative. They found that innovative companies had a global focus and that these companies were not bounded by industrial wisdom. Rather, innovative companies tried to create their own niches where they could act with an industrial ignorance. They found that it was the newness, not the level, of technology that was of importance. New technology gave the company a greater freedom of strategic choice. The industry concept is ambiguous and official statistics do not always give a current view of a firm's industry. Among suppliers, the customer's industry membership is of greater importance and influence than the firm's (Andersson, 2002). This leads us to the following hypothesis:

H6: The international activities in small firms are positively related to the degree of environmental dynamism experienced in the industry.

Method: Sample and Variables

To test the hypotheses by statistical analysis, this study was designed as a questionnaire survey. We used two criteria for identifying a suitable sample. The first criterion was that the firms could be considered “small”. The operational definition of small firms varies widely among empirical studies of small businesses (Brooksbank, 1991; d’Amboise & Muldowney, 1988). The most widely used categorization of small firms in Europe-based research seems to be employment size (e.g., Carter & Jones-Evans, 2000; Jones & Tilley, 2003; Storey, 1994). Our criterion for small
firms was set to include firms with 10 to 50 employees, in accordance with the statistical definition of small firms in the European Union.

The second criterion was that the firms should operate in similar industries to control for potential industry differences. The industries chosen to meet the second criterion were (a) manufacturing of electronic machines and components (210 firms); (b) manufacturing of electronic communication equipment (75 firms); and (c) manufacturing of optics/medicine/photo equipments (166 firms). These industries were also considered suitable because these firms have a broad market for their products, not just a country or region.

The selection criteria resulted in a list of 423 small Swedish manufacturing firms. An important choice was who should provide the information (i.e., the informant in the targeted firms). We reasoned that the CEO would be the best target, as prior research has found that CEOs have overview and direct access to information sources within the organization, and also have extensive control over the business activities undertaken (Begley & Boyd, 1987; Chandler & Jensen, 1992; Miller & Tolouse, 1986). We therefore decided that the questionnaires should be sent to the CEO in each of these 423 small firms. Postal addresses were collected from Statistics Sweden. A control question was included in the questionnaire to ensure that only the CEO answered the questions.

Dependent Variable(s)

The overall aim of the study is to examine whether the various critical contingencies in a company’s internal and external environment can explain the firm’s involvement in international activities. In order to meet this overall aim, the paper will address two main research objectives. First, it will set out to investigate contingent factors that may explain why some small firms can be considered international (i.e., have a significant proportion of their revenue derived from foreign sales). For meeting the first research objectives, we use a dichotomous dependent variable. The firms are divided into two groups: one consisting of firms with less than 25% of total sales from exports, and another with 25% or more of total sales derived from exports.

The second research objective is to investigate if these contingency factors also can explain why some internationalized small firms (i.e., the small firms that have already attained 25% or more of total sales from exports) continue to expand their international activities. For meeting this research objective, we use a metric dependent variable. This variable is measured as the mean of the following two measures: the natural log of the number of countries the firm exported to, and the natural log of the number of new countries to which the firm has been exporting in the last three years (alpha = .53).² This measure is expected to capture the magnitude and growth of export in internationalized small firms.

Independent Variables

Corresponding to our hypotheses, six contingency variables expected to influence the international activities in small firms were selected. The independent variables were measured as follows:

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² The alpha value for the metric dependent variable is .53.
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1. Firm age was measured as the number of years that has passed since the firm was founded.
2. Firm size was measured as the natural log of the number of employees reported in 1999.
3. The technology level of the firm was measured as a dichotomous dummy variable, indicating if the company was involved in high-technology production (=1) or not (=0).
4. CEO age was measured as the age of the responding CEO.
5. The environmental dynamism was measured on a 5-point Likert type of scale, ranging from very low (1) to very high (5). This measure was taken from Zahra et al. (1997).
6. Two separate variables were used as proxies for the number of formalized meetings. The first one measured the number of weekly management meetings held in the small firms during the last year. The second one measured the number of formal board meetings held in the small firms during the last year.

Results and Analysis

The final sample included usable responses from 135 firms, which corresponds to a response rate of about 32%. About one-third (36.3%) of the companies operated in the domestic market, or were only experimental exporters (with a maximum of 10% sales from exports), while almost a fifth of the companies had 70% or more of their total sales from export. Nearly two-thirds (61.7%) of the firms in the sample were experiencing growth, and 29.8% considered themselves as being involved in high-technology production.

