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# **The Role of Context in SME Internationalization – A Review**

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# **The role of context in SME internationalization – A review**

## **1. Introduction**

Over the last two decades, interest in the internationalization of small and mid-sized enterprises (SMEs) has grown rapidly (Ribau, Moreira & Raposo, 2018) as their potential to undertake international business has come to be recognized (HSBC, 2016). SME internationalization is influenced by its context – both of targeted foreign countries and its home economy – as well as by characteristics of the firm itself. One reason for this sensitivity to context is that many internationalizing SMEs are likely to require external support, particularly from domestic institutions. Unlike MNEs, SMEs often face a ‘liability of smallness’ manifested in a lack of resources such as finance and detailed foreign market information (Buckley, 1989; Knight, 2001; Kahiya & Dean, 2016; OECD, 2018). To compensate, SMEs undertaking internationalization typically rely on networking with external resource providers (Acs & Terjesen, 2013; Lu & Beamish, 2001; Musteen, Datta, & Butts, 2014; Paul, Parthasarathy & Gupta, 2017). Although internationalizing SMEs may benefit from their leaders’ personal connections and international experience, these are also context-dependent (Jones & Casulli, 2014; Masango & Marinova, 2014; Musteen, Datta, & Butts, 2014). Moreover, SMEs may have to accept institutional and cultural conditions in foreign markets as contextual givens insofar as they have little power or understanding of how to negotiate them (Child & Rodrigues, 2011; Vendrell-Herrero et al., 2017).

Despite the significance of context in SME internationalization, and its recognition by an increasing number of authors, no comprehensive review has been published on the subject to date. The present paper aims to fill this void through a review of how context has been considered in studies on SME internationalization that have appeared during the past decade in leading journals devoted to IB, entrepreneurship, strategy and marketing. Cataloguing these studies, our review identifies their key findings, discusses the theoretical perspectives informing this literature, analyzes conceptual and methodological challenges that are still outstanding, and suggests paths for theory development and future research. The review also provides a platform from which to address some of the limitations in international business [IB] theories when applied to SMEs, including organizational size as a boundary condition. It discusses the implications of firm size for the theorization of SME internationalization in its context, and offers recommendations for the future development of theorizing relevant to SMEs.

Three concepts establish the parameters of the review – SME, internationalization, and context. These are clarified and discussed in this introductory section. The methodology of the review is then explained along with justification of its criteria for article inclusion. Following that, we present our findings, starting with the basic characteristics of the reviewed articles and continuing with the main themes that emerged and their theoretical implications. These are illustrated with detailed findings and representative references. There is then a detailed discussion of methodological and theoretical issues

raised by the review, how these might be addressed, and scope for theory development. The paper concludes with recommendations for future work.

### ***1.1. Types of SME and internationalization***

As Zahoor, Al-Tabbaa, Khan, & Wood (2020) indicate, definitions of SME are based on the number of employees, revenues or both. While the number of employees has been the most commonly applied criterion, the maximum thresholds vary between the US, the European Union (EU), China and other nations from which research samples are drawn. In the EU and the UK, the threshold is 250 employees and an annual turnover not exceeding 50 million Euros (European Commission, 2015). In the US, the upper limit is 500 employees, and in China it can be as high as 2000. Within the employee size range, the EU distinguishes between micro (< 10), small (10-49) and medium (50-250) SMEs, whilst the US National Centre for the Middle Market defines mid-sized firms as those with revenues between US\$ 10 million and 1 billion, but divides them into three subgroupings. The US Small Business Administration (SBA)'s definition of a small firm extends to some seventy pages, mostly to accommodate industry disparities, which in turn indicates context variety. Internationally, a firm with, say, \$900 million in revenue, will be considered as mid-sized in the US but viewed as large in smaller nations. A comprehensive summary of the dynamic definitions and classifications of SMEs can be found in Zahoor et al. (2020), p. 431.

Another complication is that studies have focused on diverse firm categories that may fall within the SME definition. One is the international new venture (INV), which denotes a globally focused firm undertaking IB from its foundation or soon thereafter (Oviatt & McDougall, 1994). Another is the 'born global' (BG), a firm that from launch has been seeking competitive advantage from foreign markets (Knight & Cavusgil, 1996). The breadth of some SMEs' international operations, often underpinned by networks and overseas investment, has given rise to the concept of the 'micromultinational' (Dimitratos et al., 2003). INVs and BGs almost always start small but may grow rapidly. Another category is the family-owned firm, though 'family SME' is operationalized in diverse ways (Roffia et al., 2021).

Internationalization has been defined both as a process and in terms of the activities firms undertake to access foreign markets (Ribau et al., 2018). Welch & Luostarinen (1988:36) describe internationalization as 'the process of increasing involvement in international operations.' As a process, SME internationalization does not necessarily follow a set pattern of stages; rather different cases have been found to exhibit contrasting sequences of events (Jones, 1999). It can be achieved through a range of activities extending beyond the domestic economy: exports of products and R&D, FDI including foreign production, foreign affiliates, and cross-border alliances. Exports have been the most common form of SME internationalization, though a growing number serve foreign markets via 'constellation and investment modes', i.e., interorganizational networks, alliances and subsidiaries (Dimitratos et al., 2003; Stoian et al., 2018). Contextual factors such as foreign trade regulations, the presence of niche

markets, and the development of information technologies have been shown to impact SMEs' internationalization mode (Laufs & Schwens, 2014).

## ***1.2. Context***

Calls for greater sensitivity to 'context' proliferate in the IB literature (e.g., Michailova, 2011; Meyer, 2014; Shepherd & Rudd, 2014; Reuber, Dimitratos & Kuivalainen, 2017; Teagarden, Von Glinow & Mellahi, 2018) and, increasingly, in the literature on international entrepreneurship [IE] (e.g., Zahra, Wright, & Abdelgawad, 2014; Baker & Welter, 2020). Nevertheless, it is a major challenge to capture context, which literally refers to all aspects of a situation within which something exists. The search for context is not unique to IB (Johns, 2006). In management, calls to 'bring the environment back in' (Pfeffer, 1987: 119) and 'bring the context back in' (Sorenson & Stewart, 2008: 266) are also common.

The challenge of defining and operationalizing context is greater in IB, where one deals with multiple environments and a great variety of contextual elements, and where actors, by definition, cross national boundaries and establish a variety of mixed-context hybrids, such as joint ventures. The task is still tougher in the case of SMEs. Since they normally lack market power, SMEs cannot be simply studied via the MNE-government, OLI and other common IB lenses, and their limited visibility adds to the blurring of contextual elements and processes. Across countries, SMEs vary in size, sectoral distribution and national weight, among other features, challenging global comparison of their strategies and operations, not to mention interaction, and in turn limiting our ability to decipher the impact of context. It is perhaps not a surprise, as Jones, Coviello & Tang (2011) note, that research on internationalization by small and entrepreneurial firms often fails to account for their context or to conceptualize it consistently.

The context of firms presents complexities and subtleties that derive both from its multi-faceted composition and from the way it spans different levels of analysis (Baker & Welter, 2020). Context is multidimensional, comprising diverse sub-contexts – ecological, economic, cultural, institutional, political, social, and technological – that are interlaced with one another (Cheng, 1994). This has given rise to the notion of 'polycontextuality': the existence of qualitatively different facets of context, each contributing to people's enactment of their situation, or by extension, that of their organization (Shapiro, Von Glinow & Xiao, 2007). Key SME staff likely interact with actors located in diverse contextual sectors, construing a complex network of interactions, the dynamics of which shape international opportunity recognition, decision-making and implementation (Chandra & Wilkinson, 2017). For example, Mainela, Puhakka & Sipoli (2018) found that international opportunity recognition by SME entrepreneurs in Finland and Israel was informed not just by structural support for internationalization but also by the historical cultural beliefs rife in those nations. Polycontextuality complicates the methodology of comparing contexts and a firm's interactions with them (Child, 2009). Consequently,

there has been a tendency to look at one contextual variable at a time, even in instances where they are obviously connected, as in the case of culture and institutions (Guiso, Sapienza & Zingales, 2015).

The context of firms is also a multi-level phenomenon (Hitt, Beamish, Jackson, & Mathieu, 2007). Our review considers two levels of context, each of which impacts internationalization decisions and processes. The macro level reflects the environment in which a firm is located, particularly its home and host countries, and its industry. The meso level refers to the immediate organizational context in terms of factors such as a firm's ownership and technology. While focusing on these two contextual levels, we recognize that many SMEs are centered on their leading entrepreneurs which has encouraged interest in what may be called the context of the entrepreneur. This acknowledges that entrepreneurs' personality traits and formative backgrounds can be significant antecedents for decisions and policies on internationalization. Entrepreneurial characteristics and experience feature prominently in prior reviews of IE research (e.g., Jones, Coviello & Tang 2011; Reuber, Knight, Liesch & Zhou, 2018), but it is only recently that scholars have come to appreciate the significance of the broader macro and meso levels of firm context for entrepreneurship (Welter, Baker & Wirsching, 2019), and these have not yet been given much attention in reviews of SME internationalization research (e.g., Ribau et al., 2018). This consideration informed our decision to confine the scope of the review to the macro and meso contexts of SMEs as firms. Moreover, these two levels accounted for the great majority of analyses in the articles reviewed. Entrepreneurs will enter the picture as the actors whose decisions shape the disposition of firms vis-à-vis those contexts.

