Abstract

The significance of emerging economies cannot be underestimated, given developed markets of the world increasingly suffer from economic stagnation, ageing populations and declining birth rates. We provide a comprehensive conceptual framework on smaller emergent market exporters, extending current understanding, by incorporating the key drivers (history of the firm; network experience; market position; manager characteristics; trading blocs and new technologies) and barriers (negotiating skills; production oriented; marketing and language skills; government support; finance and resources) and finally the ‘entrepreneurial mindset’ to their entry to developed markets. We posit that the ‘entrepreneurial mindset’ can be seen as the overarching reason why firms internationalise or as a barrier to firm internationalisation. Components of entrepreneurial mindset include personal influence of the owner/manager; inclination to risk taking; entrepreneurial attitudes towards potential barriers; and entrepreneurial driven strategy formulation and implementation. In addition, we provide a comprehensive delineation of the constructs in our framework.

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INTRODUCTION

The process of firm internationalisation is a complex one, and smaller firms from emerging markets have recently been expanding to the more developed markets of the world. In trying to conceptualise the internationalisation of smaller emergent market exporters, our conceptual paper identifies the key drivers and barriers that seek to explain this phenomenon. Zafarullah, Ali and Young (1998) in a study of smaller firm internationalisation in Pakistan found that the emergence of the new generation of younger family business owners and managers were responsible for the firms export initiatives. Other explanations as to the choice of developed markets include business owners in an emerging economy such as Pakistan viewing developed markets as offering greater potential for growth and the security of sales (Zafarullah et al, 1998).

Nakos, Brouthers and Brouthers (1998) in their study of the impact of firm and managerial characteristics on Greek small to medium-sized (SME’s) exporters’ performance found that older firms were more reluctant to internationalise. Yet, younger firms often internationalised by exporting as they were “forced” out as a result of market saturation. Also, negative economic conditions in the home market often acted as a stimulus for the firm to consider international expansion. Political instability, complicated legal frameworks, bureaucracy and uncertain business conditions all characterise emerging economies (Rahman and Bhattacharyya, 2003). Raymond, Kim and Shao (2001) found that compared to the exporters in developed markets, emerging market exporters internationalise to developed markets in order to take advantage of sales opportunities, increase their productivity, enhance their profits, hedge against business risk and finally to establish and maintain a competitive position in the market. The study focused on Korea as an economy that was once an emerging economy, and found that exporting increased the firm’s productivity in that it was able to use resources and facilities that would otherwise have been idle. Furthermore, by internationalising, the firm was able to reduce the risk of stagnated sales or poor profitability in the home market by exporting to another market. Finally Korean exporters were able to establish themselves in a foreign market and develop a reputation for their products and services. These factors drive SME’s to internationalise and take advantage of more stable conditions in the developed markets of the world.

Etemad (2004) posited that there are factors “pushing” SME’s out of local markets and other factors “pulling” SME’s into the global marketplace, and the interaction between the push and pull forces result in what he calls the “mediating” forces that are dependent on the characteristics of the firm, the firm’s dynamics and its entrepreneurial mindset (p.9). Etemad (2004) defined the entrepreneurial mindset as:

“a lens through which the firm sees internal and external forces magnified, or as a filter that lessens the true impact of such influences” (p.9).

Finally, firms irrespective of their size face certain barriers to foreign market entry. Barriers to firm internationalisation are

“constraints that hinder the firms ability to initiate, to develop, or to sustain business operations in overseas markets” (Leonidou, 2004, p.281)

can be broadly classified into internal (barriers associated with organisational resources/capabilities) and external (inherent in the home and host country environment) factors (Leonidou, 2004).

With this in mind our main research focus is to explore the drivers and barriers smaller emergent market exporters face while entering developed markets. Thus, we have three objectives in this
paper. First, we examine why SME’s from emerging markets internationalise (drivers) to developed markets. Second, we identify the key barriers that emerging market exporters face while internationalising. Finally, we provide a conceptual framework of this process and delineate prior studies from the extant literature included in its development.