The responding companies had a mean of 24.5 employees and average total sales of about 30.5 million Swedish crowns (corresponding to approximately 3.3 million euro). In over half of the companies (61%) the original founder was still involved in either the management or governance of the business. In the cases where founders were still active, they held the position of CEO in 83.5% of the companies, another executive position in 8.9%, and board member in 7.6%.

Tables 1 and 2 display Pearson product moment correlation of the variables in the study. Table 1 presents the correlations for the whole original sample (135 small firms). Table 2 presents the correlations for the 65 small internationalized firms.

**Table 1:** Correlation matrix \((n=135)\)

<table>
<thead>
<tr>
<th></th>
<th>Intern. SME</th>
<th>High tech production</th>
<th>Firm size</th>
<th>Firm age</th>
<th>CEO age</th>
<th>Dynamism</th>
<th>Mgmt meetings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intern. SME</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>High tech prod.</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Firm size</td>
<td>.18*</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Firm age</td>
<td>–</td>
<td>–.09</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>CEO age</td>
<td>.07</td>
<td>.05</td>
<td>.13</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Dynamism</td>
<td>–</td>
<td>–</td>
<td>–.09</td>
<td>–.08</td>
<td>–.06</td>
<td>–.19*</td>
<td>–</td>
</tr>
<tr>
<td>Formal man. meetings</td>
<td>–.18*</td>
<td>–.13</td>
<td>–.17*</td>
<td>–.15*</td>
<td>.08</td>
<td>.08</td>
<td>–</td>
</tr>
<tr>
<td>Board meeting freq.</td>
<td>.17*</td>
<td>–.07</td>
<td>–.01</td>
<td>.00</td>
<td>–.02</td>
<td>.04</td>
<td>–.13</td>
</tr>
</tbody>
</table>

*Significant at the .05 level.
**Significant at the .01 level.
Analysis for the First Research Objective

To meet our first research objective, we need to ascertain if the six identified contingency factors can explain why a company has internationalized. The first research objective is, therefore, to analyze the multivariate relationship between a mixed set of metric and categorical covariates (the factors hypothesized to influence the international activities of a firm) and a binary dependent variable (the two cases of either being an internationalized small firm or not). Thus, we need to deploy a procedure that can estimate the probability of the expected event (i.e., internationalization) occurring. For metric dependent variables, multivariate regression can be used; however, as we have binary dependent variables and several metric or dummy-coded variables in our first research question, logistic regression is more appropriate. Logistic regression is a statistical analysis aimed at predicting and exploring a binary (two-group) categorical variable, where the relative impact of each predictor variable is identified. It differs from multiple regression analysis in that it directly predicts the probability of an event occurring (Hair, Anderson, Tatham, & Black, 1998). This statistical technique consequently enables us to identify which variables, among a set of multiple interacting factors, are the most salient in categorizing companies as internationalized or not. Table 3 displays the results of the logistic regression.

The chi-square test of the final model (all covariates included) was significant (.01-level) and indicates that a significant relationship exists between the entire set of independent variables and the dependent variables. The Hosmer and Lemenshov measure (measuring the correspondence of the actual and predicted value of the dependent variable) was also non-significant, another indicator of a good model fit.³ The $R^2_L$ ratio, based on the improvements in the log-likelihood value, was 0.140. This $R^2_L$ is comparable to the $R^2$ in linear regression (Hair et al., 1998).

In Table 3 we have presented B (the odds ratio), standard deviation (S.E.), and the Wald statistics. The predicted values of the dependent variable (B) concern the “log-odds” that an event will occur, and the interpretation is thus analogous to that of linear regression (Hair et al., 1998). A positive regression coefficient implies that an increase in that variable is associated with a higher likelihood of broader involvement in international activities. An asterisk marks significant regression coefficients. The Wald statistics tests whether the individual regression coefficient differs from zero (parallels the use of the t-ratio in linear regression).
The hypotheses for our first research objective were supported/not supported as follows:

H1: We found no support for the relationship between the size of the firm and the international activities of small firms. The hypothesis was not supported.