At the macro level, most theorizing has been based on studies conducted in developed economies, and its transfer to other economies needs to be treated with caution (Meyer & Peng, 2005). Developing country SMEs operate in a different institutional framework, often suffering from institutional voids where the enactment of laws and regulations is problematic and supporting systems inadequate (Mesquita & Lazzarini, 2008; Adomako et al., 2019; World Bank, 2020). The internationalization of SMEs is likely to be more negatively affected by these inefficiencies than is the internationalization of larger firms (LiPuma, Newbert & Doh, 2013). Negative institutional effects can also be found in transition economies. In economies such as China and Russia, large, state-owned firms continue to dominate 'strategic sectors' even as large private or quasi-private firms emerge. Both groups benefit from state support for internationalizing by way of cheap capital and other subsidies while accepting the strings that come with it, whereas SMEs are left to their own devices in international markets.

Most studies have taken the nation as the unit of analysis for macro context (Tsui, 2004). This is not only for convenience, but also because nation states establish institutions, enact trade regulations, and socialize the citizenry, all of which are IB relevant. By comparison, the potential relevance of industry as a macro-level context for SME internationalization has received less attention. Reuber et al. (2017: 415) point out that 'contextual variation in entrepreneurial processes has been studied across countries to a greater extent than across industries, and a focus on industries is likely to yield valuable insights

on how firms pursue international opportunities.’ Jones, Coviello and Tang (2011) at several places in their review encouraged IE researchers to investigate the relevance of industry in context. The UN Conference on Trade and Development (UNCTAD) ranks industries by their level of ‘transnationality’, showing wide variance across industries even within a sector (manufacturing, services). The industry in which an SME is located identifies its knowledge domain and signifies attributes such as market(s), regulatory environment, relevant external networks, and identity (Boter & Holmquist, 1996). In this respect, industry is itself a polycontextual phenomenon likely to have significant implications for SMEs’ internationalization (Child et al., 2017).

At the meso level, organizational factors impact how an SME conducts its international business. For example, there is a large body of research on family firm internationalization, and how it might differ from that of firms with other ownership types (Kontinen & Ojala, 2010; Hennart, Majocchi, & Forlani, 2019). Family firms are especially vital in developing and emerging economies, and a great many are SMEs (Björnberg, Elstrodt & Pandit, 2014). Key research questions include how SME internationalization may be affected by the agency conflict, risk orientation and richness of network links associated with different ownership configurations (Classen, Carree, Van Gils & Peters, 2014). Moreover, it is conceded that account has to be taken of how macro context, including cultural norms, government policies, and industry conditions, affects family firms’ behavior and performance (Sharma & Chua, 2013).

In addition to its constituents and their relevance to SME internationalization, there is the question of how context differs from related concepts, in particular embeddedness. In the highly socialized interpretation of human behavior, embeddedness has been taken to mean that human actions and decisions, particularly those of an economic nature, are heavily influenced by the social structures, institutions and cultures in which they are located (Granovetter, 1985). Embeddedness is not an attribute of context itself but rather of the relationship between a unit of study and its context. As a variable factor, embeddedness is particularly relevant to the latitude SMEs enjoy or can create in adjusting to their contexts. This raises the key question of how dependent SME activities are on their context, and whether they represent a unique case in this respect. For instance, compared to MNEs, SMEs normally have less ability to shape certain contextual elements, such as getting institutional provisions amended through lobbying governments (Schiffer and Weder, 2001).

Considerations of embeddedness raise the question of what drives the relationship between an SME and its context that internationalization brings into play, with opinions ranging across the contrasting theoretical stances of strategic choice and environmental determinism. These are echoed in the differences between the perspectives prominent in IE and IB (Verbeke & Ciravegna, 2018). In practice, while most SMEs possess relatively little power and must take much of their context as given, they may for purposes of internationalization be able to exercise leverage proactively via collaboration with MNEs and some, e.g., technology innovators, may have a substantial impact on markets and industries.

Moreover, SMEs may not respond to contextual constraints and limitations in the same way. For example, some SMEs in resource-poor environments adopted creative solutions such as compositional strategy (Luo & Child, 2015). A review of evidence on nuances in the relationship between context and SME internationalization is overdue.

## **2. Methodology**

In response to calls to strengthen the methodology of reviews in business and management (Tranfield, Denyer & Smart, 2003; Keupp, Palmie & Gassmann, 2012), we systematically reviewed core literature, following strict procedures for search, selection and inclusion (see Appendix 1). We also consulted best practice in prior reviews (e.g., Post et al., 2020). In particular, the reviews by Jones, Coviello & Tang (2011) and Pisani et al. (2017) guided our methodological approach, structure and presentation of findings.

Our review has the characteristics of a systematic review, understood as a reproducible and reliable scientific overview of extant research on a subject (Tranfield et al., 2003). The process is transparent, with established criteria for article search, selection and exclusion (Jones, Coviello & Tang 2011). Snyder (2019) distinguishes between fully systematic reviews (represented mainly in medical science, predominantly quantitative and relevant for a focused topic) and semi-systematic reviews (broader narrative reviews, often employing thematic analysis, suitable for topics that have been conceptualized differently in different disciplines). The present study belongs to the latter group as it covers a wide range of studies and is aimed at detecting themes, identifying theoretical perspectives, and offering a critical evaluation of the state of work on the topic and developing an agenda for further research.

The review included articles published in top and mid-tier journals, which are the most likely to garner significant advances in knowledge (Podsakoff et al., 2005; Keupp et al., 2012). For reasons already stated, the review focused on the macro and meso levels of SME context. Journals were identified using the British Association of Business Schools 2018 (ABS 2018) ranking. We checked for consistency with rankings published by the Australian Business Deans Council 2019 (ABCD), the Centre National de la Recherche Scientifique 2020, and Anne-Wil Harzing's Journal Quality List 2020. All journals ranked as 3, 4 or 4\* in the ABS 2018 ranking within the thematic categories 'Entrepreneurship and Small Business Management', 'International Business and Area Studies', and 'Strategy' were included. The *Journal of International Marketing* was also included because among highly ranked Marketing journals it focuses explicitly on international business. These thematic areas were considered to be the most relevant to the subject of the review. While we are aware that relevant papers have been published in general management journals, or those not ranked in ABS 2018, it was necessary to set boundaries to the review. This and the lack of journals published in languages other than English, is a necessary limitation of the study.



We followed a systematic process in journal and article sampling and identified 333 papers, which represent a considerable body of knowledge in the field. This process built on the example of best practice provided by Jones, Coviello and Tang (2011) and is detailed in Appendix 1 ‘Methodological procedures for search, selection and exclusion’. Table 1 lists the journals included in our review.

**Table 1 here**

We searched every issue of journals in the sample from January 2010 to November 2020, inclusive. We selected 2010 as the start date since much of the prior literature has been usefully summarized by Terjesen, Hessels & Li (2016), with other insights provided by Jones, Coviello & Tang (2011) and Szyliowicz & Galvin (2010). In each selected journal, we identified articles which met both of the following criteria: (1) they were explicitly concerned with SMEs, and (2) they focused on any mode of internationalization. We adopted a broad approach to the identification of SMEs. The criteria we applied were that (1) authors define the focus of their article as SMEs (even though data on firm size may not be provided); (2) articles sample born global firms, INVs, start-ups, nascent internationals, or micro-multinationals, and the firms sampled employ less than 500 people; (3) on reading the article it was clear that it concerned smaller firms. We listed all such papers in a table. The three authors then considered each of them individually, and a final decision about their inclusion in the review was taken in a collective discussion.

Initially, we intended to conduct only a search of electronic databases and keywords, but found that these methods do not permit identification of a considerable number of relevant articles which do not use ‘SME’ or similar in their title, abstract or keywords. We hence abandoned reliance on a keyword search and embarked on a systematic and detailed manual examination of each journal issue, considering the title and abstract of every published paper. For papers likely to meet the selection criteria, introductory as well as methodology sections were examined, and, when necessary, we read the whole paper in detail. Borderline cases for inclusion were resolved via discussion between the authors.

Selected papers were subsequently coded according to journal, main topic investigated, levels and aspects of context considered, methodology (including SME definition, sampling and method of analysis), host and home countries covered, key findings, and principal theories deployed. Certain basic dimensions were applied from the beginning of the coding process, such as the journal, levels of context, and the main theories referred to. Other aspects such as methodologies, qualitative aspects of context, home countries, and key findings, emerged from the analysis. Notes were taken of how context was conceptualized, how it was measured, and how its relevance for SME internationalization had been theorized. Subsequently, the key findings from all the papers were coded. The main areas of context that emerged are presented below in Table 5 together with key findings relevant to SME internationalization, their theoretical implications, and illustrative references. In addition, we consulted

relevant reviews and meta-analytical papers published in the sampled outlets; these are listed in Online Appendix 1.

