The Internationalization of Small- and Medium-sized Enterprises from Argentina

By

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ABSTRACT

The purpose of this dissertation is to examine two different types of internationalization strategies: 1) a short-term internationalization strategy, which depends on macro and microeconomic factors exogenous to firms, and 2) a long-term internationalization strategy, which implies a strong commitment by firms to become competitive at international levels. A theoretical framework has been developed to address the specific characteristics of small and medium sized enterprises from emerging economies. It is posited that changes in competitive environment, such as pro market reforms and globalization, elicit changes in the relative value of the smaller firms' capabilities and resources.

This study uses a quantitative approach based on a survey methodology. With the collaboration of a foundation from Argentina called ProPymes, we undertook an email survey of small and medium sized customers and suppliers of a multinational firm called the Techint Group. The questionnaire was developed based on a comprehensive literature review as well as exploratory interviews with firms. Based on statistical analysis of the data, we examine the impact of both having a physical presence in foreign markets through trade or other means, and having no physical presence.

The findings suggest that managers may have to make a strategic commitment to upgrade and expand firms' resources and capabilities to achieve long term internationalization. The results offer evidence of the importance and potential risks of participating in a network that can provide access to scarce

resources in an environment where public institutions may not offer an appropriate level of assistance to SMEs. This research also contributes to the study of internationalization of SMEs as it further expands the concept of internationalization by including a long-term perspective where the company can be international without having a physical presence in a foreign market.

RÉSUMÉ

L'objectif de cette thèse est d'examiner deux stratégies d'internationalisation des entreprises: 1- stratégies de court-terme qui dépendent des facteurs micro- et macro-économiques qui ne sont pas sous le contrôle de la firme, et, 2- stratégies de long-terme qui nécessitent de forts engagements de la part des organisations pour être concurrentielles sur la scène internationale.

Un cadre théorique a été développé pour analyser spécifiquement le cas des petites et moyennes entreprises (PMEs) d'économies émergentes. Il est démontré que des changements dans l'environnement concurrentiel, tels que des réformes d'ouverture des marchés ou bien la mondialisation, entrainent des changements dans les valeurs respectives des capacités et ressources des PMEs. Cette étude utilise une approche quantitative basée sur des questionnaires, qui ont été administrés par courriel avec la collaboration de fondation argentine ProPymes. L'échantillion était constitué de PMEs qui sont des partenaires commerciaux (clients et fournisseurs) d'une entreprise multinationale, Techint Group. Le questionnaire a été développé après une analyse compréhensive de la littérature ainsi qu'à la suite d'entretiens exploratoires menés avec certaines des entreprises de la population cible. Nous examinons statistiquement l'impact d'une présence physique dans les marchés étrangers.

Les résultats suggèrent que les gestionnaires doivent prendre des engagements stratégiques forts pour amplifier et étendre les ressources et capacités de leur organisation pour une bonne conduite de l'internationalisation de l'entreprise sur le long terme. Les résultats démontrent également l'importance,

ainsi que les risques potentiels, de la participation à un réseau qui fournit l'accès à des ressources rares, dans un environnement où les institutions publiques n'offrent pas, ou peu, d'assistance aux PMEs. Ces résultats contribuent à littérature sur les stratégies d'internationalisation des PMEs, dans la mesure où elle inclut une perspective de long-terme dans le cas où l'entreprise peut être internationale sans avoir de véritable présence physique sur un marché étranger.

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capabilities remained a constant feature throughout this challenging but ultimately rewarding experience.

Any remaining errors in this dissertation are my responsibility.

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List of Abbreviations

ADIMRA	Asociación de Industriales Metalúrgicos de la República Argentina
APEC	Asia-Pacific Economic Cooperation
Austrade	Australian Trade Commission
BCBA	Buenos Aires Stock Exchange
BICE	Banco de Inversión y Comercio Exterior
BITs	Bilateral investment treaties
BNA	Banco de la Nación
BNDES	Brazilian Development Bank
BRIC	Brazil, Russia, India and China
CEP	Centro de Estudios Públicos
CERA	Cámara de exportadores de la República Argentina
CINI	Centro de Investigación Industrial
CMD	Centro Metropolitano de Diseño de la Ciudad de Buenos Aires
ECLAC	Economic Commission for Latin America and the Caribbean
FDI	Foreign direct investments
FIPA	Foreign Investment Promotion and Protection Agreement
GATS	General Agreement on Tariffs in Services
GNI	Gross national income
GDP	Gross domestic product
IADB	Inter-American Development Bank
IAE	Instituto Argentino de la Empresa
IFC	International Finance Corporation
IMF	International Monetary Fund
INDEC	Instituto Nacional de Estadística y Censos
INTI	Instituto Nacional de Tecnología Industrial
ISI	Import substitution industrialization
JICA	Japan International Cooperation Agency
KOTRA	Korea Trade-Investment Promotion Agency
MAI	Multilateral Economic Agreement on Investment

MERCOSUR	Mercado Común del Sur
NAFTA	North American Free Trade Agreement
NPD	New product development
OECD	Organisation for Economic Co-operation and Development
OLS	Ordinary least squares
PDCE	Programa de Desarrollo de Comercio Exterior
Pyme	Pequeña y mediana empresa
SBA	Small Business Administration
SePyME	Subsecretaría de la Pequeña y Mediana Empresa
SGR	Sociedade de Garantía Recíproca

CHAPTER 1

INTRODUCTION

The main goal of this dissertation is to examine how small and medium sized enterprises from emerging economies become competitive internationally, in particular Argentina. This study is designed to address the interdependence between firms and their increasingly competitive environment at a theoretical and empirical level. In particular, the focus here is an analysis of the adjustments that firms make to be able to compete in either foreign or domestic markets characterized by a strong presence of foreign enterprises. While this interdependence can be approached from different perspectives, the theoretical foundation of this dissertation is that the firm can influence its environment to adapt successfully to new circumstances (Rumelt, 1991).

The implementation of pro-market policies in emerging economies has profoundly changed the rules of the game, and "the structure, whether of individual markets or an entire political/economic system, is a human-made creation whose functioning is neither automatic nor 'natural'" (North, 1990, p. 162). The incentive and the legal structures within which firms must operate have been drastically altered. Pro-market reforms have changed the relative values of firm resources and capabilities. Small and medium size enterprises (SMEs) no longer enjoy the same degree of protection from foreign competition as they did when import substitution industrialization (ISI) was the trade and economic policy adopted by governments. Nevertheless, governments, especially in emerging economies, are more likely to adopt protectionist measures when the economic situation is not favorable (Brown, 2009; Martinez-Diaz, 2009). In addition, buyers, both of final or intermediate goods, are becoming more sophisticated and are aware of alternative products and services available worldwide. Although international growth may introduce some added complexity relative to growth and expansion in the familiar domestic markets, it may be unavoidable for SMEs mainly due to the increasing globalization of markets (Levitt, 1983) and industries (Porter 1990; Yip, 2003). International competition is no longer a phenomenon that takes place only in foreign markets, as it is now also present in domestic markets independent of the industry characteristics. Consequently, even if firms do not participate in international business, they may have to meet the level of international competition in order to survive in their domestic markets.

1.1 RELEVANCE OF THE RESEARCH QUESTION

Understanding how small and medium-sized enterprises can compete in their local markets or internationally against multinational firms requires a multidisciplinary approach. It is assumed here that theoretical frameworks widely utilized to explain economics phenomenon in developed economies are suitable to understand economic agents' behaviors in emerging economies provided that one incorporates the idiosyncratic characteristics of those economies.

