

# **QUADERNI DI RICERCA**

Facoltà di Economia  
Dipartimento di Ricerche Aziendali “Riccardo Argenziano”  
Università degli Studi di Pavia

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Università degli Studi di Pavia

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**Diala Kabbara**

# **Internationalization Process of Small Firms**

**Difference Between Old and New Firms  
in International Business  
and Entrepreneurship Field**

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# **Internationalization Process of Small Firms: Difference Between Old and New Firms in International Business and Entrepreneurship Field.**

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## **Abstract\* :**

The ability to effectively internationalize and the internationalization processes of firms have been the topic of widespread research efforts during the past 30 years. The purpose of this paper is thus to discuss internationalization theories from the point of view of the international business and entrepreneurship scholarship. It answers the two research questions: 1) what are the main theories' weaknesses and strengths, and which model/models best fit small enterprises (SEs)' internationalization processes in the international business field? And 2) are there really different internationalization processes between the old and the new SEs, otherwise, the internationalization process in the international business field does it vary in the entrepreneurship field? If yes, which model can explain the new one?

Research results show that the best model that fits SEs' internationalization process in the international business field is the "Uppsala model" stated by Johanson and Vahlne, (1977) while an integration of the Uppsala model and the network model stated by Johanson and Mattson, (1988) bests explain the process of new SEs in the entrepreneurship field with taking into account the knowledge based theory as adapted in both cases. The paper concludes with plans for some future research and a call for international business and entrepreneurship scholars to produce more joint research.

## **Keywords:**

International business, International entrepreneurship, Small enterprises SEs, process of internationalization.

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\* Diala KABBARA, Phd student in Economics and Business Administration, University of Pavia, Department of Business Administration, via San Felice 7, 27100 Pavia  
E-mail: dkabbara@eco.unipv.it





## **Introduction**

The growth of the firm constitutes an area of interest for scholars in fields as diverse as economics, strategy, entrepreneurship and marketing. A key source of growth is market-seeking internationalization (Luostarinen 1980). Internationalization, understood to be the process of adapting firms' operations to international environments (Calof and Beamish, 1995: 116) often results in useful learning outcomes for firms (Zahra, Ireland and Hitt, 2000). Besides, recent focus on the internationalization of the small firm has resulted in a growing overlap of interest between both international business and entrepreneurship research (McDougall and Oviatt, 2000).

This conceptual paper therefore seeks to firstly draw from a literature view, two dominants contradictory strands of the small firm internationalization fields, the "international business" field, and "entrepreneurship" field. Thereafter the paper seeks to articulate, by describing the main point of weaknesses and strengths of the theories, which theory best fits the process of internationalization in the first field. Finally, after identifying the differences between the old and the new SEs, the paper discusses the process of internationalization in the entrepreneurship field in the attempt to discover the best model which fits new SEs. A concluding section follows with implication for further research. It may be noted that this paper is a conceptual overview of the theory of the firms' internationalization. It does not present any empirical results or statistical data and focuses on certain key seminal ideas.

As described above, the general understanding of firms' internationalization has been largely drawn from two fields: "international business" and "entrepreneurship". The dominant theories in the field of international business can be divided into: i) behavioral theories (firm related) [(Welch & Luostarinen, 1988; Cantwell, 1991; Oviatt & McDougall, 1994)] and ii) theories that use concepts in the field of economics (environment related). Economics-based theories include monopolistic advantage theory (Hymer, 1960),

internalization/transaction cost theory (Buckley and Casson, 1976), the product life cycle (Vernon, 1966) and oligopolistic behavior theories (Knickerbocker, 1973). Behavioral theories of international business embrace internationalization process models including stage models (Aharoni, 1966; Johanson & Vahlne, 1977, 1990; Cavusgil, 1980) and network theories (Johanson & Mattson, 1988). In addition, there are summary frameworks of broader relevance such as Dunning's eclectic paradigm (Dunning, 1980) and the export management literature (Leonidou & Katsikeas, 1996) and the knowledge based theory expended by (Conner, 1991; Conner & Prahalad, 1996; Grant, 1996; Kogut & Zander, 1992; Liebeskind, 1996). While the international new ventures (Oviatt & McDougall 1994) and the international entrepreneurship (McDougall & Oviatt, 2000; Birkenshaw, 1997; Zahra, Ireland, and Hitt, 2000; Zahra & George, 2002) theories belong to the entrepreneurship field.

We will try in this paper to summarize briefly the contributions of some of these approaches as: Hymer theory, Vernon theory, the eclectic paradigm of Dunning, the Uppsala model as a stage model, the Network theory, and the knowledge based view theory, the international new ventures theory and the international entrepreneurship in order to explain the internationalization process of small enterprises SEs.

Regarding the main concepts considered in this paper, they are defined as below:

The small enterprises (SEs) are independent business, managed by their owners or co-owners, have a small market share and their smallness is characterized in terms of smaller number of employees ( $ex < 50$ ), limited turnover ( $ex \leq \text{€ } 10$  million Euro) or limited balance sheet ( $ex \leq \text{€ } 10$  million Euro) (according to the European enterprise and industry Recommendation 2003/361/EC adopted by the commission on 6 May 2003).

The new enterprises have been established in the nineties given that the world change politically, technologically, socially and economically has created an emergence of new enterprises.

The traditional enterprises can be differed from the entrepreneurial firms (born global enterprises, and international entrepreneurship) thought as fast growing (Drucker, 1985) in terms of rapidity of the internationalization process, strategic management, risk seeking, precocity, innovation and the degree of connection with its cluster and the role of the entrepreneur.

We have to mention that not all the old enterprises are traditional and not all the new enterprises are entrepreneurial; there is not a correspondence or a parallelism between them, despite that more of the new enterprises are entrepreneurial and more the old ones are traditional.