While the articles were analyzed separately by each author, weekly online meetings and email exchanges were conducted during data analysis in order to assure consistency. In the concluding months of the process, the authors met at least once a week to discuss the interpretation of findings and conceptual development. Our systematic review was complemented by a perusal of a broader range of readings from journals on General Management as well as from adjacent fields such as International Relations, Economics or Sociology to inform the discussion and recommendations contained later in this paper. This included reading articles which did not directly concern SMEs or their internationalization, but which contributed conceptually to the review's domain – for example, earlier reviews that discussed aspects of context.

### **3. Results**

#### *3.1. Basic characteristics*

Altogether, 333 articles were identified (see Table 2). The full list can be found in Online Appendix 2. The articles adopted a quantitative methodology about three times more often than a qualitative approach, and only a few employed mixed methods. This profile may be partly related to the limited way context is treated in the literature. While mixed methods and qualitative studies are potentially more conducive to surfacing and exploring new contextual dimensions, it can be argued that a quantitative approach is more useful for testing the relevance of already identified areas of context. As a result, articles generally refer to only a limited range of contextual factors, and offer few new developments. The *International Business Review* was by far the most popular outlet for articles about SME internationalization, with 92 papers during the review period, while almost half of all the qualitative studies (30) have been published in that journal. Other IB journals also actively engaged with the subject, in particular the *Journal of World Business* and *Management International Review*. Among Entrepreneurship journals, the *International Small Business Journal* (42) and *Small Business Economics* (32) published the most papers. The *Journal of International Marketing* published 13 articles, while the topic is under-represented in Strategy journals.

#### **Table 2 here**

China and Spain were the home countries most often addressed, with the UK, Italy, Sweden and the US coming next (see Table 3). While the high level of academic interest in China may be explained by its growing economic and political standing, the choice of other national contexts seems reflect to the presence of large scholarly communities with a tradition of publishing in the high impact journals identified for the review, or the availability of datasets (e.g., the Business Strategies Survey *Ecueta Sobre Estrategias Empresariales [ESEE]* in Spain), or the presence of a prolific scholar working in collaborative networks (which accounts for the high number of studies relative to size of country that

are located in Finland and Greece). There were scarcely any studies from high population countries like Brazil and Indonesia. However, few studies referred to the host country context and even less considered the relationship between partners from home and host country. A study by Galkina & Chetty (2015) about Finnish firms entering the Russian market, and work by Puthusserry et al. (2014) exploring international collaborations between Indian and UK firms, are notable exceptions.

**Table 3 here**

To synthesize the data about national contexts, we used the country classification by the Development Policy and Analysis Division (DPAD) in the Department of Economic and Social Affairs of the United Nations Secretariat (UN/DESA). As can be seen in Table 4, high-income countries are overwhelmingly overrepresented across disciplines. The under-representation of research about the countries in the next two categories becomes even more pronounced when we take into account that 34 out of 61 studies in upper middle-income countries involved a single country – China, and 13 out of 22 studies in the lower middle-income category involved India. These results show how strongly our knowledge about SME internationalization is based on studies conducted within a very limited context.

**Table 4 here**

*3.2. Key findings from the literature and their theoretical implications*

This section presents the results of a thematic analysis of articles on SME internationalization which relate primarily to each of the two levels of context: macro and meso. Within each level, the key findings of articles were categorized according to the aspect of context to which they refer. Table 5 illustrates each category with specific findings and examples of relevant articles.<sup>1</sup> The Table also summarizes the theoretical implications of the categorized key findings

**Table 5 here**

Several aspects of macro context emerge as consequential for SME internationalization: institutions and quasi-institutions (e.g., finance agencies), industry, economic context (especially of the home country), national culture, and political environment. Of these, institutions attracted the most attention and the political environment the least. While in practice it has always exercised a significant influence on the terms of doing international business, the role of political context is under-researched. Its relevance has been recognized recently in studies of non-market strategies, although these have so far focused on MNEs rather than SMEs.

Institutional theory was referred to most often, frequently in differing combinations with other perspectives. The articles reviewed point to a number of institutional consequences for SME internationalization. Home country institutions can exert both a direct and indirect influence on the

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<sup>1</sup> Illustrative sources are cited in Table 5, full details of which can be found in the list of references at the end of this article.

propensity of SMEs to internationalize, primarily via resource provision and the effect of institutional voids on stimulating compensatory actions that support internationalization. Institutional effects may be moderated by entrepreneurial perceptions and cultural norms. These are examples of how institutional theory interfaces with the cultural, the interpretative, as well as with networking and learning aspects. Host country institutions have been found to influence market entry modes and methods of coping with psychic distance. Again, the actions taken by SMEs may depend on a number of other factors including the level of perceived risk that institutional uncertainty in foreign markets poses for SMEs and their ability to cope with that risk. Overall, the influence of institutions on internationalization tends to be conditional on SMEs' level of external resource dependence and on entrepreneurial interpretations of action possibilities vis-à-vis institutions in specific cultural contexts.

Home country culture carries theoretical significance via its impact on the strength of SMEs' international orientation and on the practices adopted to foster internationalization, such as reliance on social capital. In turn, host country culture shapes SME internationalization, especially practices aimed at reducing risk and compensating for cultural unfamiliarity. While cultural differences between home and host countries tend to create uncertainty for internationalizing SMEs, their effects can be mitigated when suppliers and customers share a social (often ethnic) identity, and when institutional safeguards are in place. SMEs may also proactively adopt various modes of coping with cultural differences.

Economy, polity and industry also emerge as aspects of context that are theoretically relevant to SME internationalization. Home country economic strength and level of development can provide greater support (e.g., financing) and channels (e.g., venture capital) for SME internationalization, whether innovation-led or not. Political connections can facilitate SME internationalization, while political risk is an impediment to SME internationalization. Industry has emerged as a significant contextual referent for SME internationalization, including the business model adopted for it. As an institutionalized social-technical system (a polycontextual phenomenon), the relevance of industry is informed by institutional, networking and technological implications theories.

Certain factors can link the firm's immediate meso (organizational) context to its wider macro environment. One is networking or boundary-spanning with organizations and other actors external to the firm. Its relevance for SME internationalization has been the theme of many studies, especially regarding the provision of requisite information and resources. Networks of external organizations and people constitute a significant part of an SME's context and the wider network connections of an SME's external links may bear on the quality of support they can offer. Nevertheless, it is *how* the SME relates to external parties and uses those relationships to provide assistance for its internationalization that is of more immediate relevance. In other words, it is the theory of *networking* with external parties rather than of networks *per se* that illuminates context and SME internationalization. The studies reviewed indicate that networking can assist SME internationalization and promote foreign sales in a number of ways. Networking provides germane knowledge and other resources, including those which enhance

global competitiveness by stimulating innovation. The support of institutional agencies and collaboration with MNEs can provide legitimacy that offsets an SME's liability of smallness or of origin. Networking with key contacts may also help to overcome institutional and political impediments.

Comparison of different studies clarifies the need to distinguish between different networking forms, with respect both to its qualities and to parties involved. Networking can vary in intensity, durability, quality of relationship (e.g., the degree of trust), and functions performed for an internationalizing SME. This can range from the occasional or ad hoc contact to close, continuing collaboration. SMEs are increasingly involved in collaborations and alliances, including as participants in global value chains. This field has developed its own literature and contributory theories which are of increasing relevance to SME internationalization. The salience of different network connections, sometimes conceptualized as discrete forms of social capital, has been found to vary at different steps in SME internationalization, suggesting the need for a contingency theory of networking support. Some of the reviewed articles suggest the presence of interactions with other factors that affect the contribution of networking to SME internationalization. For example, the benefits of collaboration increase when accompanied by a management that actively exploits them, while family ownership may negatively moderate the relationship between networking and SMEs international success. It has also been found that family SMEs lacking existing network ties can recognize international market opportunities through weak ties formed in international exhibitions.

Technology links a firm's immediate context to the wider macro environment. While there are fast-moving and highly significant technological advances in that environment, their application to specific SMEs becomes a feature of those firms' immediate meso-level contexts. There has been a growing number of studies on the use of information technology to aid and accelerate SME internationalization.

At the meso level of context, studies have taken into account family ownership, firm size and the contrast between traditional and new venture SMEs (as indicated by firm age at the start of internationalization). However, conflicting findings emerge, especially concerning the consequences of different ownership profiles, including governance capabilities, risk aversion and owner-managers' culture. Ownership effects on SME internationalization may be moderated by factors such as the presence of non-family managers and institutional ownership, giving rise to a non-linear relationship (Sciascia et al, 2012; Liang, Wang, & Cui, 2014).<sup>2</sup> Moreover, the relation between ownership and internationalization is highly dependent on context, including formal and informal institutions (Arregle et al., 2017). Some of the divergent findings on meso-context may also result from the definitional inconsistencies noted earlier, and they merit further attention to clarify their theoretical implications.