There are several reasons for focusing on the internationalization of SMEs. These types of firms usually have the flexibility to adapt to changing circumstances, to become vehicles for upgrading the capabilities of a country by enhancing its competitiveness, and thus to be a major contributor to economic growth. The characteristics of SMEs make them especially sensitive to micro- and macro-economics, for example, institutional adequacy and imperfect and incomplete markets or economic cycles, all typical of emerging economies. The dynamism of SMEs in an economy reflects the interconnectedness between markets, institutions, and firms. From a firm level perspective, which is the unit of analysis in this project, the present study examines what factors enable managers in developing countries to exploit the opportunities of international activities. The internationalization of markets and firms has had profound impact on competition and growth. The internationalization of local markets has influenced the legal and competitive context within which firms operate and has thereby changed the relative value of firm resources and capabilities more in favour of entrepreneurial and managerial expertise.

The manager-owners are facing a more dynamic and unstable environment, hence, the decision making process is more complex and sophisticated. In the past, companies conducted their activities in a more stable environment, usually under the protection of the state - import substitution policies-, which restricted access to resources and to markets. The emphasis was on securing access to resources. SMEs are no longer protected from the complexities of open markets and foreign competition: customers are no longer bound by local suppliers as they are aware of alternative products and services elsewhere. International competition is no longer a phenomenon that only takes place in foreign markets. Domestic markets are becoming more competitive due to the increased presence of foreign companies. Whether the local firms have privileged access to resources or not, they have been forced to focus on meeting the needs of their customers based on internationally competitive standards. Even when firms refrain from participating in international business, they must meet, and even exceed, international competitive standards in order to survive in their own home markets. Such a competitive environment diverts attention from accumulating resources and focuses it on sustained value creation.

Perhaps one of the major consequences of being part of the international trade regime is the increased role of international markets in determining prices and thus resource allocation within local economies. Hence, local governments may have a reduced role regarding pricing international traded goods. These alterations in the environment are especially important when a firm is viewed as a bundle of resources and capabilities (Barney, 1991; Grant, 1991; Cuervo-Cazurra, 2004; Wernerfelt, 1984) with implicit values and prices associated with them. If the main reason for the competitive advantage of a company used to be an input or output whose supply or demand was controlled by the state, an open market policy may eliminate the main source of economic rent of that company. Under such conditions, an in-depth re-examination of conditions that lead to the realization of economic rents (Amit & Schoemaker, 1993) is crucial. In general, small and medium enterprise firms suffer from constrained resources (Birley & Westhead, 1990; Dunne & Hughes, 1994; Upton, Teal & Felan, 2001).The growth, if not survival, of local firms facing international competition at both the input and output sides, can no longer be based on intra-market dynamics (i.e. allocation of resources mediated by markets) but it must necessarily rely also on extra-market conditions (i.e., personal links, agreements, networks) (Johansson, 2004). It is not only important how a firm gets its resources, but also how effectively those resources are utilized and how fast firms can adapt and reshape themselves in response to international market dynamics.

` While a majority of the SMEs were still recovering from the 2001 recession and facing an increased international competition, the set of potential opportunities for those aspiring to attain them may have increased. The transformation from companies competing in a relatively small and closed economy to entrepreneurial firms competing against international enterprises may be SME's biggest challenge. The study of a sample of Argentinean firms suggests that in order to attain the competitiveness level required facing international competition, firms may need new organizational practices and drastic organizational transformations to utilize their scarce resources. It is not a trivial step because it requires an internal strategic shift in order to meet international standards. As increased competitiveness is the key to competing locally or internationally, a literature review suggests that:

I. SMEs may need to expand their knowledge base of world-class requirements and standards, as buyers in international markets have better access to information regarding supplies and suppliers and are not loyal to domestic producers unless they provide them with higher value (Dawar & Frost, 1999; Greve & Salaff, 2003; Zahra, Ireland & Hitt, 2000).

II. In contrast to the conventional wisdom that it takes many resources to engage in long-term internationalization, firms may instead invest in cultivating collaborative advantages in the form of alliances and networks on the supply side and strong customer relations on the demand side. These activities may not be capital or resource intensive but require managerial expertise, dedication, and involvement (Chen & Glen, 2004; Ingram & Roberts, 2000; Jack, Dodd, & Anderson, 2004; McNaughton, Osborne & Imrie; 2002).

III. For smaller firms in search of becoming competitive, synergistic operations with selected partners, both buyers and suppliers, appear to help them overcome resource constraints by contributing and sharing a pool of resources of a functional network, as well as adding value to the partners (Davidsson & Honig, 2003; Karra & Phillips, 2004; Zaheer, 1995)

The study of the internationalization processes of small and medium sized firms is a complex process that requires a multidisciplinary approach. To present such a comprehensive approach, this study first examines the strategic processes that firms may undertake to increase their competitiveness and to be able to face increasing competition within local and foreign markets. The second approach consists of the resource-based view and dynamic capabilities. These theories provide the theoretical ground to assess the firm internally and provide a basis for rethinking the way of doing business. The third theory, briefly examined, is the learning perspective, which examines how managers may change their dominant logic, adapt to the new characteristics of the environment, and redeploy and secure new resources and capabilities. The fourth and final approach is network theory. Given the constrained resources of SMEs, they may seek to establish contacts with other local and foreign firms to create networks to compete in local and international markets.

An integration of these multiple theories is necessary because of the complexity of the SMEs phenomenon. A single theory by itself cannot provide a satisfactory explanation for understanding the dynamics of emerging economies and the pressures faced by firms in both international and local markets. SMEs have unique characteristics that make them an interesting and relevant topic for research. Furthermore, this research takes into consideration the particular characteristics of emerging economies, which are playing an increasingly important role in the global economy.

The empirical investigation focuses on Argentina at the firm level. Argentina provides a good test site for a number of reasons including the importance of SMEs for the economy in terms of number of employees, number of firms and percentage of the GDP generated by SMEs. Furthermore, Argentina has chosen a relatively open trade regime and has gone through a liberalization process that has forced domestic firms to compete with multinational firms. As a founding member of the MERCOSUR, it has opened the Argentinean market to Brazilian, Uruguayan and Paraguayan firms. It has also signed an extended trade and investment agreement with Mexico in 2006, a Foreign Investment Promotion and Protection Agreement (FIPA) with Canada and a treaty with the United States concerning the reciprocal encouragement and protection of investment (BIT). In 2000, negotiations for an inter-regional Association Agreement between the EU and the MERCOSUR were launched but after 16 negotiating rounds little progress has been made. The European Union is MERCOSUR's second largest trading partner after the United States, representing more than 19 % of total MERCOSUR trade. The EU is the largest investor in MERCOSUR, which ranks 8th among EU trading partners, accounting for 3 % of total EU trade in 2007 (European Commission, 2008). In addition to the external competitive pressure, local SMEs have to survive and to grow in an environment that has been historically characterized by economic and political instability.

The dissertation is organized in six chapters. The current chapter presents a summary of the thesis. The second chapter addresses the motivation behind this study and the research question. A theoretically grounded conceptual framework is devised and presented to guide the empirical analysis and discussions. Chapter 3 presents a brief historical review of the most important economic and political moments of Argentina. It also describes the key characteristics of Argentine international trade, and how that affects SME's activities. Chapter 4 explains the methodology used in this study, the targeted sample and its main characteristics. Chapter 5 analyzes the results and contrasts them with the theoretical predictions. Finally, the contributions and implications for academics, managers and policy makers are discussed in Chapter 6 as well as the limitation of this study and directions for future research.

1.2 THEORETICAL OVERVIEW

The objective of Chapter 2 is to provide the theoretical foundation of the dissertation. The central aim of this research is to explain two different types of internationalization strategies that SMEs in emerging economies may implement.