**DRIVERS IMPACTING SME MOVEMENT FROM EMERGING TO DEVELOPED MARKETS**

**Push Factors**

The push factors as described by Etemad (2004) represent forces within the organisation that exert pressure on the firm to internationalise. In reviewing extant literature, a firm’s history could act as a driver of internationalisation. Ibeh (2003) argues that a firm with importing experience is more likely to internationalise than a firm without. Karlsen, Silseth, Benito and Welch (2003) in their study on the inward-outward connections of the firm, found that the existing literature was biased to the outward operations of the firm, and in their case study of a Norwegian firm, found that inward international activities such as imports help build relations and networks with foreign parties and thereby help the organisation to learn about foreign activities and hence form a platform for outward international activities such as exports.

In their study of the importance of relationships in the internationalisation of Finnish firms, Holmlund and Kock (1998) found that some firms might be forced to internationalise in order to maintain or defend its position in the market with regard to a competitor. They identified that firms might internationalise in order to gain access to resources and customers if the local market is saturated.

Of particular importance to an SME, is the role the owner/manager plays. Often the owner and manager is a single person, hence their level of education, international experience, country of origin and ability to speak foreign languages either accelerates or hinders the firm’s internationalisation process (Chetty and Campbell-Hunt, 2003; Ibeh, 2003). Ibeh (2003) also found that firms were more likely to internationalise if they had proper planning procedures in place. The strategy formulation process within the organisation could be a possible driver of internationalisation.

Another strong push factor from within the organisation is the presence of networks. Holmlund and Kock (1998) identified four internal factors that influenced the internationalisation of a small firm were the firm’s resources, their operational mode and their business and social networks. Business networks were found to be imperative for the firm wishing to gain access to resources, customers and product information as small firms are dependent on others for their survival. Badrinath (1994) found that small firms often internationalise on the advice of friends, relatives and other informal social contacts. Holmlund and Kock (1998) confirmed in their study the importance of the social network. Social bonds were found to create trust between parties, and act as a vital factor for the foreign firm to gain entry into the business network. Furthermore the entrepreneur’s social network was seen as a crucial resource, as the internationalisation process is often centred on the owner/manager and his experience in a small firm.

These “push” factors described by Etemad (2004) can be explained by the resource-based view of the firm, which has recently emerged as a theory to explain the competitive advantage of the firm. Due to the lack of literature on the internationalisation of the small firm, Eisenhardt and Martin (2000), suggest that SME’s must develop their own set of competencies and competitive strategies in order to be able to compete with the multinationals regardless of the size of the organisation, in order to change the basis of competition from size and financial resources to competitive superiority. A firm’s resources and capabilities are at the heart of the resource-based view of the firm. Fahy (2000) identifies a firm’s reputation, brand awareness, managerial capabilities, and technical expertise among others as key capabilities thereby allowing a firm to achieve competitive advantage. These resources and capabilities of the firm if exploited and used appropriately, can
act as “push” factors for the SME’s internationalisation and thereby allow it to compete with its larger counterparts in the global market, since competition will no longer be on the basis of financial resources or size.

Pull Factors

Etemad (2004) also identified forces influencing the internationalisation of the SME described as “pull” factors which provide incentives for the firm to internationalise. These pull forces are external to the firm hence exist in the environment. One of the most influential pull factors is the opening up of economies and the evident borderless business world. Andersson, Gabrielson and Wictor (2004) argue that with the formation of trading blocs such as the EU, small firms are no longer able to isolate themselves and hope to survive in domestic markets alone. The deregulation of economies has given small firms the opportunity to deliver products and services in regions other than the domestic market. Coskun and Altunisk (2002), in their study of Turkish SME’s found that the SME sector of the economy would be exposed to the challenges of the global business world, with Turkey having applied for EU membership. The opening up of the Turkish economy with regard to its EU membership would change the business environment and link the economy to markets such as Europe, Eurasia and the Middle East thereby catapulting conservative Turkish SME’s into the global business arena and attracting SME’s to internationalise.