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<sup>2</sup> These two sources reported studies of family firms in the US and China, respectively; most were SMEs.

### *3.3. Divergent findings*

Our review surfaces a number of divergent or ambiguous findings, also listed in Table 5, which identify a need for further research. For example, different effects on SME internationalization can emanate from the same contextual domain. In the case of institutions, it has been reported that institutional voids limit support from domestic agencies for SME internationalization, but such voids have also been found to stimulate compensatory learning and networking by entrepreneurs that assist internationalization. Diverse aspects of differences between home and host countries – cultural, geographic and institutional – have been found to have contrasting implications for issues such as the choice of ownership mode for SME foreign subsidiaries. Some studies suggest that religion can serve as a bridge to reduce the cultural differences otherwise generated by different national identities. Another example of diverse effects arising from the same contextual domain is that of political risk. Political understandings and agreements reached by home and foreign country governments can ease the path of internationalization, while political upheavals can disrupt it. Certain concomitants of SMEs' industry membership may have divergent consequences. For example, it has been found in studies of the biotechnology sector that while an open exchange of information between SMEs and external institutions such as universities generates innovation, the competitive importance of IPO protection in foreign contexts encourages secrecy, albeit to varying extents depending on the degree of host country institutional IP protection. While many studies conclude that networking can assist SME internationalization, other research suggests that this depends on with whom SMEs network. Thus, alliances with non-competitors have been found to encourage SMEs' expansion into foreign markets, while collaboration with competitors discourages it.

In some instances, the divergence between findings of different studies may become less puzzling when account is taken of interaction between variables at different levels. In particular, the effects of macro contextual variables can depend on their interpretation by SME decision-makers and the actions they may take to accommodate to them. This raises a more general issue that requires future research, namely the relative significance of environmental versus firm-specific characteristics.

## **4. Discussion – outstanding issues and ways forward**

As we noted in the Introduction, IB and IE are by definition concerned with the development and conduct of business undertaken across different national environments, and there have been a growing number of calls to take context seriously. Though historically SMEs have been less internationally engaged than large firms, the imbalance is rapidly changing. Increasingly SMEs, including born globals and international new ventures, are active competitors in global markets and participants in global supply chains. Given these ongoing trends, our review of published work during the past ten years indicates that the context of SME internationalization merits further attention in future research. It is also apparent that many articles continue to display conceptual and methodological limitations, including procedures that marginalize treatment of context.

This section discusses issues that need to be addressed if research into context and SME internationalization is to progress, and also how the existing research we have reviewed contributes to the development of IB theory. We begin with conceptual and methodological issues, then consider questions that remain under-researched, followed by a discussion of theoretical contributions.

#### *4.1. Conceptual and methodological issues*

Inconsistencies in the conceptualization of the three key concepts –SME, internationalization and context– have seriously hindered comparison between the findings of different studies and handicapped the accumulation and consolidation of knowledge. In the case of context, much of the problem stems from difficulties in theorizing and operationalizing its complex multi-faceted nature. Consequently, authors have focused on an aspect of context they deem theoretically relevant, such as institutions, resources, or networks. Other aspects, such as the political environment, have been addressed less often (De Villa, Rajwani, & Lawton, 2015). However, even single contextual attributes or domains have not been defined in a consistent manner. One of the most frequently studied –institutions– is subject to different interpretations partly due to the breadth of the concept which encompasses both formal and informal institutions, as well as governmental, public and commercial agencies. Moreover, informal institutions overlap with another aspect of context – national culture. The separation of the two, and the primacy of the formal, dates back to the seminal work of North (e.g., 1989). Though more recent work in institutional economics attempted to restore the relation and the balance between the two (e.g., Guiso et al., 2009), there is no evidence that this has been rigorously considered in the reviewed papers.

Indeed, it was disappointing to see that while quite a few studies did use culture, or ‘informal institutions’ in North’s language, as a contextual layer, their treatment by and large lacked sophistication and was unaware of recent advances in the field. Thus, almost all of the studies that included culture as an explanatory variable deployed the ‘cultural distance’ formula with hardly a reference to the controversial state of the construct in the IB literature, and the emergence of substitute frameworks such as cultural friction (Shenkar, 2001; Shenkar, Luo & Yehekel, 2008). For instance, Shenkar (2001) makes it clear that cultural differences are asymmetric, an observation confirmed in latter research, and it seems reasonable to expect, for instance, large multinationals to exert the greater cultural heft in an alliance with an SME. The same is true for the exclusive use of national culture and the absence in the reviewed articles of other levels of culture that have been shown empirically to be material for foreign market entry, modal choice, and performance, namely the regional, corporate, industrial, and sectorial (see Ronen & Shenkar, 2017, for a review). In so doing, not only are we forfeiting an opportunity for a finer and deeper understanding of how culture, as a multilevel construct, impacts SMEs, but we are also giving up the chance to observe from a close range how those various levels intersect, a rarely accomplished feat (Weber, Shenkar & Raveh, 1996).

Leveraging advances in culture research could also assist us in better understanding of a fundamental issue raised earlier, namely the extent to which an SME, or for that matter any firm, is embedded in

various contextual elements. Recent research on culture shows variations in how tight (i.e., tolerant towards deviant behavior) cultures are at the national level (Gelfand et al., 2011), and how the varied centrality of values impacts operations in a cross-border joint venture where a ‘third culture’ is possible (Koch, Koch, Menon & Shenkar, 2016). Both refinements would go a long way towards improved conceptualization and measurement of culture and its impact on SMEs. Finally, virtually all the studies reviewed have used cultural data based on surveys done in large MNEs. One wonders whether SMEs would show similar values given low bureaucratization which implies, for instance, a more flexible hierarchy. INVs in particular may not show values similar to national means, because entrepreneurship is about breaking the mode, and founding CEOs are known to set new norms. This brings us back to a broader question, that is, whether the SME is simply a miniaturized version of its larger brethren or altogether a different subspecies. As we shall reiterate, only a direct comparison of SMEs and MNEs may answer that question.

Overall, it seems that the time lag between concepts, theories and methodologies developed with large multinationals in mind and the timing of their implementation in SMEs is perhaps understandable, but we seem to be forfeiting an opportunity to not only better understand SMEs but also to leverage their size in order to better observe how cultural differences come into play. This could in turn contribute to broader theory development by benefitting from the greater visibility of cognition and decision-making in a smaller enterprise and the ability to employ a qualitative methodology. However, progress, especially but not only by way of a direct comparison, requires a resolution of the ambiguity surrounding the very term ‘SME’. Among various national and regional definitions, the EU criteria are the most frequently applied by the reviewed articles, but there are many exceptions. The varied definitions of SME militate against precise comparisons between studies, and this contributes to apparently inconsistent findings. In the case of the third key concept internationalization – its variety of forms presents less of a problem insofar as exporting is the most common mode among SMEs (Tan, Brewer, & Liesch, 2018).

Conceptual confusion and inconsistent definitions encourage methodological imprecision, a feature of many of the reviewed studies. While most studies state SMEs’ home country, they often justify the choice in terms of data availability or sampling convenience rather than in theoretically relevant terms. Contextual complexity is often sidestepped, even in the case of a single contextual feature, e.g., country or industry, via its reduction to a dummy variable. The dummies are treated as control variables, further diluting attention to contextual influences. Nielsen & Raswant (2018) argue that IB scholars should use research designs that take full account of contextual variables rather than devaluing them as control variables. This means they should enhance the rigor of sampling decisions when studying international phenomena and employ sampling frameworks that highlight contextualization (Poulis et al., 2013). Equally important, they should contextualize the interpretation of their results. Having said this, the



inclusion of contexts into research designs and the operationalization of specific multiple contextual features unquestionably poses a significant challenge. We consider some possible solutions below.

Similarly, confusion over the status of the firms included in studies of SME internationalization has often added to the difficulty of interpreting the findings of different studies. The problem has been compounded by a lack of sampling rigor or absence of precise sampling information. Some articles have claimed that sampled firms are SMEs even when falling well outside the normal boundaries of the category. For example, one article stated that all 31 firms sampled were SMEs, even though one had as many as 2214 employees. Another article reported that all 29 firms studied had ‘less than 100 employees’ but included a table showing 3 firms with more than 100 people each. Further confusion arises because of the potential overlap between the categories of SME and ‘born global’ [BG] or ‘international new venture’ [INV]. This can arise because BG and INV researchers tend to be primarily interested in their internationalization over a period of time during which they grow from being SMEs to larger firms. They do not therefore consider it necessary to provide details of firm size.