One is a tangible internationalization, which is short-term and depends on macro and microeconomic factors exogenous to firms. The second strategy, called long-term internationalization strategy, is a combination of tangible and intangible internationalization. It requires a strong commitment by firms to become competitive at international levels. It may be necessary for SMEs to become international if they are to remain competitive in their local markets. As a result, internationalization is based not only on geographical aspects, which are closely related to firm internationalization -sales in foreign markets- but also on intangible considerations, which are closely related to market internationalization such as new production/managerial processes and organizational capabilities.

Intangible internationalization implies a change in the comprehensive approach to the way firms may have to reconfigure, develop and secure resources, whether those resources are tangible or intangible (Amit & Schoemaker, 1993; Collis & Montgomery, 1995; Hanlon & Saunders, 2007; Itami & Roehl, 1987; Peteraf, 2003). It deals with the internal environment of the firm and it has a weak correlation with the characteristics of the country in which the firm operates. It is distinct from the geographical dispersion of a firm's activities in the sense that *international* refers to the use of existing capabilities, the development of new ones, and ultimately to an increase in the firm's level of competitiveness with foreign companies. On the other hand, tangible internationalization is a more restricted approach because it is defined as a physical presence in a foreign market. It fluctuates with exchange rates, costs of inputs, and other resource endowments that are tied to a particular geographic location. It is a short-term international strategy because it takes advantage of temporary macro- and microeconomic conditions; it may not require changes at the firm level. Intangible and tangible internationalization are not mutually exclusive options. However, they may be different from a strategic perspective.

1.3 ARGENTINA

The object of Chapter 3 is to provide a description of the Argentinean economic and political environment. In order to understand the environment in which firms have to compete, it is useful to begin with a historical review of some of the events that have shaped the Argentinean economy. At the beginning of the 20th century, Argentina was at a stage of economic and social development comparable to the United States and Western European countries. Throughout its history, Argentina has gone through periods of economic expansion and social development that placed it among the wealthiest and most socially developed nations of the World. Unfortunately, political turbulence and social unrest that characterized the country have hampered its long-term development and, in some cases, even set it back such as the 2001 economic recession.

Following the election of Carlos Menem as president in 1989, the country began a process of market reform and liberalization. During his administration, Argentina pegged the value of the Argentinean peso to the US dollar in order to bring the inflation rate under control from 5,000 % per year in 1989 to single digits by 1993. It was under his administration that the country went through a process of deregulation and privatization that modified virtually every aspect of the economic life. President Menen played a key role on the creation of the

MERCOSUR in 1991. From the perspective of SMEs, in spite of the recovery of the financial system and capital market, SMEs had difficulties accessing credit, and they had insufficient institutional support. In order to improve the competitive situation of SMEs, the Argentine government launched the "Small- and Medium-Size Enterprises Promotion 3-Year Plan" in 1992. This plan was designed to support the development and acquisition of new technology by increasing the supply of long-term low-interest financing for SMEs and by subsidizing training programs.

By the end of 2001, Argentina was already in economic and social distress. This new recession was among the most devastating economic and social crises of the country. Its effects can still be perceived in the dynamic between the country, private foreign investors, international agencies such as the IMF or the World Bank and informal groups of official creditors such as Paris Club. In the financial community, Argentina has been considered as a pariah since it defaulted on its financial obligations in 2002 and has done little to mend its reputation (Cooper & Momani, 2005; Reynolds, 2009).

Since 2002, Argentina has counted on growing exports, resulting from the major depreciation of its currency, to help maintain sustainable growth while decreasing external vulnerability. Historically, Brazil has been Argentina's largest trading partner, and its importance has increased since the creation of the MERCOSUR, with China also becoming an increasingly important business partner (INDEC, 2009). The Argentinean SMEs have a similar export pattern. Brazil is the largest destination for their exports with 30.9 %; NAFTA and Chile are the second largest partners with 15.2 % while the rest of America and the European Union account for less than 10 % (Observatorio Pyme, 2006)

The improved competitiveness of Argentina's economy may be inextricably associated with the strengthening of the critically important small and medium-sized enterprises sector. The sector accounts for around 70 % of employment and 60 % of production; however, a number of structural constraints affecting the sector have so far prevented it from fulfilling its potential. The economic recovery that took place between 2002 and 2007 was not sufficient to strengthen the competitiveness of SMEs. As for exports, the reaction of the SMEs has been less dynamic, due to the higher obstacles and transaction costs related with access to international markets. Nonetheless, observers maintain that the potential export capacity of Argentinean SMEs is highly significant (Cristini & Bermudez, 2004).

1.4 METHODOLOGY

1.4.1 Selection Criteria for Country

Argentina is a large emerging economy (Neumeyer & Perri, 2005; Hoskisson, Eden, Lau & Wright, 2000), characterized by rapid structural changes in its socio-economic environments. It has gone through a process of liberalization and deregulation that has allowed international companies to compete at the same level as domestic firms. It lacks proper institutions—relative to developed countries— which has increased transaction costs and has made its markets more inefficient and incomplete hampering the communication between buyers and sellers (Khanna & Palepu, 1997). Argentina also meets the criteria described by

Mody (2004) to qualify as an emerging economy, which is characterized by volatility due to the transitional nature of their economic, political, social, and demographic conditions and a difficult transition from transaction-specific to institutional commitments. Another important characteristic that makes Argentina a suitable candidate for this study is the level of participation that SMEs have in the economy. The production of SMEs covers almost all the industrial sectors, and it is estimated that they generate more than 40 % of industrial production and 78 % of jobs (INDEC, 2009). Argentina's dramatic economic reforms, which include trade liberalization, have created both competition with foreign manufactured goods and the means to meet the competition. The opening of the economy sent clear signals to local firms to increase efficiency to avoid losing their market share or to be replaced in the domestic market. Given the richness of its natural and human resources, it is a country that has the potential to compete at an international level but that will require a competitive SMEs sector.

From a practical perspective, I am familiar with the culture and idiosyncrasies of Argentina. In addition, my thesis supervisor Professor Toulan has conducted studies in Argentina; more specifically, about the internationalization of Argentinean firms. Professor Toulan’s knowledge about the region and his contacts were important factors in the selection of the country for this study. In addition, I have studied and worked in the region, which allows me to understand the local context.

1.4.2 Selection Criteria for Targeted Firms

The next task to be undertaken was to define the population of firms. It was decided to seek the endorsement of an Argentinean foundation called ProPymes created by the Techint Group in 2002.

1.4.2.1 The Techint Group

Techint is a private group with publicly traded entities over which it maintains a majority interest. Agostino Rocca, an Italian engineer, entrepreneur, and key player behind the development of the Italian steel industry in the 1930s, founded it in 1945. The Rocca family is still at the head of the Techint Group. The Investment group Rocca & Partners controls 60 % of Tenaris and it also controls Ternium (Hoover, 2009). The Techint Group operates worldwide through 100 independent companies located in Latin America, North America, Europe, Asia, and Africa. At the end of the 2007 financial year, Techint had total revenues of USD 19.8 billion and 69,600 employees worldwide. Even though North and South America are its main markets, Europe and Asia are becoming increasingly important. NAFTA accounted for 37 % of Techint's total revenue, Argentina 14 %, Europe 13 %, BRIC 9 % and other countries 27 %. Given the size of the group, Techint's influence in Argentina was, and remains, formidable with 19,827 employees in 2008. Another indication of the importance of the group is that Tenaris, one of the Techint Group companies, is the most influential firm in the Buenos Aires Stock Exchange (BCBA). It has a 46.5 % weight on the MERVAL, which is the most important index of the BCBA.