In a study of Mexican firms, Husted (1996) found that with the acceptance of the North American Free Trade Agreement (NAFTA), Mexican businesses were faced with an unprecedented challenge of modernising and competing with established firms from the US after years of surviving and prospering in a protected market. Although faced by challenges, the opening up of economies and the formation of trading blocs gives SME’s the incentive to internationalise and compete with their larger counterparts in a larger, more dynamic business environment, thereby acting as a “pull” force (Etemad, 2004).

In the Asia-Pacific region the liberalisation of trade continues with the reduction of trade barriers and the formation of the Association of South East Asian Nations (ASEAN) and the ASEAN Free Trade Area (AFTA) continues to attract SME’s to participate outside the domestic market. Regional Cooperation in South Asia through the formation of BIMST-EC (Bangladesh-India-Myanmar-Sri Lanka-Thailand Economic Cooperation) has been marred due to political hurdles, however these co-operations are seen to create opportunities for SME’s in the region, thereby attracting them to internationalise ([www.unescap.org](http://www.unescap.org)).

Another dominant factor attracting SME’s to internationalise is the constant introduction of new technologies. Badrinath (1994) found that the technological revolution that has encapsulated the business world has revealed new possibilities that prove advantageous for SME’s. It has made distant markets more accessible, and reduced the cost of internationalising. The existence of technologies such as the fax, email, videoconferencing and online business databases, have reduced what used to be insurmountable business costs for SME’s. Loane, McNaughton and Bell (2004) in their study of the internationalisation of internet enabled entrepreneurial firms, confirm that new technologies provide opportunities for SME’s to overcome geographic boundaries and enable them to gather information, adhere to customers demands and promote their products in previously inaccessible markets in an unprecedented fashion. Hence the technological revolution has allowed SME’s to maintain a global presence at an early stage of development. Finally, Badrinath (1994) found that the technological revolution has been able to neutralise to a large extent, the advantages previously held by large competitors.

Entrepreneurial Mindset

The mediating forces are seen as an interactive influence between the push and pull factors, and are dependent on
“the firms own internal dynamics, comprising the firm’s propensity to internationalise in terms of its entrepreneurial orientation (or management’s mindset)” (Etemad, 2004, p.9).

In extant literature it is evident that the entrepreneurial mindset plays a crucial role particularly in smaller enterprises where the owner and manager are often the same person and their personal influence has a strong effect on the direction of the firm (Andersson et al, 2000; Brand and Bax, 2002; Fillis, 2002; Coskun and Altunisk, 2002).

Different firms at the same internationalisation stage also portrayed different attitudes towards the perceived barriers, as they were dependent on the entrepreneurial mindset. Fillis (2002) found that risk adverse managers who were more domestic market oriented and lacked the competence of their more experienced counterparts perceived the barriers to internationalisation as much more difficult to overcome as managers who were open to risk. Ibeh (2003) in his study of the internal drivers of export performance in Nigerian firms also found that the entrepreneur played a crucial role in the internationalisation process, as they are the key variable in the process and often the only decision maker.

Calof and Beamish (1995) found that a change in strategy was one of the driving forces towards the process of internationalisation, initiated by the entrepreneur in order to expand and company and realise growth objectives. Hence it was the attitudes and perspectives of the entrepreneur that led to the international activities as confirmed by Burke and Jarratt (2004) in their study that strategy formulation and implementation is person driven rather than process driven in SME’s, as the success of small firms is often dependent on the leadership style of the entrepreneur thereby supporting previous studies that detail the importance of the entrepreneurial mindset in the internationalisation process of the firm. Chetty and Campbell-Hunt (2003) in their study of the internationalisation of SME’s confirm the importance of the entrepreneur in the success of smaller firms, and found that entrepreneurial determination, openness to risk and drive were what built firms and helped them expand into international markets. Thus, our first research objective is why do SME’s from emerging markets internationalise to developed markets? There are also key barriers that these smaller firms face as they enter developed markets which we now discuss.