One of the principal concerns with the operationalization of internationalization is the infrequency with which studies specify the host countries to which SMEs internationalize. While this presents data-recording difficulties when a large number of countries are involved, the absence of such information comes at a cost. For example, it precludes comparisons between home and host countries in terms of the institutional or cultural differences between them, which may be relevant to the ease or difficulty of SME internationalization. It also limits our ability to address such questions as whether the entry of foreign SMEs into an emerging economy aids or compromises the development of local firms. This removes the opportunity to gauge the impact of experience gained in one country on operations and performance in another, and a consideration of a ‘portfolio impact’, where a combination of host countries provides opportunities or create constraints vis-à-vis the treatment of a focal location.

#### *4.2. Under-researched areas*

Various aspects of the context of SME internationalization remain under-researched, and this neglect is aided by the aforementioned conceptual and methodological problems. In addition, ongoing changes in the international business environment are generating new issues requiring attention. SMEs along with other firms are now facing fundamental contextual changes such as technological disruption, de-globalization, enhanced governmental intervention, rising social tension, and political instability. Certain contextual developments, such as heightened socio-political risk in some foreign environments or expectations that they contribute to sustainability, have intensified specific challenges confronting SMEs. These changes bring to the fore aspects of the social and political context that have previously received relatively little attention. There is also a growing appreciation that many of the changes are inter-connected, reinforcing the point that context is a complex multi-dimensional construct.

Many of the under-researched aspects of context and SME internationalization can be grouped under three headings. These are (1) the contingent relevance of context for SME internationalization and options for researching it, (2) how context impacts on SME internationalization, and (3) the interactions of SME decision-makers with the actors and organizations in their contexts.

#### *4.2.1. The contingent relevance of context and options for researching it.*

Our review of research has identified contingencies for SME internationalization or for its various facets. Even though available studies have normally only investigated the relevance of a single contextual attribute, they have served to demonstrate the contingent influence of context. Illustrative findings were listed in Table 5.

If context is a contingency for SME internationalization, what does this imply for research strategy? The approach that studies of SME internationalization have most often adopted is to incorporate context into a preferred theory or model as a boundary condition. The supposition here is that the effects of a key driver – the independent variable – in a chosen theory of internationalization may be modified by context, but that those effects will continue to be salient. It is assumed that, for the purposes of both theoretical development and practical policy recommendations, the primary focus should remain as the key driver. This assumption, together with the practical difficulties of achieving research designs that systematically incorporate contextual variation, has encouraged the practice of relegating context to the status of a control variable. Another common feature is to sample SMEs from just one context, normally their home country, but with the researchers appearing not to be aware of, or interested in, the implications of that locational choice. When they do justify this selection of context, it is usually in terms of its supposed typicality and/or suitability for testing their preferred non-contextual theory.

The alternative is to develop context-based theories and explanations, and to place them center-stage in research investigations. Contexts would have to be conceptualized and operationalized with reference to the different facets of context, such as institutional, cultural, political or technological, and their positioning in various theories. The presence of polycontextuality would have to be recognized and with it the requirement to apply multiple theoretical streams (cf. Denk, Kaufmann, & Roesch, 2012). Research designs and sampling are often based on home country, industry, or (rarely) host country. Each of those domains is itself polycontextual. If SME domains are polycontextual, this implies that their associated contexts are polymorphic and have to be identified as different configurations of specific contextual variables. Johns (2018: 21) observes that ‘although context enables a demarcation of what is distinctive about situations, it also permits integration across research areas and levels of analysis, identifying what they have in common as settings for organizational behavior’.

The theorizing of a context’s relevance for an SME should therefore refer to the particular configuration of contextual variables that characterize its domain. In principle, different configurations of SMEs’ contexts could be compared, and the consequences for their internationalization examined.

The study of contextual implications for an SME's internationalization needs to take account of both home and host environments. In this vein, Child and Marinova (2014) argued that the extent to which a firm is likely to possess the institutional knowhow and resources required for successful foreign market entry depends on similarities and differences between its home and host countries, as well as on interactions between the two contexts, including institutional accommodations between their governments. In practice, the assessment of differences between multidimensional home and foreign contexts would be highly complex and extremely challenging (Ronen & Shenkar, 2017).

There are several possible ways to cope with the complexity that arises from acknowledging polycontextuality. One is to fall back on a unidimensional approach by arguing that a particular aspect of context within a polycontextual portfolio is likely more critical for SME internationalization than other aspects, and or that this may vary by location – for example, government in China and religion in the Middle East. In these circumstances, allocating an equal weighting to the hypothesized influence of every contextual feature on SME internationalization is likely to be misleading. However, the assignment of primacy to one aspect of context would need to be strongly justified, because the *a priori* selection of supposedly key contextual features runs the risk of returning us to the over-simplifications of the limited one-dimensional view of context that has handicapped much extant research.

Another way forward, already alluded to, would be to explore the possibility that a limited number of major contextual configurations will emerge from empirical inquiry, in the expectation that, taken together, these may account for a large proportion of observable contextual variance (George, 2015; Fainshmidt et al., 2018). If a limited number of contextual configurations were identified, these could be usefully applied to research on SME internationalization in a way that would reduce the complexity of designing and conducting empirical studies. The consolidation of multiple dimensions into configurations, or clusters, has been employed as a way to reduce complexity in comparative studies of cultures (e.g., Ronen & Shenkar, 2017), capitalist systems (Hall & Soskice, 2001), and organizational structures (Pugh, Hickson & Hinings, 1969).

A third possibility for dealing with contextual complexity lies in adopting a subjective view of SME context and its consequences. This means that what constitutes a relevant context and its influence on SME internationalization would be investigated via the lens of SME decision-makers. Reliance on the interpretations of key actors should simplify the research task. IB scholars have tended to treat contexts as comprising objective features. As well as the problem of how to measure these features, there is also the need to understand how and why they have outcomes for SME internationalization. While contextual features constitute external conditions that can have real consequences, how SMEs respond to them is mediated by how they are interpreted by firms' decision-makers (Seifert, Child & Rodrigues, 2012). In some instances, those actors may even have some leverage over their context when, for example, they possess an innovative resource of sufficient value and uniqueness to furnish a strong competitive advantage and open up new foreign markets. This creates some strategic choice for the firm

as has been evident in the internationalization of many INVs and BGs. It is, of course, more than likely that some SME decision-makers misinterpret their contexts with negative consequences for firm performance. This matters if the aim of research is to account for internationalization performance, but it is of less consequence if the aim is to explain internationalization behavior. A focus on key SME actors raises the question of how their ‘enactment’ of context is embedded in the relationships they have with counterparts in their environment. This is another under-researched area to which we shall return.

#### *4.2.2. How does context impact SME internationalization?*

Given that context is consequential for SME internationalization, the next question is which contextual features have an impact and how? Our review shows an accumulation of evidence that distinct facets and levels of SME contexts can impinge on their internationalization in different ways. Nevertheless, this evidence is far from complete and we have noted that there are areas of disagreement or inconsistency across findings. Moreover, certain aspects of context received more attention than others, with some being relatively neglected in existing studies. For example, little is known about an influence of the sustainability agenda on SME internationalization, such as the role environmental standards play in the choice of international partners. The not-for-profit sector is another contextual area that is under-researched. The relatively new phenomenon of international digital firms needs to be explored further. Also, most studies provide little or no information on the processes whereby context impacts on SME internationalization – how for instance account is taken of context in decisions on internationalization or whether the relevance of given contextual factors changes during the process of internationalization.

Table 5 showed that a range of theories and perspectives referring to different levels of context have been applied across the articles reviewed. It is doubtful that each theory on its own can account fully or consistently for SME internationalization. However, the potential interaction of different contextual variables, both at the same level and across levels, has so far scarcely been researched at all. The case for taking account of multiple contextual factors is strengthened by our review which indicates that each theoretical perspective tends to focus on how different contextual factors affect specific aspects of internationalization. For instance, some studies suggest that, while institutional support in the home economy may stimulate SMEs to initiate internationalization, it is firm-level variables such as innovative capacity and entrepreneurial orientation that determine the subsequent speed and magnitude of that internationalization (McGaughey, Kumaraswamy, & Liesch, 2016). The relative significance of environmental versus firm-specific characteristics is a general issue that research has still to answer.

The status of industry as a contextual factor and its role in SME internationalization presents another challenge for future research. Scholars have urged more attention be given to industry context in research on SME internationalization (e.g., Reuber, Dimitratos & Kuivalainen, 2017), and Table 5 lists some studies that have adopted an industry focus. However, its polycontextual nature presents a tall order for future research. An SME’s membership in a given industry gives its context a distinctive

institutional, social and knowledge/technological profile and flavor (Child et al., 2017). This brings a range of associated theoretical perspectives into play simultaneously. Thus, while the technological basis of an SME's industry determines the critical resources that underpin its international competitiveness, the munificence and institutional maturity of its home-country environment may impact the availability of those resources. In some countries, industry and institutional effects on internationalization are intertwined with government initiative to support 'industry winners.' Moreover, industry and host country institutional environment can interact in impacting SME policies on taking their IP overseas. For example, location in a knowledge-intensive industry makes IP protection in foreign markets a key strategic consideration for SMEs and has been found to affect their willingness to trust and collaborate with foreign partners. Conversely, an SME based in a home country with few knowledge resources may seek foreign markets with weak IP protection so it can appropriate 'knowledge leakage'. Industries are also social systems in which key SME decision-makers have been found to adopt similar business models via a process of mimetic isomorphism (Spender, 1989). How much this mimetic isomorphism reflects imitation or independent responses to similar constraints is a subject deserving further research.