1.4.2.2 ProPymes

ProPymes was created in 2002 to strengthen the Techint companies' value-added chain and to contribute to the development of Argentina's industrial network. Its main goals include increasing the competitiveness of it members, promoting exports, developing domestic markets and promoting investments in new technologies and processes. It is important to emphasize that ProPymes is actively involved with its members on an almost daily basis, as will be described in detail in Chapter 4. Another important reason in deciding to choose ProPymes was that Toulan (1997) had worked with some of the largest firms from the Techint Group (Siderar); therefore, he has access to senior managers.

ProPymes's main objectives have been based on input from their members, as well as the lessons learned from successful industrial and export promotion programs from different countries. The consulting company Booz, Allen and Hamilton was mandated to produce a summary of public policies related to the SME sector (Booz, Allen & Hamilton, 2005). This summary, which has been the foundation of ProPymes programs since 2005, included countries with different degrees of economic development.

Table 1.1 PROPYMES MAIN SUPPORT AREAS AND OBJECTIVES

Support area	Objectives
Public policy and institutional environment	• Promote cooperation between private and public sectors, especially in aspects relevant to SMEs • Lobby for the defense of domestic market against predatory competition • Actions to bolster knowledge transfer and innovation

Manufacturing and managerial processes	• Take actions to improve SMEs' competitiveness.
	  ◦ Support to implement "best practices"
	  ◦ Support to improve technological processes transfer, and improvement of the human resources through a partnership with local universities.

Finance	• Guarantee SMEs access to financial markets
	  ◦ The Techint Group created a private mutual guarantee society whose mandate is to guarantee loans extended to its equity holders (ProPymes members)
	  ◦ It established a program called "Programa de apoyo a las Inversiones" which consist on loans of up to and a maximum of US$ 300,000 at 0 % interest rate to invest in new technology, working capital and to update existing equipment and technologies.
	  ◦ ProPymes has several agreements with local banks, the Argentinean stock market, and provincial agencies.

Commercial activities	• Assist and promote international insertion of ProPymes' members.
	  ◦ ProPymes has commissioned several studies about foreign markets to explore new commercial opportunities for its SMEs.
	  ◦ Techint offers 31 offices around the world, staffed with personnel who have vast international experience in order to facilitate the international expansion of SMEs.
	  ◦ Techint and the Foreign Minister of Argentina – through Programa de Desarrollo de Comercio Exterior (PDCE) – offer analysis of potential foreign markets to ProPymes' members.

Source: Techint (2009)

The most important lessons about industrial policies taken into consideration by ProPymes that are the foundation for its programs are the following:

- Continuous development of networks as the main tenet of industrial policies
- Involvement of all different levels of government (local, provincial and federal)
- Fluid exchange of information between private and public actors
- Fiscal and tax structures that provide incentives for social programs
- Incentive specialization and complementarities of production by fostering interaction between large, small and medium firms
- Facilitation of transfer of tacit and explicit knowledge by fostering training and exchange of the labour force
- Strong support to programs that enhance human resources skills and competencies

Based on the previously mentioned studies, ProPymes' main strategic objectives are to assist SMEs in four areas that include implementing best practices of production and management, access to financial markets, and international expansion of its members (see Table 1.1).

1.4.3 Data Collection

The basic approach utilized in the dissertation entails the use of an original survey specifically developed for this project. ProPymes handled the logistics of the survey. Each firm received a preliminary email or letter introducing the project, explaining the type of information required, and emphasizing the endorsement from ProPymes. Following this initial introduction, firms received a Spanish version of a questionnaire sent by ProPymes. The foundation sent three reminders to the companies that did not complete the questionnaire with an interval of approximately three months. In addition, the staff of ProPymes mentioned the survey to the senior managers during meetings and seminars organized by them. In the end, the final sample contained 51 firms, 18.2 % of the population of firms in ProPymes. The results from the survey are used to test the various hypotheses presented in Chapter 2 using ordinary least square (OLS) and logistic regressions.

1.4.4 Summary of Findings

The first family of hypotheses is related to the experience of managers in highly competitive environments, and with the internal communication concerning a firm's main resources and capabilities. The empirical results suggest that the age of the firm, graduate education of mangers and the importance of a "high-quality" product are key factors to explain long-term internationalization. Even though the international entrepreneurship literature has suggested that new ventures are more prone to have tangible and intangible internationalization (Knight & Cavusgil, 2005; Knight, Madsen, & Servais, 2004), this may not be the case for a country with the characteristics of Argentina. According to the empirical evidence, age is negatively correlated with percentage of exports in total sales. In contrast to findings on new ventures from developed economies that suggest that new ventures tend to internationalize more than established firms (Arenius, 2002; Rennie, 1993), in Argentina older firms tend to have a large proportion of their total sales generated in foreign markets.

The findings suggest that high quality products have a positive impact on long-term internationalization. This may imply that firms require a long-term strategic commitment, especially taking into consideration that Argentina's exports are mainly commodities or goods with low aggregate value (for more information see Chapter 4). Regarding communication aspects, the most important issue here is that managers need to assess the competitive position of the firm vis-à-vis domestic and international competitors. The findings suggest that firms' cooperation with customers and suppliers had a negative impact on long-term internationalization. As explained in Chapters 4 and 6, this may be caused by the characteristics of the sample.

The long-term internationalization strategy of the firm is hypothesized to be associated with the development of the work force. The data from the survey shows that the participation of ProPymes has had a positive effect on the perception of managers about the competence of their work force. A better-trained and prepared work force is more efficient and allows the company to implement new processes or technologies. Related to the previous point, meetings between employees and managers are also important for the company's international future, and for any increase in its competitiveness. Connected to coding and sharing knowledge, the development of a formal international plan may also be crucial for the company. The findings suggest that meetings between managers and meetings between managers and employees may have a positive impact on the long-term internationalization. Interestingly, the elaboration of the formal plan is not a significant factor but the exchange of information between managers is significant as well as the information collected from trade associations. This may suggest that managers consider exchanging information more important than taking all the steps necessary to make a plan.

The findings related to the third family of hypotheses suggest that firms that are reliant on one or a limited number of products/services may have problems engaging a long-term internationalization. Even for firms in manufacturing sectors, as is the case of this study, there is a perception among managers that in order to compete in international markets, and even in local markets, firms need to diversify their outputs. The results suggest that the product life cycle may also be shortening in the Argentinean manufacturing sector. Another finding related to internationalization is that the more resource-abundant the competitors are, the more likely the SME will engage in long-term internationalization. The findings also suggest that firms in a turbulent and hostile economic environment may favour a short-term internationalization. Interestingly, this family of hypotheses also suggests that companies that invest resources to obtain information about their customers and suppliers may engage in short-term internationalization.

The findings for the fourth hypothesis indicated that the exchange of information between managers and benchmarks of national firms has a positive effect on long-term internationalization. Interestingly, investment in marketing and distribution channels, which is an important characteristic of market-oriented firms, has a negative impact on the long-term internationalization of the companies. The sign of the coefficient may be explained by the technical, managerial and financial assistance that companies receive from ProPymes.

The findings related to Hypothesis 5 suggest that a better trained work force may be important for recombined resources in order to create new capabilities and be able to compete at international standards. Providing adequate training aimed at achieving high standards provides the basic required tools to face the competition and deal with the complexity of a global economy. Higher levels of education allow firm managers to draw resources from a pool of qualified individuals and may increase the likelihood of transforming inventions into innovations, which is another pillar of success in the international market. SMEs are able to take advantage of their firm-specific resources and capabilities, such as distinctive knowledge of their founders or networks' contacts, to rise beyond the challenges facing smaller firms.

The findings for the sixth hypothesis suggest that small and medium-size firms may need to expand their knowledge base in order to compete not only internationally but also in domestic markets. Several authors (Child, 1972; Kor, Mahoney, & Michael, 2007; March and Olsen, 1976; Zahra, Sapienza, & Davidsson, 2006) have emphasized the importance of adopting an organizational learning approach by which firms can cope with new realities, uncertainty and environmental complexity. Interestingly, the findings indicate that a high degree of centralization of the decision making process is associated with a long-term internationalization.