H2: We found no support for the relationship between the age of the firm and the international activities in small firms. The hypothesis was not supported.

H3: We found no support for the relationship between the technology level of the firm and international activities in small firms. The hypothesis was not supported.

H4: We found no support for the relationship between the age of the CEO and international activities of small firms. The hypothesis was not supported.

H5: We found no support for the relationship between the number of formalized meetings and international activities in small firms. The hypothesis was not supported.

H6: We found support for a positive relationship between the degree of perceived dynamism and international activities in small firms. The hypothesis was supported.

**Analysis for the Second Research Objective**

The second research objective is to identify factors that may explain why some internationalized small companies continue to expand their international activities, while others do not. As we have a metric measure as the dependent variable (magnitude and growth in export) and several metric or dichotomous independent variables, multiple regression can be considered as an appropriate statistical technique (Hair et al., 1998).

Table 4 displays the results of the regression analyses. To have some control of collinearity and be able to see the separate effects of the control variables, we entered the independent variables stepwise. The table reports the adjusted R-squares for the full model. Beta coefficients for the full model are also presented in the table. The hypotheses are directly linked to each of the independent variables in the model.
As can be seen in Table 4, the full model for the total sample was significant (F = 4.27**). The hypotheses for the second research objective including the firms with over 25% of their sales generated from exports were supported, or not supported, as follows:

H1: We found no support for the relationship between the size of the firm and the export growth in internationalized small firms. The hypothesis was not supported.

H2: We found support for a positive relationship between the age of the firm and the export growth in internationalized small firms. The hypothesis was supported.

H3: We found no support for the relationship between the technology level of the firm and the export growth in internationalized small firms. The hypothesis was not supported.

H4: We found support for a negative relationship between the age of the CEO and the export growth in internationalized small firms as hypothesized, but there is a significant relation in the opposite direction.

H5: We found no relationship between the number of formalized meetings and the export growth in internationalized small firms. The hypothesis was not supported.

H6: We found no support for the relationship between the degree of perceived dynamism and the export growth in internationalized small firms. The hypothesis was not supported.

**Discussion**

The overall aim of the study was to examine how various critical contingencies in a company’s internal and external environment can explain a firm’s involvement, or not, in international activities. To meet this overall aim, the paper addressed two main research objectives. First, we needed to investigate contingent factors that may explain why some small firms can be considered internationalized, that is, drawing a significant proportion of their revenues from foreign sales. Second, the paper investigated if these contingency factors also can explain why some internationalized small firms (i.e., the small firms that already have 25% or more of
total sales from exports) continue to expand their international activities, while others do not.

The findings indicate that high levels of environmental dynamism experienced in the industry can explain why some small firms become involved in international activities. However, once a significant proportion of revenue is derived from foreign sales (25%), it is the age of the firm (older firms) and the age of the CEO (younger CEOs) that influence small firms to continue to grow their international activities. This means that factors influencing the decision to go abroad and become international may differ from the reasons why small firms continue to expand their international activities once they are operating in the global marketplace. The results consequently suggest it is dynamic and fast-changing environments that may push small firms to expand their operations abroad, while it seems to be the experience and connections the organizations build up with the prevalence of younger CEOs that enable small firms to further the expansion and growth of international activities. The findings are discussed in more detail below.

Factors Explaining Why SMEs are Involved in International Activities

The main contingent factor that was able to explain why some firms can be considered internationalized was the environmental dynamism experienced by the CEO. Dynamic and fast-changing environments seem to push small firms to go abroad. In dynamic environments there may be a lot of international opportunities emerging due to the inherent volatility of surroundings; however, to be a committed exporter a firm must direct resources towards these international activities. Internationalization is an investment that needs resources in the beginning that will not result in fast returns. To start activities abroad (e.g., to establish subsidiaries) it is important that internationalization becomes an integral part in the firm's overall strategy; however, as the analysis of the whole sample of firms showed, neither age nor size can explain why firms derived a critical proportion of sales from exports. If experiential learning played an influential role in internationalization of small firms, one would logically expect that the age and size would have explained whether firms actually internationalized or not. However, our findings point to the contrary.