KEY BARRIERS TO INTERNATIONALISATION FOR SME’S FROM EMERGING MARKETS

While smaller firms have their advantages over large firms with regard to flexibility, spontaneity and the ability to make decisions quickly while avoiding the bureaucracy present in large organisations (Caloghirou et al, 2004), they also face a myriad of challenges whilst trying to internationalise. SME’s from emerging markets encounter particular barriers due to the nature of the economy, as they have recently moved from being protected to operating as an open market economy, thereby facing unprecedented challenges.

Husted (1996) in his study of Mexican small business negotiations with companies from the United States, found that Mexican SME’s found it particularly difficult to negotiate with their US counterparts as the Mexican economy had been protected for many years and the entrepreneurs lacked the necessary business skills to operate in an open economy. Due to the effects of globalisation and trade liberalisation SME’s from emerging markets have been propelled into the global marketplace and are being challenged by international competition and market conditions that not all of them are prepared for.

Other studies on the internationalisation of SME’s (Zafarullah et al, 1998) found that SME’s from emerging economies tend to be more production oriented due to the abundance of labour resources, however their lack of marketing expertise when operating in a developed market, makes them more reliant on agents and distributors hence forcing them to choose exporting as their mode of entry as against FDI. Confirming Zafarullah et al (1998), Raymond et al (2001) in their study of SME internationalisation in Korea found that while Korean exporters found the quality of their products comparable to that of the developed nations of the world, it was perceived that
their market research abilities, brand equity and promotion abilities were inferior. In contrast, developed market firms were found to be adept at marketing, thereby making the transition to the international market easier. Finally, Coskun and Alunisik (2002) in their study of the barriers faced by Turkish SME’s while trying to internationalise, found that insufficient marketing expertise was one of the greatest limitations. In particular, inadequate foreign language skills and the inability to envision changes in consumer preferences and the changes in the market environment were seen as the main barriers to SME internationalisation for Turkish firms.

An additional barrier faced by SME’s from emerging markets is inadequate government support. Badrinath (1994) argues that close cooperation between the government, promotional institutions and the business community is essential in providing an impetus for SME’s to internationalise. He argues that very few SME’s actively seek to contact Chambers of Commerce, and other trade organisations about information such as potential markets to enter. However, government and trade organisation was identified as essential to SME’s in order to help them keep up and be aware of the latest market trends, consumer preferences and technologies and make contact with potential buyers or agents. Yet Zafarullah et al (1998) also found that the assistance provided by the Government in Pakistan is often limited to the lists of potential importers as set out by the Export Promotion Bureau of Pakistan, and in a collectivist culture such as that of Pakistan, face-to-face contact with potential importers and wholesalers was crucial in order to build trust and respect. Hence trade fairs and missions are imperative for successful export development. Nakos et al (1998) also argue that firms that participate in trade fairs and missions have greater access to market information and foreign contacts that make the internationalisation process easier.

Furthermore, the shortage of finance facing SME’s from emerging markets also acts as a barrier to their growth by internationalisation. Holland (2004) in his analysis of Chinese SME’s and their access to credit facilities found that as much as 56% of the companies funds were self-generated, while 20% came from the banks and a mere 1% from equity. State banks in China traditionally preferred lending to large state owned enterprises, however with the economic restructuring in place, private SME’s are finding their access to credit increasingly limited as a result of new credit restrictions. Analysts in China estimate that a majority of small business owners in China are now forced to resort to the underground market in order to gain access to much needed finances. A shortage of capital affects SME’s in particular, as they do not have the ability to absorb the risk of experimenting in new markets (Etemad, 2004). However, limited access to capital is not the only barrier SME’s face when internationalising. Resources such as labour and raw materials are also seen as barriers to internationalisation hence the formation of networks allows SME’s to gain access to vital resources in a foreign country (Chetty and Campbell-Hunt, 2003).