Compared to larger firms, SMEs face major challenges in terms of securing and updating resources, and these challenges are heightened by the socio-economic characteristics of Argentina. Findings for the seventh hypothesis suggest that firms look to private organizations such as trade associations for information and market research. Public information is not always available and sometimes is not trustworthy. The results suggest that when large firms, such as the Techint Group, act as a hub in a network, there may be some crowding out effects in terms of investment in marketing and distribution channels.

Given the characteristics of the Argentinean economy, the findings from the eighth hypothesis suggest that having a partnership with a large firm that can guarantee access to the financial market may be important to achieve long-term internationalization. Small and medium firms need to invest in capital goods, in training programs to become more competitive and, later, to compete in new markets. Financial institutions – private or public - may not be willing or able to provide the financial support.

1.5 EXPECTED CONTRIBUTIONS

There are several contributions made by this dissertation. This study provides an eclectic framework to examine SMEs' international expansion. The main focus is to differentiate the forces that may drive a SME to have an opportunistic internationalization strategy or a long-term international strategy. Increasing the levels of their competitiveness may no longer be an option for SMEs that seek to engage in long-term international operations or those aspiring to compete in tradable goods industries. Given the increasing competition that SMEs are facing, whether local or international, it may be important that they identify the resources required to be competitive. The changes in the environment have increased the importance of knowledge acquisition. Two aspects of this are worth mentioning. First, the knowledge that the senior manager has may be the initial basis for the competitive advantage. The second aspect is related to the importance of having a formal structure to encourage the deliberate acquisition of knowledge, gained and learned by deliberated search. While non-deliberate and unplanned acquisition of knowledge may also be important and may be beneficial for the companies to encourage it, these cannot be thought out in advance or formalized.

CHAPTER 2

RESEARCH QUESTION AND CONCEPTUAL FRAMEWORK

While international growth may introduce some added complexity relative to growth and expansion in the familiar domestic markets, it may be unavoidable for SMEs mainly due to the increasing globalization of markets (Levitt 1983) and industries (Porter 1990; Yip, 2003). In this environment, SMEs cannot ignore international competition, even if they decide to remain local. The internationalization of local markets has changed the competitive context within which firms operate and thereby has changed the relative values of firm resources and capabilities. International competition is no longer a phenomenon that takes place only in foreign markets, as it is now also present in domestic markets independent of the industry characteristics.

The case can be made that the survival and growth of local firms that are facing international competition in their domestic markets may depend on how effectively they can access, secure, utilize and reconfigure resources to stay competitive and how fast they can adapt and reshape themselves by facilitating learning and adjustment in order to create value.

2.1 THE RESEARCH QUESTION

The central aim of this research is to provide an integrative framework to explore how SMEs from emerging economies can compete at international standards whether in foreign markets or in their domestic markets against foreign companies. The theoretical part of the dissertation seeks to explain the internationalization processes that small and medium sized enterprises from emerging economies may follow. The empirical portion of this study focuses on SMEs from Argentina. In order to achieve this objective, two different internationalization strategies are presented. The first one is a short-term internationalization, which is closely related to tangible internationalization (Toulan, 1997). Firms that internationalize following this strategy depend on country's factors that are usually exogenous to firms, such as micro and macroeconomic characteristics and socio-political factors. The second one is a combination of tangible and intangible internationalization (Toulan, 1997). This strategy implies a strong commitment by firms to become competitive at international levels. In order to develop a framework, it is important to define what being "international" means. The original unit of analysis of internationalization in international business has been the firm. A key assumption in this research is that internationalization may include both firms and markets; hence, SMEs can become international without a physical presence in foreign markets. Furthermore, it may be necessary for SMEs to become international if they are to remain competitive in their local markets. As a result of this paradigm shift, internationalization is based not only on geographical aspects, which are closely related to market internationalization -sales in foreign markets- but also on intangible considerations, which are closely related to firm internationalization new production/managerial processes and organizational capabilities (See Table 2.1).

Tangible internationalization is a restricted and short-term approach defined as a physical presence in a foreign market; it consists mainly of foreign sales, foreign direct investment (FDI), physical presence in foreign markets, and foreign suppliers. When a company follows a tangible internationalization, its internationalization strategy is more likely to be susceptible to fluctuations of the exchange rates, costs of inputs, and other resource endowments that are usually tied to a particular geographic location.

On the other hand, intangible internationalization embodies a comprehensive change in the way a firm reconfigures, develops and secures resources. It involves facilitating learning at all levels of a firm to increase the stock of knowledge, and, therefore, to improve flexibility on the production side and increase the likelihood of developing new resources and processes, thus enhancing the firm's critical invisible assets (Itami & Roehl, 1987).

Figure 2.1. RELATIONSHIPS BETWEEN UNIT OF ANALYSIS, FORMS OF INT'L AND TIME FRAME

Basis	***Form of Int'l***	***Time Frame***
Country	Tangible $\rightarrow$	**Short-term**
	+	
Firm	Intangible $\rightarrow$	**Long-term**

Intangible internationalization is at the firm level and has a weaker correlation with the characteristics of the country in which the firm operates. It is distinct from the geographical dispersion of a firm's activities in the sense that international refers to the use of existing capabilities, the development of new ones, and ultimately to an increase in the firm's level of competitiveness with foreign companies. Consequently, a firm is not required to be physically represented in a foreign market in order to be international. Even market segments, consisting of non-tradable goods including infrastructure, education and restaurant services, that have traditionally been protected from foreign competition are facing increasing domestic pressure from foreign competitors and from international market trends (Horn & Shy, 1996; Perraton, Goldblatt, Held & McGrew, 1997)

Intangible internationalization is a more complex type of internationalization. Moreover, it provides a sustainable competitive advantage because it requires an ability to expand and apply the stock of knowledge, either creating new knowledge or learning from other firms, therefore allowing SMEs to become more flexible and adaptive to the environment. Consequently, a SME would be able to become competitive by reducing its costs and/or introducing new products and/or markets. Intangible and tangible internationalization are not mutually exclusive options. Theoretically, a SME might find it beneficial to aim for both in order to take advantage of a physical presence in foreign markets and provide a constant incentive to facilitate learning and new organizational capabilities and processes.

It is important to highlight again the differences in the time frame of these two types of internationalization. Tangible internationalization is a short-term internationalization strategy because it takes advantage of temporary macro- and microeconomics conditions; it does not require changes at the firm level. On the other hand, because of the characteristics previously mentioned, a combination of intangible and tangible internationalization has a higher probability to be sustainable in the long-term and mainly depends on the firm's actions to become competitive at international standards, therefore, it will be called long term internationalization.

The motivation behind this research project is a belief that SMEs can have the capability to adapt to changing circumstances (Noori & Lee, 2006; Scherer, 1980). However, as with most other capabilities, this may require a commitment by senior managers. In emerging economies, SMEs may serve as a means for upgrading the capabilities of a country by enhancing its competitiveness, and thus contributing to economic growth (Kula & Tatoglu, 2002; Sum, Kow & Chen, 2004; Veloso, 1991; Yasuf, 2003). The characteristics of SMEs make them especially sensitive to micro- and macroeconomics, for example, institutional adequacy and imperfect and incomplete markets or economic cycles, which are all typical of emerging economies. The dynamism of SMEs in an economy reflects the interconnectedness among markets, institutions and firms. From a firm-level perspective, the present study emphasizes the importance of distinguishing between short and long term internationalization given the changes in domestic markets due to pro markets policies and the increased presence of international companies. The survival of SMEs in such a dynamic environment may depend on their ability to adapt and reshape themselves to facilitate learning, and redeploy their assets or acquire new resources to be competitive.