The results indicate that we need more attention and further examination of perceptions and behavioural traits at the individual level in international entrepreneurship research. Our findings suggest that future research will have to go beyond variables related only to firm size and age, and also study cognitive components of CEO behaviour, experience, motivation, and beliefs (Harveston, Kedia, & Davis, 2000). The individuals' careers should also be followed through different firms, which could be done by longitudinal case studies and surveys with data collected at different points in time (Westhead et al., 2001).

Although we measured CEOs' perception of the environment in this paper, the sampled firms were drawn from three related industry sectors (i.e., firms involved in high-technology-based manufacturing) as discussed earlier. It is consequently possible that the internationalized small firms in this sample could be those firms
where CEOs have found dynamic niches within an industry, where they have been able to take advantage of international opportunities.

Factors Explaining the Degree of Internationalization of Already Internationalized Small Firms

In our analysis for the second research objective, we found that the age of the firm (older small firms) and the age of the CEO (younger CEOs) could explain why smaller firms continue to expand their international activities. The first result is in line with the traditional Uppsala School (Johanson & Vahlne, 1977, 1990) and different stage models that argue that international activity will create learning and more knowledge on internationalization. To be able to expand abroad it consequently seems important that knowledge about internationalization becomes an important part of the firm’s strategy (Eriksson, Johanson, Majkgård, & Sharma, 2000). It is also interesting that the age of the firm could explain export growth, but not why firms were internationalized or not. This is in line with Autio, Sapienza, and Almeida (2000), who found that firms that do not become international in their early years might introduce organizational routines that reduce the chances of spotting and realizing foreign market opportunities later on in their development. The experience that is built up during years in organizations thus seems to be an important predictor of the international growth of small firms.

The second result, that the age of the CEO (younger CEOs) could explain why smaller firms continue to grow their international activities, also indicates that the younger generation of CEOs see the world as their marketplace and push for increased international activities. An explanation may be that the younger generation of CEOs may have been much more exposed to the international arena, due to, for example, development in information technologies that reduce limits of time and space, and increased opportunities to enroll in schools in other countries. The mere exposure to the international arena that younger CEOs have had can have an impact on their understanding of, and familiarity with, foreign market conditions and the creation of international business opportunities associated with them. Tihanyi, Ellstrand, Daily, and Dalton (2000) found accordingly that younger management teams (including CEOs) were more international, which is in line with Hambrick and Mason’s (1984) prediction that younger executives would be more likely to make risky, but potentially rewarding decisions.

The results are in line with studies that focus on the cognitive aspects of entrepreneurs; CEOs understand that small firms, especially from small home markets, are growing internationally (Andersson, 2000; Andersson, Wictor, & Gabrielson, 2001; Oviatt & McDougall, 1995; Westhead et al., 2001). A fruitful research design for intensified studies could be to do longitudinal studies with the individuals as the focus. Based on the knowledge that the strategic choices and performance levels of organizations can be viewed as reflections of the values and cognitive bases of powerful actors in the company (Hambrick & Mason, 1984), it would of both practical and scholarly importance to the empirical investigation of the linkages between characteristics of the CEO and the international activities of small firms.
Conclusion

The rapid technological progress, advances in telecommunications and technology, and the deregulation of markets have led to a fiercer international competition (Hitt et al., 2001). This has put the study of the internationalization of small firms high on the research agenda (Oviatt & McDougall, 1995) and the interest in the intersection between entrepreneurship and internationalization has recently received much interest (McDougall & Oviatt, 2000; Zahra & George, 2002). A significant development in research on internationalization has been research on the role played by small firms in international markets (Lu & Beamish, 2001). In this paper we have highlighted the need to identify the partial and situational relevance for various internationalization models (Ibeh, 2000). By using a contingency approach to explain the international activities of small firms, we identify contingent factors that explain why a firm starts to go international and why firms continue to grow their international activities.

In this paper, we found that it is mainly the CEO’s perception of a dynamic and fast-changing environment that seems to explain why some small firms are involved in international activities. However, once a significant proportion of their revenue is derived from foreign sales, it is the age of the firm and the age of the CEO that seem to explain why some small firms continue to grow their international activities. This study shows that it is fruitful to split the complex phenomenon of internationalization into different parts. While a dynamic and fast-changing environment may push small firms to go abroad, it seems to be the accumulated experiences in the organization, together with a younger generation of CEOs, which enable small firms to further expand their international activities.

