

# Chapter 92

## Resource Based Internationalization from Small Developing Countries: Towards a Phase Model of Internationalization

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### **ABSTRACT**

*Small developing countries, in contrast to their developed counterparts, are characterized by a narrow resource base, (relatively) weak institutions, and a high degree of openness. For organizations from these states, internationalization is an imperative rather than a choice due to the small home market. However, they face severe resource constraints. When compared to developed countries, the level of formal support is relatively low, and firms need to build capabilities under resource constrained conditions. Further, as open economies, firms face intense competition from imports. Internationalization has largely remained unexplored in firms from these countries. Therefore, the objective of this chapter is to build a framework to explain internationalization of SMEs from small states. First, the various modes of international activity are discussed along with market entry strategies. The historical development of internationalization theory is then examined, identifying the major research paradigms and their underlying theoretical basis. Applicable theories are then assessed using an epistemological framework. The resulting research gap of resource development during internationalization was then examined using case studies of firms from a small state, Trinidad and Tobago.*

DOI: 10.4018/978-1-4666-3886-0.ch092

## **INTRODUCTION: CHALLENGES OF INTERNATIONALIZATION FROM SMALL STATES**

Despite being a relatively recent phenomenon, over 40 small states have been identified worldwide (Henrikson, 1999). Generally, they are characterized as developing countries with a population of less than 1.5 million. They also share historical processes and economic characteristics which distinguish them from developed countries with small populations such as Luxembourg (World-Bank, 2002). With respect to historical processes, small states have experienced Decolonization and Defederation (Henrikson, 1999) in their history. In Decolonization, territories that were formerly colonies of European powers became independent states. A number of small states belonged to economic groupings or federations, post-independence, such as Carifta in the Caribbean region. In Defederation, these clusters of geographically close territories were broken into individual countries.

In addition to historical processes, small states also possess distinctive economic characteristics. Due to their small population and low per capita income, small states have limited domestic markets as compared to developed country firms with similar populations. For example, the Gross Domestic Product (GDP) of Suriname is US\$3.6 billion, while Luxembourg with a similar population has a GDP of US\$48 billion (Ocampo, 2011). As such, private sector firms tend to be far smaller than those from developed and large developing countries (Bernal, 2006). This has implications for both imports and exports. Firms cannot exploit economies of scale to lower costs without entering international markets. Small market sizes also result in limited competition, the domestic market cannot profitably support multiple producers in the same product category (Easterly & Kraay, 2000). The economies of small states tend to be clustered around the export of a narrow range of resources. Countries rely on international trade

for revenue and Foreign Direct Investment (FDI) for production capacity to exploit these resources.

Due to their dependence on international trade and undiversified nature, sudden changes in the international environment, such as falling demand for a key commodity, become an economic shock for these countries (World Bank, 2004). Research in small states has tended to focus on the economy as the unit of analysis, examining competitiveness (Wint, 2003), the effect of trade policies on exports (McIntyre, 1995), the attractiveness of the Caribbean for FDI (Barclay, 2000), and the effectiveness of industrial policy (Mottley, 2008). The few studies examining the activities of firms have attempted to fit theory created in developed countries to the small state environment such as the effect managerial mindsets on exports (Garvey, 2002).

With little useful research and limited institutional capacity (Peres, 2006), small states tend to borrow and adapt established economic frameworks, with sub-optimal results (Baldacchino, 1993). An increased understanding as to how firms internationalize from small states can guide policymakers as they design targeted interventions that can utilize state resources more efficiently. This chapter is comprised of four sections, including this one. Section 2 provides an overview of internationalization mechanisms in Small and Medium Enterprises (SMEs): the behavioral, network, and entrepreneurial opportunity. Next, an epistemological framework is used to analyze the underlying arguments of these theories and identify common areas. Finally, a framework is created from the results of this analysis.

### **Existing Theoretical Perspectives: Mechanisms of Internationalization in SMEs**

Early research in International Business examined how and why Multinational firms enter international markets with economic models (Hymer, 1976). SMEs are increasingly entering interna-

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