While most SMEs are situated in a defined industry in terms of their root competences and products, some may rely on an array of network connections from a range of other industries or sectors. This particularly applies to knowledge-based SMEs for which their creation of intellectual property often depends on a range of external sources of knowledge and financial support, while in turn their IP can support diversified applications to different markets (Powell et al., 2005). When SMEs engage with a wide set of network connections which may extend to different industries and which perform complementary functions for their internationalization, they can be said to belong to an ecosystem (Moore, 1993; Jacobides et al., 2018). The concept has the potential to reconcile industry and network perspectives of SME context. It draws attention to the specialized and complementary roles of external resource providers in assisting an SME's internationalization. The focus of their assistance is likely to be industry specific, even though the location of the providers need not be. At the same time, the ecosystem concept draws attention to issues highlighted by network analysis including the linkages between players in an SME's context and the role that an SME may play in international business systems, ranging from a being niche supplier to MNEs to a keystone player in a new field of innovation.

As with all analogies derived from other disciplines, that of an ecosystem has limitations. Its point of reference is the totality of actors (or naturally occurring organisms in biology) in a system, rather than the actions of a single member, namely an SME which can choose to enter or quit particular networks. With its systemic focus, it assumes a greater degree of cohesion, interdependence and continuity than may be typical of SME contexts. In addition, the disparate application of the concept – to business ecosystems, innovation ecosystems, industry ecosystems and entrepreneurial ecosystems among others – calls for theoretical consolidation (Gomes et al., 2018). Clarification of the insights

that the ecosystem concept can offer into the context of SME internationalization therefore presents a further opportunity for future investigation.

Finally, while the impact of national institutions in the host and (especially) home country has been studied, the role of other institutional levels has been relatively neglected. Here we refer to subnational institutions which in certain countries such as China and Canada have considerable trade and investment discretion, regional institutions such as the EU that impose their own regulatory constraints at the same time that they subsidize SME exports, and international institutions such as the World Trade Organization (WTO) that enact trade rules. Just because SMEs are unlikely to have their government launch a protracted trade war on their behalf as the USA and the EU did for Boeing and Airbus respectively, does not mean that they are not impacted, nor that they are not engaged in cooperative lobbying as fishing organizations on both sides of the channel were in the recent Brexit negotiations.

#### *4.2.3. Interactions of SME decision-makers with the actors and organizations in their contexts.*

In expounding his thesis that organizational environments are enacted by key players, Weick argued that enactment ‘boils down to a straightforward theme: people are in a complex reciprocal relationship with their environments’ (Weick, 2003: 186). The interaction between the micro-level context of key SME decision-makers and factors in the wider meso and macro contexts needs to be a central focus of future research on how context comes to influence SME internationalization. While not within the scope of our review, a large body of research on IE also points to how the ‘context’ of SME decision-makers, in terms of factors such as their international experience and international connections, can shape the internationalization policies they adopt within conditions created by their wider firm and environmental contexts (Elbanna, Hsieh & Child, 2020). Important insights into the nature of contextual influences should be offered by further research into how SME decision-makers interpret their contexts, and how their relationship with players in those contexts may influence their internationalization. ‘Cognitive mapping’ may be the method of choice to unearth this issue to show what action possibilities are considered and which constraints actually come into play. It has scarcely been employed so far. Furthermore, the small scale of SMEs makes it possible to observe how firms actually make decisions involving their context, which is not visible or easily decipherable in a large organization.

We have outlined the methodological possibilities of focusing future studies on how SME leaders interpret the contexts of their firms when making decisions on internationalization. As participants in such decisions and enablers of their implementation, actors in the firm’s context are likely to play a critical role (Coviello, Kano, & Liesch, 2017). This also draws attention to the importance of decision-makers’ relationships with actors in their environments. In the process of internationalizing, SMEs build relationships with external actors within both their domestic and foreign contexts. The proactive construction of relational frameworks by firms is a salient theme in the networking perspective on SME internationalization. This holds that connections to external networks can facilitate and support the

internationalization of SMEs by providing relevant resources including information, finance, technical knowledge, connections to foreign market networks, and insurance against risk (Jones, Coviello & Tang, 2011; Torkkeli et al., 2019).

Institutional theorists have also long pointed out that organizations are embedded in a relational framework comprising the social and political relations they have with external actors and agencies (Scott and Meyer, 1983). Some external actors are officials located in public institutions, who may facilitate SME internationalization through funding, market information and foreign contacts, or constrain it through laws, regulations, or norms. Other external actors outside the public sector can also be relevant as, for example, sources of venture capital, consultancy, or technology for innovation. In some cases, SME decision-makers can enact part of their environment by choosing which external parties to engage with; in the case of other external relationships such as those with foreign market regulators they may have no such choice. As indicated in Table 5, SMEs especially from emerging economies may establish collaborations with MNEs to prepare for and support their internationalization (Prashantham, Kumar, & Bhattacharyya, 2019). This includes the practice of ‘inward internationalization’ through OEM production, licensing and joint ventures (Child & Rodrigues, 2005), as well as ‘piggybacking’ on MNEs to enter foreign markets through producing for their supply chains.

While the contribution that relational networking can make to SME internationalization is well recognized, many key issues remain under-researched. One concerns the requirements for building and maintaining relationships with foreign partners that can bridge institutional and cultural differences (Couper, 2019). Another question concerns the nature of the assistance SMEs need to further their internationalization aims and who provides specific forms of assistance. For example, do SMEs require help in establishing or cementing connections to influential institutional officials and politicians in foreign markets? To what extent does an SME’s area of activity – as denoted by its industry– determine the kind of resources that it needs to secure from external sources?

The management of external relationships may be crucial to SME’s internationalization even when operating in a resource rich environment, if access to resources such as capital requires social connections and legitimacy. For example, in the munificent context of Qatar where internationalizing firms can benefit from abundant financial resources, it has become apparent that access to them by a small firm depends on the social capital of the owner (Younis & Karmowska, 2018). The implication is that the link between SME resource dependence and internationalization cannot be analyzed purely by reference to economic theories, but must also draw upon political and social perspectives. That SMEs suffer from a liability of smallness implies that, compared to MNEs, they are disadvantaged by power asymmetry in their relations with the state and with key stakeholders. The processes through which key individuals may be able to counterbalance this by mediating the relations between firms and external organizations constitutes an outstanding issue for further research concerned with how *different* contextual levels – macro, meso and micro – interact.

#### *4.3. Scope for theory development*

The review has demonstrated beyond doubt that context is highly significant for understanding SME internationalization, and that variations in contextual situations establish boundary conditions for theorizing on internationalization. Each aspect of context is liable to present different implications for specific aspects of SME internationalization such as its resourcing, its perceived risk, and its trajectory over time such as sequence of foreign markets entered, entry modes, earliness and speed of internationalization. Moreover, context is a multi-dimensional, multi-faceted, phenomenon. The nature and incidence of its different facets vary across situations. While relatively few studies have addressed the combined effects of different contextual factors, there is growing evidence that they can moderate each other's influence. Moderation among contextual variables can take place across different levels, and SME decisions on internationalization provide an important focal point for this process.

The key findings derived from our review, listed in Table 5, indicate that the principal perspectives applied to the theorization of MNE internationalization are relevant to understanding the context of SME internationalization. Some contribute to the conceptualization of context, among them the institutional, cultural, economic, political and technological perspectives. Others, including the resource, networking, ownership, transaction costs, and technological perspectives, offer explanations for the strategies and behaviors of internationalizing firms within their context.

However, while theoretical perspectives developed for MNEs identify contextual factors that are also relevant for SMEs, whether their assumptions inform how such factors apply to SMEs, and with what consequences, is problematic. They definitely would not capture contextual factors that are specific for SMEs. The basic conclusion we draw from our review is that the treatment in the IB literature of the role of context in SME internationalization is ripe for problematization, namely 'identifying, articulating, and challenging assumptions underlying existing literature and, based on that, constructing research questions that will lead to the development of more interesting and influential theories.' (Alvesson and Sandberg, 2011, p.252). The key to problematization lies in the challenging of existing assumptions and the generation of new research questions.