While the empirical findings in this paper are intriguing, caution should be taken when generalizing the findings beyond the scope of this study. The results come from a study of small Swedish firms, and the findings may be specific to this setting. Sweden, with about 8.9 million inhabitants, has a small domestic market compared with North America, and this situation has historically forced Swedish entrepreneurially minded firms to increase their international activities in order to grow and increase profits. Future research attempts should be made in order to extend the generalizability of the results found in this study, and comparative samples of firms should be used.

Another potential limitation with this study is that it examines internationalization only in terms of international revenues. Recent research has found that alliances with partners in foreign markets can be an effective strategy to overcome the deficiencies small and medium-sized enterprises (SMEs) face in resources and capabilities when expanding their activities abroad (Lu & Beamish, 2001). Future studies should include other measures such as the number of geographical markets served (McNaughton, 2003) and other forms of internationalization, including foreign sourcing (Servais, 2001) and foreign R&D alliances. Another limitation is that the study is carried out in one country in a limited number of industries. Further studies in more countries and industries are recommended.

The findings in this paper call for further and intensified studies of how small firms may succeed when operating in foreign markets. For example, the study indicates that theories focusing on the perception of the environment are fruitful to apply to understanding the first international step in a firm’s international development. Oviatt and McDougall (1995) point out that a global vision existing
from a firm’s inception is probably the most important characteristic found in entrepreneurs in born globals. This is also connected with the entrepreneurs’ level of ambition and general motivation. However, it is firm age and CEO age (younger CEOs) that are main predictors for becoming an internationally committed company. These results are in line with the growing literature treating the born global phenomenon, indicating that while firm experience is an important factor in international activities, there may be a younger generation of CEOs who do not see the national border as a limit that acts as the decisive factor for an international growth strategy. Thus, the study indicates the importance of complementing firm-level and industry-level studies with the study of individual decision-makers to understand small firms’ internationalization processes (Andersson, 2000; Andersson & Wictor, 2003; Andersson et al., 2001; Oviatt & McDougall, 1995, 1997; Westhead et al., 2001). A promising avenue for future research could be to focus on the individual behind the strategic decision to go abroad, instead of the firm, as the unit of analysis.

Although there are some limitations, this study makes important contributions to both entrepreneurship and internationalization literature. The paper shows that the factors influencing small firms to go abroad and become international differ from factors that make them continue to grow their international activities once they are in the international marketplace. The main influential models in the area of firm internationalization (e.g., Johanson & Vahlne, 1977, 1990) have focused on the importance of the same factors in all stages of the firms’ international development. By focusing on different types of internationalized firms (e.g., differentiated by stage in the firms’ international development), more realistic and specific analysis with insightful results can be carried through. As the trend continues towards globalization and the integration of markets, a top priority for entrepreneurship and small business scholars should be to further investigate how small firms might successfully manage their international activities in a world that is becoming smaller.

Finally, the results of this study have a few implications for policy-makers and practitioners. By showing that there are different factors affecting the first step in the firms’ international development and the continuing growth, practitioners can target these different types of firms in different ways to improve international growth. To assist firms that are not international, but have CEOs that perceive the environment as dynamic and fast growing, should be a fruitful way to increase the international development of small firms. If practitioners’ and policy-makers’ objective is to promote export growth in already internationalized companies, they should try to introduce a dynamic combination with younger CEOs in older firms. This result could be of importance for boards of directors in older firms aiming to increase exports and international activities in already internationalized firm. The hiring of a young internationally oriented and proactive CEO with international experience could inject new inputs and ideas that would further increase the firm’s international development.

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Notes

1. By an internationalized firm we mean one that derives a significant proportion of its revenue from sales in foreign markets. In this paper we have chosen a cut point of 25%. This break point has been used in many other studies, e.g., Knight (1997) and Madsen et al. (1999). The argument is that 25% of turnover derived from international activities outside the home market are strategic marketing activities that are significantly affecting the firms’ performance.

2. We chose to replace these measures with their natural logs in order to achieve normality and equality of variance in the dependent variables.

3. We cannot reject the null hypothesis that there is no difference between the observed and model-predicted values of the dependent if the Hosmer and Lemeshow Goodness-of-Fit test statistic is non-significant (in this case greater than .05). This implies that the estimates of the model fit the data at an acceptable level.

References