Finally, the decision makers in SME’s have been found to prevent internationalisation or act as a barrier. Frequently a SME owner and manager are the same person (Fillis, 2002; Brand and Bax, 2002; Chetty and Campbell-Hunt, 2003) and the behaviour of the firm is determined by the personal influence of the entrepreneur. Chetty and Campbell-Hunt (2003) found that the decision markers lack of knowledge about a foreign market, their level of education, their foreign market experience and their attitudes and beliefs about the risk associated with internationalisation all affects the decision to internationalise and can therefore prove to be a barrier. Burke and Jarratt (2004) in their study of the influence of information and advice on the competitive strategy of SME’s also found that often in family run small businesses “the family spirit will very much determine the prevailing attitudes, norms and values in the company…and family logic often overrules business reason” (p.128). In collectivist cultures as is predominant in most emerging economies, this idea of ‘family spirit’ is likely to take precedence with regard to decisions to internationalise. Thus, our second research objective is what are the key barriers that SME’s from emerging markets face while internationalizing?
DELINEATION OF THE CONCEPTUAL FRAMEWORK

In order to create a conceptual framework to explain the internationalisation of smaller emerging market exporters, common factors have emerged that have been identified by Etemad (2004) in his model of push, pull and mediating forces. While the model accounted for the reasons why SME's internationalise, it failed to recognise the potential barriers to internationalisation. In this paper we propose an extension of Etemad's (2004) model, and we delineate the following dimensions in our conceptual framework. The delineated constructs and elements are summarised in full in Appendix A.

The “push” (Etemad, 2004; Ibeh, 2003; Karlsen et al, 2003; Holmlund and Kock, 1998; Chetty and Campbell-Hunt, 2003; Badrinath, 1994) and “pull” factors (Etemad, 2004; Andersson et al, 2004; Coskun and Altunisk, 2002; Husted, 1996; www.unescap.org; Badrinath, 1994; Loane, 2004) conceptualise the process of why firms internationalise to the developed markets of the world, and relate to our first research objective. The “push” factors include the history of the firm as an importer (Ibeh, 2003); networks formed as a result of importing experience (Karlsen et al, 2003); decisions taken to defend market position (Holmlund and Kock, 1998); characteristics of the owner/manager (Chetty and Campbell-Hunt, 2003); and the presence of social networks (Badrinath, 1994). The “pull” factors include the formation of trading blocs (Andersson et al, 2004; Coskun and Altunisk, 2002; Husted, 1996; www.unescap.org); introduction of new technologies (Badrinath, 1994; Loane et al, 2004).

The proposed conceptual framework then addresses the barriers to internationalisation (Husted, 1996; Zafarullah et al, 1998; Coskun and Altunisk, 2002; Raymond et al, 2001; Badrinath, 1994; Nakos et al, 1998; Holland, 2004, Etemad, 2004, Fillis, 2002, Brand and Bax, 2002; Chetty and Campbell-Hunt, 2003). The barriers relate to Research Objective Two, the key barriers that SME’s from emerging markets face while trying to internationalise. The barriers to internationalisation include difficulties in negotiating (Husted, 1996); more production oriented due to the abundance of labour (Zafarullah et al, 1998); lack of marketing expertise and foreign language skills (Raymond et al, 2001; Coskun and Altunisk, 2002); inadequate government support (Badrinath, 1994; Nakos et al, 1998; Zafarullah et al, 1998); shortage of finance (Holland, 2004; Etemad, 2004); lack of resources such as labour and raw materials (Chetty and Campbell-Hunt, 2003); and the entrepreneur’s lack of social bonds and ability to network (Fillis, 2002; Brand and Bax, 2002; Chetty and Campbell-Hunt, 2003).