The principal, albeit largely implicit, assumption informing IB perspectives on the context of internationalization is that what applies to an MNE will also apply to an SME. In reality these are two quite different kinds of firm. The extent and manner in which mainstream IB perspectives apply to SMEs is qualified by their most obvious difference to their larger counterparts, namely their smaller size. Size is a boundary condition to theories of firm internationalization in its context. Size locates a firm in its context with respect to its market power, leverage over other market and non-market organizations, public and reputational visibility, and networking possibilities. Size also has internal consequences concerning a firm's governance (including its capacity to internalize transactions governance), organization, decision-making and style of leadership. The significance of these size-related characteristics has begun to surface in discussions on the contrasting theoretical foundations of



IB and IE research (e.g., Verbeke & Ciravegna, 2018). They are crucial to evaluating the adequacy of existing theories for the subject of this review, and for identifying questions for future research.

The role of context in the internationalization of SMEs is likely to contrast to the case of MNEs for a number of reasons, each of which should inform the future development of theorizing sensitive to SMEs. One reason is informed by a combination of political and resource-based perspectives. It concerns the asymmetric power and dependence that characterizes the relationship of SMEs with contextual agencies and organizations. Overall, compared to large firms, SMEs are less in a position to shape institutional elements of context such as regulation and political risk, or shape the terms of market competition. They are therefore more influenced by those elements and more vulnerable to changes in them. This is because SMEs are less likely to have contingency plans, can least afford resource slack to use as a buffer, and lack the capacity to switch to different sectors and markets as a source of risk-reducing diversification. MNEs tend to have greater leverage vis-à-vis institutions in their home and host country contexts due to their accumulation of assets and competences which enable them to offer inducements such as investment, technology transfer, employment creation, and even bribes. Most SMEs are unable to command the resources to offer such inducements. Their entry into foreign markets is typically achieved on the basis of market appeal based on innovation, the ability to rapidly adapt products and services, or offering specialized inputs to MNE global value chains. While MNEs often apply internalization advantage to foreign market entry by forming foreign subsidiaries and alliances, SMEs usually enter foreign markets via external means such as exporting, licensing, franchising, or supplying a global value chain. Their management of internationalization is also frequently externalized through the use of foreign agents or through following the requirements imposed by an MNE customer.

A reliance on externalization is also apparent from many of the reviewed studies showing that SMEs in seeking to internationalize try to compensate for resource and informational deficiencies via external networking and social capital development in which personal relations and trust play a major supporting role. The ownership stake SME leaders often possess, and the legitimacy of being founders, can facilitate the development of personal relations with foreign clients and customers which bridge psychic distance and value incongruence (Child & Rodrigues, 2008; Puthusserry et al, 2014; 2020). Reliance on informal arrangements may also grant SMEs more flexibility to adjust to changes in, and variations of, context. Nevertheless, while the personal characteristics and social connections of SME entrepreneurs are theoretically relevant to understanding their networking process, an explanation for why internationalizing SMEs need to rely heavily on personal networking should refer to the combination of their resource dependence and political weakness.

SME leaders seeking support for internationalization can find it more feasible to rely on informal networks than on the formal help of public institutions, especially in nations with institutional voids (Narooz & Child, 2017). Schiffer and Weder (2001) find that SMEs lack the opportunity for collusion

with government as well as with other firms, putting them at a disadvantage to large firms. The classic non-market strategies identified in the literature (Mellahi et al., 2016) by which firms try to influence institutional policies through corporate political action such as lobbying and political alliances, are difficult for SMEs to adopt because they normally lack sufficient clout even when acting collectively. They also have limited capacity to secure external influence and legitimacy through reputation-building based on applying their capabilities and resources to environmental and social goals.

Our general conclusion is therefore that theorizing on SME internationalization should assume that they suffer from a size-related power deficit. That power asymmetry is associated with resource deficiencies which lead to dependence on external parties. Nevertheless, there may be exceptions that can also inform theory building. For instance, there is the possibility that purposive action by SME entrepreneurs, especially in coalition with others, may sometimes mitigate institutional constraints on their internationalization, even to the extent of bringing about modifications to institutional rules and practices. The extent to which interaction between SMEs and contextual agencies, driven on the part of SMEs by collective learning and proactive collaboration, gives rise to a coevolutionary process over time between SMEs and external agencies is a potentially rich area for future theoretical exploration. It could draw on, and integrate, insights from institutional, agency, entrepreneurial and political perspectives (McGaughey, Kumaraswamy, & Liesch, 2016). Another exception, and one that is probably becoming increasingly salient, arises when an SME possesses a unique innovative capability. A technologically disrupting SME, such as BioNTech, commands a market-transforming innovation that creates a basis for instant internationalization and attracts other resources necessary to support it such as finance and eager MNE partners. These examples suggest that an entrepreneurial action perspective when combined with insights from political and resource dependence theories, offers a fruitful avenue for theoretical development on the dynamics of context and SME internationalization.

Firm size also carries organizational implications relevant to the theorization of SME internationalization in its context compared to that relevant for MNEs. This becomes evident in decision-making on internationalization both with respect to the information utilized and to the process followed. SMEs typically lack the resources, including the requisite knowledge and specialized staff, to conduct a systematic scanning of the environment. They may instead rely on external providers of information whose services do not always meet an SME's specific requirements. Consequently, they may miss key elements of context and or fail to understand how those elements might impact them. Decisions in SMEs are normally made by a limited number of individuals (chiefly the owner) which may preclude critical evaluation of prospects and may bias learning from experience. By contrast, many studies have shown that larger organizational size is associated with internal organizational formalization and specialization (Donaldson, 2001). As a result, MNEs are likely to employ procedural rationality (and a causation approach) in their decision-making on internationalization, backed by the specialized internal resources to secure detailed information on foreign markets. By contrast,

information less-rich SMEs appear to be more likely to rely on decisions informed by entrepreneurial intuition and personal experience (Child & Hsieh, 2014). Indeed, in the absence of reliable information, serendipity can become their mode of making decisions on internationalization (Crick & Spence, 2005). Insofar as SMEs adopt a less complex mode of decision-making on internationalization, they may be more agile but at the same time more limited in their ability to inform their decisions and to implement them through channels possessing appropriate resources and foreign market experience.

The theoretical specification of antecedents to, and influences on, SME internationalization decision-making is complex, involving a likely interaction between macro, meso and micro contextual influences together with attributes of the decision itself (Elbanna, Hsieh & Child, 2020). Nevertheless, there is reason to believe that the assumptions underpinning existing theories of MNE decision-making and its outcomes are generally not valid for SMEs. An example is the incremental international expansion assumed by the Uppsala model to characterize MNEs, which, it is claimed, does not apply to SMEs (Rialp, Rialp, & Knight, 2005), particularly the born global (Knight & Cavusgil, 1996).

There is today considerable environmental disruption in the context of internationalization, due to rapid technological advances, a growing level of political intervention in the rules of international business and the socio-economic consequences of climate change and environmental degradation. There is growing evidence that these changes carry different implications for SMEs and MNEs, which again speaks for distinctions in theorizing. This has become clear with respect to the consequences of the emerging new technological context. Some of the studies reviewed have shown how the internet is opening up opportunities for SMEs to access relevant foreign market information directly and to achieve a global market spread rapidly (e.g., Jean & Kim, 2020). The internet is reducing the previous reliance of SMEs on externalization to support their internationalization through piggybacking on MNEs or employing external consultants. Use of the internet to access foreign markets directly reduces the external dependence of SMEs, including on MNEs. New technology is also providing the means for many knowledge intensive SMEs to develop innovative products and services based on digitalization. The impact of new technology on an SME's internationalization is not deterministic, because it will also depend on factors such as the extent to which its leadership appreciates technological possibilities and is motivated to adopt them, as well as on the firm's ability to recruit suitably qualified technical staff. Nevertheless, technology needs to occupy a central role in theorizing on the context of SME internationalization and as a factor likely to further differentiate SMEs from MNEs.

Similarly, the changing political context of international business is challenging the neo-liberal market assumptions that have informed much of IB theory. The politicization of trade leading to a degree of de-globalization has, since the advent of the coronavirus pandemic, developed into an unprecedented level of political intervention in markets. On the assumption that it represents a new normal, theorists are currently debating the implications of this trend. It is likely to impose greater constraints on the internationalization of SMEs compared to larger firms because of their limited ability

to exercise political and institutional influence which we noted earlier. This reinforces the view that the political context of SME internationalization requires its own distinct theorization.

Our review also identifies other contextual factors that point to a need for new theories on SME internationalization. For example, there is a growing body of work on the internationalization of SMEs from emerging economies which highlights that its success can be fostered by distinctive strategies such as the compositional approach and specific features such as returnee entrepreneurs from developed economies and ethnically-based networking between trading partners. In the light of considerations such as these, the cultural and social characteristics of their home and host economies may create conditions peculiar to the internationalization of SMEs which call for new theoretical development. The relatively low level of attention that has been accorded to industry as an aspect of an SME's context is another area that requires greater theoretical attention, especially in view of evidence that SMEs tend to be more industry-specific than MNEs and that the industry in which SMEs are located is associated with contrasting international business models (Child et al., 2017).