2.2 FOCAL POINTS OF THIS STUDY

2.2.1 A Profile of Small- and Medium-Sized Enterprises

The focus of this research is on SMEs. Within the OECD, they represent at least 95 % of the total number of enterprises, whereas only 5 % of firms in the manufacturing sector are considered to be large (OECD, 2002). SMEs account for 60-70 % of employment in the manufacturing sector and the large majority of employment in the service sectors (OECD, 2002). In the USA during the 1990s, SMEs provided 60 % to 80 % of the new jobs (SBA, 2004). In Asia-Pacific economies, SMEs account for over 98 % of all enterprises and provide over 60 % of the private sector jobs. They are responsible for 30 % of direct exports and 10 % of out-bound foreign direct investment (Hall, 2002). The Inter-American Development Bank report (2003) on SMEs in Latin America and the Caribbean estimates that SMEs contribute 20 to 40 % of jobs and make up more than 90 % of the firms in the manufacturing sector (IADB, 2003). In Argentina, SMEs account for 78 % of jobs and for 40 % of the GDP (INDEC, 2009). The report also states that the wages and salaries paid by SMEs in 2000 (US$ 20 billion) accounted for 15 % of the total wages and salaries paid by businesses, which amounted to 4 % of the GDP that year. In Chile, SME sales during 2001 (US$ 20 billion) represented 30 % of the GDP, while in Honduras, the sales of SMEs in 1999 represented 80 % of the GDP. These numbers point to both the high profile of SMEs in and their impact on emerging and developed economies alike. As Veloso (1991) points out, SMEs may be an important entity for increasing the level of competitiveness of emerging economies. Some studies, for example, Yasuf (2003), go to the extent of suggesting that growth and employment in developing countries depend on the fate of small- and medium-sized enterprises.

Not surprisingly, SMEs have played an important role in industrial evolution. Marshall (1961, p. 263) describes the process of industry evolution as one where we can observe “the young trees of the forest as they struggle upwards through the benumbing shade of their older rivals.” Existing studies seem to suggest that small firms and entrepreneurship play an important role in long-run macroeconomic prosperity (OECD, 1997). Small- and medium-sized firms are seen as having the potential to respond quickly to the needs of their customers in a more flexible and less bureaucratic manner than large firms, given the former’s small scale and their particular ownership-managerial structure. It is important to emphasize the word “potential” to avoid assuming homogeneity among small firms. SMEs are mainly family-owned companies where senior managers have personal or family relationships to the firm. The assumption that managers are professionals with no personal attachment to the firm is often inappropriate for SMEs, and, therefore, the decision-process may be based not only on professional expertise but also on personal and family-related considerations. SMEs fall within a continuum ranging from the traditional firm that pursues its activities in a stable market —that is part of supplier chains— to those firms that are innovative and participate in dynamic markets. SMEs are also viewed as sources of technological innovation. Scherer (1980) argues that the bureaucratic structures of large firms are incompatible with the flexibility needed to undertake risky activities. Because of their close relationships with customers and suppliers, it is probable that incremental innovations occur first in SMEs.

2.2.2 Characteristics of Emerging Economies

The second characteristic of the present research project is its focus on emerging economies. Emerging economies are a group of countries that play increasingly important roles in the global economy. The business and academic literature usually employ emerging economies and emerging markets as synonyms. The term “emerging market” was originally coined in the late 1980s by the International Finance Corporation (IFC) to describe a fairly narrow list of middle-to-higher income economies within developing countries. Previously, a terminology such as “third world” or “less developed countries (LDCs)” was standard among economists, policymakers and the business community. The meaning of the term has expanded since then to include more or less all developing countries. “Developing countries” are those with a gross national income (GNI) per capita of $9,265 or less (World Bank, 2002).

According to Hoskisson et al. (2000), “emerging economies” are those newly industrializing countries that have gone through a liberalization process and have adopted market-based policies. Khanna and Palepu (1997, p. 42) suggest that in defining emerging economies, “the most important criterion is how well an economy helps buyers and sellers come together.” They point out that the lack of proper institutions—relative to developed countries—make emerging economies more inefficient and incomplete, whereby information problems, misguided regulation, and inefficient judicial systems hamper a fluid communication between buyers and sellers.

Table 2.1.A. EMERGING ECONOMIES COUNTRY-SPECIFIC CHARACTERISTICS

Institutional Constrains	**Macroeconomic Factors**
• Judiciary systems	• Economic cycles
• Regulations	• High unemployment rate
• Taxation system	• No compensatory assistance
• Labor market	• High inflation rate
• Welfare system	• Balance of payment problems
• Political leverage	

Sources: based on Hoskisson et al. (2000); Khanna and Palepu (1997); Mody (2004)

Bureaucratic legal systems make registration processes lengthier and costlier than in developed economies; as well, taxation and tariffs often are biased toward larger firms that have greater political leverage. Labor markets are frequently highly regulated, imposing additional costs to SMEs and making them less flexible (see Table 2.1.A and 2.1.B).

Mody (2004) proposes another definition that emphasizes a) a high degree of volatility and the transitional nature of their economic, political, social, and demographic dimensions, b) the trade-off between commitment and flexibility in policymaking, and c) the transition from transaction-specific commitments to institutional commitments.

Table 2.1.B. EMERGING ECONOMIES FIRM-SPECIFIC CHARACTERISTICS

Output market	Input market
• Low competitiveness • Limited international experience • Liberalization policies • Globalization	• Asymmetric access to information & to technology • Limited access to local and international capital markets • Poor dissemination of information related to international markets • Labor market

Managerial constrains	Ownership structure
• Lack of managerial expertise • Lack of consulting services • Lack of administrative structure	• Social ties between senior managers • Family-owned business

Sources: based on Hoskisson et al. (2000); Khanna and Palepu (1997); Mody (2004)

The idea of a transition from transaction-specific commitments to institutional commitments is appealing in view of the fact that it also contains the cultural dimension of the problem. According to Acemoglu, Johnson, and Robinson (2002 & 2005) and North (2005), economic performance depends on general economic rules, how those rules are enforced, the specific institutional structure of each market, and the economic changes they have undergone, to a different extent, in areas such as lower tariffs, financial deregulation, and labor market and tax reforms.

The present research considers emerging economies as those that have the following characteristics: a) they have gone through a process of liberalization (Hoskisson et al., 2000), b) they have opened their domestic markets to the members of commercial or regional blocs (on unilateral or bilateral basis) (Hoskisson et al., 2000), c) they lack reliable institutions and stable institutional commitments (Khanna & Palepu, 1997; Mody, 2004), and d) they remain less sophisticated than markets in developed economies (Khanna & Palepu, 1997; Mody, 2004) (see Table 2.1.A. and 2.1.B). In short, the prevailing characteristics of emerging economies amplify asymmetries in accessing and participating in the rapidly globalizing international inputs and outputs markets effectively.

2.2.3 The New Domestic Environment

The final aspect that the present research deals with is the process of internationalization. The international business environment has changed dramatically, and it is still changing considerably. Since the late 1980s, many, if not most, of the economies of the world have gone through a process of market liberalization (Sachs & Warner, 1995). During this process, nations with strong import-substitution policies opened their borders to international trade. The transition from a relatively closed economy to a relatively open economy implies that economic agents can trade in goods (final or intermediate) and services with other agents and businesses in the international community at large.