The third section of the conceptual framework deals with the “entrepreneurial mindset” (Etemad, 2004). This relates to Research Objectives One and Two, in that the entrepreneurial mindset is seen as “a lens” through which the firm sees internal and external forces or as a filter that can lessen the impact of these influences (Etemad, 2004). Hence we posit that the entrepreneurial mindset can be seen as a reason why firms internationalise or as a barrier to firm internationalisation. The components of the entrepreneurial mindset are the personal influence of the owner/manager on the direction of the firm (Andersson et al, 2000; Brand and Bax, 2002, Fillis, 2002, Coskun and Altunisk, 2002); inclination to risk taking activities (Fillis, 2002; Chetty and Campbell-Hunt, 2003); entrepreneurial attitudes towards potential barriers (Ibeh, 2003); and entrepreneurial driven strategy formulation and implementation (Calof and Beamish, 1995; Burke and Jarratt, 2004).

CONCLUSION

Referred to as “low and middle income countries” in the 1980’s (Movassaghi, Bramhandkar and Shikov, 2004), Asian economies in particular that of India and China are now what economists call...
"emerging economies". Conservative estimates by Goldman Sachs predict that by 2025 Brazil, China, Russia and India would account for more than half of the size of the G6 countries, which include the United States of America, the United Kingdom, Japan, Germany, France and Italy (Aitken, 2004). The significance of these emerging economies cannot be underestimated particularly when considering the developed markets of the world that suffer from economic stagnation, ageing populations and declining birth rates (Nakata and Sivakumar, 1997). The conceptual framework developed in our study has contributed to the extant literature on smaller emergent market exporters, extending our understanding, by incorporating the key drivers and barriers to their entry to developed markets. In addition, we provide a comprehensive list of prior studies in the delineation of the constructs and elements (Appendix A). Finally the conceptual framework provides a comprehensive, integrated and generalisable response to our research objectives.
REFERENCES


### Appendix A: References Supporting the Conceptual Framework

<table>
<thead>
<tr>
<th>Construct</th>
<th>Supporting References</th>
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<tr>
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<tr>
<td>• Firms history</td>
<td>Etemad (2004)</td>
</tr>
<tr>
<td>• Decisions taken to defend market position</td>
<td>Ibeh (2003)</td>
</tr>
<tr>
<td>• Role of Owner/Manager</td>
<td>Holmlund and Kock (1998)</td>
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<td>• Presence of Networks</td>
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<td>• Badrinath (1994)</td>
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<td><strong>Pull Factors</strong></td>
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<tr>
<td>• Formation of Trading Blocs</td>
<td>Etemad (2004)</td>
</tr>
<tr>
<td>• New Technology</td>
<td>Andersson et al (2004); Coskun and Altunisk (2002); Husted (1996); <a href="http://www.unescap.org">www.unescap.org</a></td>
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<td>• Badrinath (1994)</td>
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<td><strong>Barriers to Internationalisation</strong></td>
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<tr>
<td>• Difficulty in negotiating</td>
<td>Husted (1996)</td>
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<tr>
<td>• Inadequate marketing abilities</td>
<td>Raymond et al (2001); Coskun and Altunisk (2002)</td>
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<tr>
<td>• Shortage of finance</td>
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<tr>
<td>• Inefficient decision makers</td>
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<td><strong>Entrepreneurial Mindset</strong></td>
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<tr>
<td>• Personal influence of owner</td>
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<td>• Inclination to risk</td>
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<td>• Attitudes to barriers</td>
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<td>• Calof and Beamish (1995); Burke and Jarratt (2004).</td>
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Figure 1: A Conceptual Framework of the Drivers and Barriers Facing Smaller Emergent Market Exporters entering developed markets

**Push Factors**
- Firms history
- To defend market position
- Role of owner/manager
- Networks

**Pull Factors**
- Formation of trading blocs
- New technology

**Barriers to Internationalisation**
- Difficulty in negotiating
- Inadequate marketing abilities
- Inadequate Govt support
- Shortage of finance
- Inefficient decision makers

**Entrepreneurial Mindset**
- Personal influence of owner
- Inclination to risk
- Attitudes to barriers
- Strategy formulation

Internationalisation of emerging market SME's