SMEs also may gain a competitive advantage in their internationalization through collaboration with MNEs in new product development, technology alliances, global value chains, or providing inputs for servicing large manufacturing firms (Zahoor et al., 2020). The potentially symbiotic relationships between MNE and SMEs require new theorizing, especially with respect to the combination of opportunity and dependency trade-offs facing SMEs. Thus, when SMEs expand by way of piggybacking on a large MNE, they are able to overcome their resource handicap but may end up with lesser understanding of a market context which they do not actively choose. This is also the case where SMEs rely on third parties which retain direct contact with customers and their market environment (Vendrell-Herrero et al., 2017). In other words, we do not just require distinct theories of MNE and SME internationalization, but also a theory of MNE/SME relations within the changing context of international business.

## **5. Conclusion and recommendations**

The present review gives rise to recommendations concerning both methodology and issues for further research. The review demonstrates that many operational challenges remain. In section 4.1, we argued that in operationalizing their methodologies, researchers need to be exact and consistent in their definition of SME for sampling purposes. Because the SME as a category includes a variety of firm sizes and qualitatively different forms such as traditional SME, INV, BG, micro-multinationals and family-owned firm, full information about samples would not only facilitate replication as a means for accumulating knowledge, but also enable more precise comparisons between samples and within them. Contextually informed justifications for sample selection, and specific information on the contexts of studies have often been absent or presented superficially. Precision is also required when identifying the exact form of internationalization adopted, though this has not in general presented such a problem

in the studies reviewed. On the other hand, we noted that the treatment of context leaves much to be desired. Future studies need to use research design to include theoretically relevant contextual variables rather than (as frequently happens) relegating them to dummy control variables usually without due consideration of the theoretical assumptions underlying this. In other words, sampling frameworks should promote contextualization based on up-front theorizing about the relevance of context to SME internationalization. Although, as noted earlier, this poses a considerable challenge, it has to be addressed in order for the subject to progress.

We have recognized that theorizing about context and SME internationalization is a challenging task. This is due both to the inherent complexity of the subject and to the multifarious range of perspectives brought to bear on it. The presence of polycontextuality and diversity among SMEs points to the complexity of the subject. The existence of relevant perspectives contributed by different disciplines, and/or deriving from a focus on different contextual levels, generates a considerable range of theories to consider. The theoretical challenge is increased insofar as some perspectives, such as the political, deserve greater attention than they have received to date. Nevertheless, in section 4.2 we offered ways in which the problem might be addressed. They include assigning (and justifying) theoretical primacy to one aspect of context, pursuing a configurational approach in the hope that key contextual profiles might be identified, which consolidate the empirical treatment of context, and adopting a subjective approach whereby the impact of context on SME internationalization is studied through the lens of SME decision-makers and their interpretations of their situations. The underlying recommendation here is to be more conscious of context when applying theories to SME internationalization. This includes taking due account of aspects of context that have been under-researched, notably industry and polity, and further identifying new contextual features specific to SMEs.

Insights provided by the review inform recommendations for the conduct of future research. ‘Context is everywhere’ and poses major challenges, but this also means that it cannot be ignored. Even studies that are not designed to be comparative between contexts should be fully aware and explicit about the relevance of the context from which their data are drawn. More specifically, research into context and SME internationalization requires a justification for the selection of the study’s context beyond mere convenience, inclusion in their analyses of contextual variations such as relevant home and host country institutions, industry and ownership, a careful description of other key variables such as firm size, and the contextualization of the discussion of their findings. Examination of contextual boundary conditions, and hence the extent to which current theories are generally applicable, has to be a priority for future research.

In practice, one finds repeatedly that only limited areas of context have been taken into account. More facets need to be identified and taken into consideration. Initially, a deeper understanding of the role that context plays would benefit from more research of a qualitative nature into, for instance, the

precise roles that different external network links play in assisting SME internationalization. Examples of context-related areas which have little or no representation in the reviewed literature are (1) the impact of the sustainability agenda on SME internationalization regarding the choice of international partners or locations; (2) the impact of digital transformation on SME internationalization; (3) internationalization undertaken by not-for-profit SMEs; (4) the forms and consequences of SME collaboration with MNEs as a platform for internationalization; and (5) the impact of SME internationalization on host countries, regarding for instance local entrepreneurship and competitiveness. The research by Farah, Elias, Chakravarty, and Beamish (2021) into the impact of host country corporate income tax rates on MNE subsidiary survival points to another aspect of SME international context that has been under-researched.

There has been a relative dearth of comparative research strategies in the existing literature. It is, for instance, rare for SME samples to permit a comparison between their country and industry locations with respect to potential implications for their internationalization. More studies are needed that compare SMEs from different contexts and that take account both the home and host country contexts of their international business, including how SMEs can accommodate to differences between the two. It was also apparent from Table 3 that some countries such as Finland and Spain account for a relatively large number of studies, possibly reflecting the relatively high importance of SMEs in those countries and/or the presence there of some key researchers. This does, however, raise the question of what contexts are typical for SMEs, how they differ and how this may impact on their internationalization. Factors such as the size of the domestic market, and the institutional support available to SMEs may play a role, and it is only comparative research that can throw light on these possibilities.

We also endorse the comparison of what Przeworski and Teune (1970) call ‘partially similar cases. Rather than the preference we find in the reviewed articles for comparing contrasting cases that appear to differ on most if not all contextual elements, such as the US and China, it might be better to compare cases that are similar on some elements but differ on one, or a few, in effect controlling for the former and enabling a clearer understanding of the impact of each layer of context, a major challenge noted at the beginning of this article. For instance, to clarify the role of industry, a neglected element of context in the literature, it might be more fruitful to compare, say, the operation of US manufacturing versus service SMEs in the same market, e.g., China. Or, one could compare the operations of SMEs in Singapore and China, nations that show cultural similarity (Ronen & Shenkar, 2017) yet differ in their institutional environment.

We have already noted the limitation of the theoretical landscape where institutional theory is by far the most popular lens with which to study the impact of context on SME internationalization. In a way this makes sense given that the theory is context-focused, but this comes at the cost of neglecting other theoretical lenses that, together, could provide a more comprehensive view of the phenomenon of interest but are not often deployed. For instance, resource dependence theory is highly relevant not only

to the dependence of SMEs on external resources such as state subsidies, as well as to SME dependence on large multinationals, that may lead them to pursue modes and locations that do not represent their first choice but are dictated by the preference of a multinational. Thus an SME may prefer an alliance due to resource shortage, but ends up in a wholly owned affiliate because its multinational client is concerned about knowledge leakage to a competitor. Also relevant are transaction cost economics (TCE), which is the theory of choice in research on multinationals, option theory, signal theory, and more. A research design that juxtaposes hypotheses derived from different theories will go a long way towards not only enhancing knowledge of SME internationalization as a product of context, but will also make a theoretical contribution in its own right.

Although many recent studies of internationalization have involved SMEs located in the emerging economies of China and India, much current theorizing still derives from research on MNEs based in developed economies like the USA. Research on SME internationalization does not yet have strong roots in other contexts such as sub-Saharan Africa. It may well be necessary to target locations for future research not only on the basis of economic relevance, not to mention convenience, but in terms of their theoretical significance or knowledge void. For example, comparing SMEs in an economy where they are dominant to one in which they are not, or one where a dedicated government agency such as the US Small Business Administration is there to compensate for some of their limited resources to one where they are by and large left to struggle on their own.

A theme underlying this review paper has been the extent to which context-oriented theories developed to account for MNE internationalization also apply to SMEs. However, studies directly comparing MNE and SMEs have been rare. The paucity of direct comparisons between SMEs and large MNEs not only limits empirical observation, it also constrains theory development. Given the light they should throw on the question of theoretical equivalence, there is clearly a need for more direct comparisons between the two categories of firm. Since most organizational and IB theories were developed with large companies in mind, the suitability of those theories for small firms, already questioned by Max Weber, is of the essence. Addressing this question is a tall task but one that might yield fruit not only for the specific population of SMEs but also for the very theoretical base underlying IB as well as its related fields of management and strategy.

At times, SMEs are simply more visible to a researcher. For example, Vahlne and Johanson (2013) strived to incorporate behavioral elements into the internationalization paradigm, elements that were mostly implicit in the original Uppsala model and are best researched in an SME where actors and behavioral processes are more transparent. At other times, SMEs can help establish boundary conditions to a theory, for instance, certain strategies to control interdependencies in resource dependence theory, such as building slack by way of developing reputation, may not be feasible in an SME, which may need to develop substitutes, for example via a long-term relationship with a large MNE. In turn, such relationships may place constraints on whether and where the SME will internationalize. At the same

time, the dynamics of the business relationships between MNEs and SMEs are changing in the context of digitalization and innovation. The internet appears to be reducing the dependence of SMEs on MNEs to provide channels to international markets. Among other developments, partnerships between smaller and larger firms to marry the exploratory capabilities of the former with the exploitative capabilities of the latter, and to speed up the innovation cycle, are becoming increasingly common. Their implications for the degree and mode of SME internationalization are under-researched.

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