The motivation behind those reforms was to compel local companies to become more efficient and competitive: faced with increased competition, less productive firms are pushed to exit. In this context, SMEs are also subject to changes in the rules of the game, as they may face international competition even if they remain local. Firms tend to adjust their product mix following changes in production and trade costs, (Bernard, Redding & Schott, 2006b). In an open economy, firms have a much larger variety and sources of raw materials and intermediate goods and services from which to choose. For these reasons, local SMEs may be forced to meet the productivity level of foreign firms competing in their domestic markets. International competition is no longer a phenomenon that only takes place in foreign markets but also in domestic markets independently of the characteristics of the industry.

It is important to stress that the main challenge facing SMEs is to meet international standards and to be competitive in the international arena. Given the fact that SMEs have been conducting their business activities in domestic markets, meeting the conditions needed to be successful in those markets may not be the main challenge because firms know their local business environment (e.g., government, suppliers, customers and competitors). The knowledge and experience in domestic markets may act as a short-term barrier to entry to foreign competitors providing a period of time to enhance their competitiveness. From the demand side, globalization may influence the consumers' behavior and possibly even their behaviors related to non-tradable products. Information available about similar products in foreign markets may influence the qualitative and quantitative aspects of the demand, forcing SMEs to adapt.

In the following sections, an integrative conceptual model is developed to examine why some SMEs have a short-term international expansion strategy and others a long-term strategy. This study will also examine possible approaches that firms may implement in order to develop an international strategy. The model integrates the theories mentioned earlier in the specific context of small- and medium-sized enterprises in emerging economies (see Chapter 1). It can apply to all types of firms regardless of their size but it is especially relevant for SMEs. In the empirical part of the dissertation, hypotheses formulated based on the theoretical approaches described in Chapter 2 will be tested. The sample includes firms from a range of different industries, with different sizes (number of employees and turnover), and different levels of international activity. Hence, the findings can be generalized, and explain the internationalization processes of an average company competing in the Argentinean economy. However, given that different SMEs have different levels of international activities, they may occupy different places in the model.

2.3 DEVELOPMENT OF THE THEORETICAL FRAMEWORK

The challenges faced by managers are summed up by Peters (1987, p. 1) who argues that the rapidity of change and increasing environmental instability place managers in a “world turned upside down” and that in response, they must learn to “thrive on chaos”. The shift from a static view of the world to a dynamic approach has led managers to be more concerned about connectedness and interdependence than control. In this context, the traditional administrative goals of stability and order are difficult to maintain and may be seen as a potential threat against strategy and the organisation itself. The theoretical foundation of this study is that the firm does matter and can influence its environment to adapt successfully to new circumstances (Rumelt, 1991). The characteristics of a firm have an important influence on how it reacts to market shocks. As Toulan (1997) points out, this standpoint opposes the views of the "classical school" of industrial organization (Bain, 1951; Scherer, 1971; Stigler, 1963), which considers industry effects to be the major influences explaining the conduct and performance of firms. The classical school assumes homogeneity within an industry, therefore, firms tend to survive or fail depending on the structure of the industry in which they operate.

2.3.1 Strategic Approaches

2.3.1.1 Making sense of the new rules of the game

While firms have an important degree of freedom to make their own decisions, the effect of the environment cannot be discounted. This matter becomes critically important in the context of emerging economies with liberalization policies. In this case, firms are not only facing changes in the structure of the industry in which they operate, but also in the surrounding and institutional environments. To be aware of the different courses of action available, decision makers must understand all the pro-market reforms and not just the reforms that most affect their own industry. Therefore, knowledge of reforms and their implications becomes a valuable asset. According to Weick (1995), the strategic decisions of managers depend on their cognitive structures, and how they make sense of the environment. Managers need to understand any expected change in a way that makes sense or fits their interpretative schema or systems of meaning (Bartunek, 1984; Isabella, 1990). Andrews (1987) compares the role of the owner-manager to an architect who is in charge of doing the synthesis[1]. Senior managers have the role of analyzing, interpreting, and making sense of clues to formulate and implement strategies. The lack of resources that usually characterizes SMEs may be accentuated by the business environment of emerging economies such as inadequate managerial expertise, administrative structures, and difficult access to consulting services—among other characteristics of emerging economies. This may be a significant weakness if they affect the ability of the firm to understand and respond to economic and regulatory changes. Managerial constraints can be a significant weakness if they affect the ability of the firm to understand and respond to changes in the environment. When countries are involved in liberalization processes, and the rules of the game as well as the environment are changing fast, it may be important for decision makers to perceive clues that can allow them to predict what is going on and what to expect. To do that, managers must have some knowledge about the external and internal environment. Senior managers have the capacity to act as catalysts to understand and create a new interpretative frame that provides purpose and direction to the members of the organization (Westley, 1990); hence, they may have the responsibility to engage the rest of the company in a long-term internationalization.

[1] It is important to keep in mind that Andrews's work does not incorporate the characteristics of emerging economies and SMEs. S

As mentioned before, the ownership structure of SMEs consists of a small number of people who usually share friendships or family ties. Hence, key positions may not be filled by professional managers with a no-equity involvement in the company. Andrews' notion of synthesis acquires even more relevance for these SMEs because limited information is not only a consequence of bounded rationality and incomplete markets but also of lack of managerial expertise. Furthermore, because of their size, SMEs are at a disadvantage in terms of economies of scale and scope compared to large firms. As a result, the literature suggests that SMEs may benefit from being part of a network, which is not a trivial or costless endeavor.

The main point is the need for a strategy that is flexible enough to incorporate unexpected trends and information, and to use the knowledge SMEs gain through experience or through partners. Therefore, it may be beneficial for the company to establish a strategic plan to cope with the new reality. Andrews (1987) defines "strategy" as:

> …the pattern of decision in a company that determines and reveals its objectives, purpose, or goals, produces the principal policies and plans for achieving those goals, and defines the range of business the company is to pursue, the kind of economic and human organisation it is need to be, and the nature of the economic and non-economic contribution it intends to make to its shareholders, employees, customers and communities (p. 13).

Given that strategy is a conscious process influenced by time, path dependence is present in this analysis in the sense that the actual strategy should be coherent with patterns of decisions made in the past. Furthermore, past actions are the foundation of the firm. Andrews (1987) also emphasises the role of senior management in coordinating the interdependence of the different employees involved in defining the strategy of the firm; every aspect of a firm has to be taken into account when strategising. The senior manager is considered to be a rational and intuitive person who synthesizes all the relevant information that the firm possess in order to develop a strategy. He or she is the architect of the organisation and a key player in the process of making and implementing the strategy of the firm. In a dynamic environment, it is difficult to argue that firms have the capacity to predict that all the relevant scenarios are perfectly predictable or under the full control of the firm (McMullen & Shepherd, 2006; Mintzberg & Waters, 1985; Sarasvathy, 2001).

Given the characteristics of SMEs in emerging economies, it is unlikely that intended strategies will be the realized strategies. Emergent strategies (Mintzberg, 1972) may replace the ones made *a priori* because threats or opportunities exist that were unseen before, or changes in the environment must be addressed by senior managers. Manager-owners do have an idea of what they want for their firms but there is no clear course of actions or detailed plan to achieve their objectives. As a matter of fact, manager-owners are constantly incorporating new ideas from the environment and from feedback from past actions. The idea that the intended strategy, *a priori*, may or may not be the realized one (Mintzberg, 1972; Mintzberg Ahlstrand & Lampel, 1998) allows the incorporation of instability, friction, and especially the learning process that managers go through; this concept is compatible with the notion of the manager as architect (Andrews, 1987). Emergent strategies are fundamental to cope with unexpected environmental changes but may not be a viable way to undertake a long-term international business.

