

Chapter 5

Critical Success Factors of SME Internationalization From Developed to Developing Economies

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ABSTRACT

Small and medium enterprises play a vital role in the world's economies, and internationalization is recognized as a wealth-generating economic activity over time. With developing economies showing relative expansion and typical importing structures, there is a growing interest in targeting them. However, the literature on internationalization to developing economies remains scarce. To address this research gap, this chapter seeks to answer the question: What are the critical success factors for SMEs' internationalization from developed to developing economies? It includes a qualitative study, specifically semi-structured interviews with managers of ten SMEs from Portugal. Using the principles of theory-driven data analysis, the results demonstrated that several firm-wise factors, as well as external factors, are critical for the success of SMEs when internationalizing to developing economies. This chapter provides interesting insights for both researchers and business managers interested in SMEs internationalization to developing countries.

INTRODUCTION

Small and Medium Enterprises (SMEs) play a vital role in economic and social structures. Defined by the European Commission as “business entities with economic activities, employing less than 250 workers and with a balance sheet of less than 43 million euros” (EC, 2003), roughly 95% of worldwide business structures share this identity (Dabić et al., 2020). In the European Union, approximately 84 million people work in these kinds of business structures, representing approximately 42% of all workers employed in the European Union’s member states (Statista, 2022). The importance of SMEs in each economy’s exporting structure is being increasingly recognized, not only by economic literature but also by the highest sovereign structures, which are aligning their objectives to embrace the promotion of SMEs’ exports, including the European Commission. Additionally, emerging economies have become increasingly involved in international trade. The Organization for Economic Cooperation and Development (OECD) predicts that developing economies could reach 60% of the world’s GDP by 2030 (OECD, 2021).

This chapter aims to explore the determinants of success of developed countries’ SMEs in exploring outer markets through internationalization to developing economies. SMEs internationalization has progressively gained the attention of the academic community in the past years as a research topic. Overall, internationalization is a key element of strategic management of SMEs. However, most of the knowledge produced on SMEs focuses on developed countries and has left emerging countries still somewhat unnoticed (Dabić et al., 2020). Studies under critical success factors of SMEs’ internationalization recognize the interest in studying the specific factors under specific regional areas (Bose, 2016). Hence, there is a clear lack of research on SMEs targeting developing economies and the critical factors affecting SMEs involved in approaching these markets. Consequently, the research question guiding this chapter is: What are the critical factors determining the success of SMEs internationalizing targeting developing economies? To tackle this question, this chapter includes a qualitative study with managers of ten Portuguese SMEs with prior internationalization experience to developing economies.

The next section presents a synopsis of the main contributions of the literature regarding the topic, which guided the qualitative study also included in these pages. After presenting the adopted methodology and the findings, this chapter offers its conclusions, including the implications, limitations, and future research directions.

BACKGROUND

SMEs closer than ever before to global markets (Dabić et al., 2020). However, the choice of developing economies as internationalization targets is expected to pose more risks to companies. Overall, Zhu et al. (2020) proposed a model in which different destinations markets would impose different strategies, panoramas, advantages, and difficulties. In their proposed model, emerging markets were characterized by lower prices and less competitive, with lower entry requirements and more propensity to free trade agreements, but also more probably an immature market. However, since this study sampled SMEs in emerging markets, some institutional and organizational factors may alter, such as institutional similarities to home country, or the reliability of existing business networks to operate in those countries. Lack of transparency and liability of foreignness may also be relevant challenges, and the portrayed image of the home country in business may turn in favor for SMEs located in a developed country. For this

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