In conclusion, strategy formulation is a controlled and conscious process of thought that falls under the responsibility of senior managers. The strategy may be simple and informal, and be the result of an explicit process of creative design (Mintzberg, 1972; Mintzberg Ahlstrand & Lampel, 1998). In emerging economies, managerial expertise is considered as a valuable resource given that professional managers are not available in the same numbers as in developed countries. In addition, large firms may be more attractive to highly qualified personnel than SMEs because they tend to offer better professional and economic rewards and have better opportunities to cope with economic downturns. Furthermore, large companies, especially MNEs, may offer a more promising professional future for brighter professionals. Given the dynamics of emerging economies, there is likely the need for someone to be able to interpret the changes in the environment. Senior managers are the main vehicle for coping with changes in the institutional, regulatory, and economic environment. The influential role of senior managers may lead to a concentration of information and knowledge that may encourage opportunistic international operations instead of a long-term approach due to bounded rationality and physical limitations.

Hypothesis 1(A): The greater the experience of senior managers with highly competitive business environments, the greater the likelihood of long-term internationalization.

SMEs are also characterized by having a less developed organizational structure (Aragon-Sanchez & Sanchez-Marin, 2005; Covin & Slevin, 1989; Pelham & Wilson, 1995) and by controlling fewer resources than their larger counterparts (Baker & Nelson, 2005; Chetty & Campbell-Hunt 2003; Lu & Beamish, 2001; Brouthers & Nakos, 2004). From a strategic perspective, this may undermine SMEs' ability to obtain and to share internal and external information, to scan and to be alert in order to identify new opportunities or potential new threats in their domestic and foreign markets. The senior manager role is especially important for SMEs. The manager plays the role of a broker marshalling the different resources and capabilities of the firm to achieve certain goals. Andrews (1987) compares the role of the senior manager to an architect who is in charge of doing the synthesis. Given the strategic importance of engaging in a long-term internationalization and the higher degree of complexity of the environment, senior managers may have to rely more on other employees' expertise. Consequently, in order to enhance the likelihood of discovering new business opportunities (Hayek, 1978; Politis, 2005), and to actively pursue them (Alvarez & Barney, 2007; Eckhardt & Shane, 2003; Kirzner, 1997), senior managers may have to increase the level of communication within the company (Baum, Locke & Kirkpatrick, 1998). This may require allowing employees to express their opinions about strategic aspects such as manufacturing processes of existing products or potential new products directly to those in charge. Emerging economies' relatively high score on Hofstede's power distance scale, which measures the extent to which members of a society accept and expect hierarchical relationships, reflects the fact that authoritarian and paternalistic leadership managerial approaches are rather common organizational culture features (Hofstede, 1991). These characteristics may be heightened in small cities and in the countryside. The relatively high score on Hofstede's uncertainty avoidance index, which indicates to what extent members of a society feel uncomfortable in either novel or unknown situations also may suggest a potential lack of exchange of ideas and information between managers and employees. Giving employees the opportunity to know more about the company and listening to their ideas about strategic aspects may be a risky approach. If managers do not take into consideration the socio-cultural characteristics of their employees, instead of encouraging the exchange of ideas and knowledge, they may be creating an uncomfortable work place where employees will be further alienated. Hence, the communication process might have to be carefully planned by managers in order to gain employees' trust and show them the benefit of this approach.

Hypothesis 1(B): The greater the communication by senior managers of the relative importance of resources within the firm, the greater the likelihood of long-term internationalization.

As previously mentioned, Andrews points out that senior managers do not have all the information, and consequently, may have to exercise their judgement to choose the potential best course of action. This is still a model in which rationality plays an important role and where a great deal of emphasis is placed on the managers, and not enough on the rest of the members of a firm. The concept of rational thinking still precedes action, and conflict, power struggles, or any kind of tension within a firm are not mentioned. A major deficit in this model is the absence of learning and unlearning and of know-how and knows-why; the manager's mind is a black-box. The strategy is an *a priori* process, and it is not clear how the manager-owner can incorporate changes in the environment (that may force the firm to change its strategy) without a conscious process of formulation.

2.3.1.2 Laying a Formal Foundation: Making the Implicit Explicit

The fact that SMEs have inadequate organizational structures and managerial expertise is a real problem in a changing environment. Compared to developed countries, countries that are considered to be emerging economies do not provide the same level of support to firms to increase their competitiveness, and given the lack of managerial expertise, building an adequate structure is not a straightforward process, even though it is a central one. Ansoff (1965) and the planning school have an interesting insight about how to formalize aspects of activities within firms to make them less dependent on a specific individual. This is an important concern because SMEs not only have a less highly developed structure, but their fate is closely linked to one or a few individuals who posses knowledge or resources that have not been made explicit to the rest of the firm. For Ansoff (1965), strategy is the result of a controlled and conscious process of formal planning that is decomposed into distinct steps, each delineated by a checklist and supported by a technique. In principle, the responsibility for the overall process rests with senior managers, and its execution is the responsibility of staff planners. The main characteristic of the overall process is detailed attention to objectives, budgets, programs and operating plans of various kinds. The planning school may appear outdated by the dynamism of the markets, but in the case of SMEs in emerging economies, it provides a guideline for how to improve organizational structure and do a strategic analysis of different scenarios to identify potential vectors of growth. Managers might have to know and to make explicit to the rest of the company the resources they have at their disposal. It is not unusual, given the characteristics of SMEs, that the resources are embedded in a few people in the firm, such as the founder of the company.

Differing from Andrews (1980 & 1987) and Mintzberg's (1979 & 1983) approaches, the planning school (Ansoff, 1965) does not take into consideration changes in the intended strategy. Planning is a mean to implement an intended strategy where learning may not be incorporated in time. The incentives to be alert (Alvarez & Barney. 2007; Eckhardt & Shane, 2003; Kirzner, 1973) to discovering new business opportunities may be considerably reduced if a formal process does not allow the interpretation of incoming information in time to modify the international strategy of the company. In the case of SMEs the negative consequences may be intensified due to their limited resources and given the importance for managers to act "in regard to the changes occurring in the data of the markets" (Mises, 1949, p. 255). The strategic process may have to integrate the deliberate and non-deliberate acquisition of knowledge.

Hypothesis 2(A): Higher levels of knowledge coding, sharing, and creation within a SME are positively correlated with a firm's long-term internationalization

Hypothesis 2(B): The development of a formal international marketing plan where objectives, steps and commitments are quantified ex-ante is positively correlated with a firm's long-term internationalization.

2.3.1.3 A Proactive Approach to Strategize About the Future

Given the characteristics of the new environment, senior managers are compelled to rethink their approach regarding the future activities of their firms, and be proactive. A mere reiteration of previous strategies may no longer be a valid option when firms are competing in the international arena. Hamel and Prahalad (1994) suggest that the future can be imagined and enacted, but it does not mean that it can be controlled by planning it. The role of managers is not to plan for the future or to have a rigid strategy, but to manage the process of learning and be open to the possibility that strategies can emerge.

According to Hamel and Prahalad (1994) a company needs to be capable of regenerating its core competencies and reinventing itself and the industry. In the case of emerging economies, firms are not only facing changes in the structure of the industry in which they operate but also in the surrounding and institutional environments. Given the characteristics of the environment in which they have been doing business, the internalization of the changes in consumer behavior, especially because consumers now have more information about products offered in other markets, becomes critical for the survival of SMEs. The focus of the present study on emerging economies makes this reality even more crucial, since governmental support is limited at best. SMEs depend on international institutions (European Commission (Al-Invest Regional Aid Program), Japan International Cooperation Agency (JICA), Inter-American Development Bank) to improve their competitiveness through funding educational programs, financial assistance, information, and statistical data about overseas markets. Competition for the future is competition to create and dominate emerging opportunities. It is different because opportunities are inherently global, but also because the pressure to be competitive and to interpret changes in the rules of the game has increased for SMEs.

Hamel and Prahalad (1994) suggest that competitive advantage derives from competencies that are hidden and, therefore, cannot be easily imitated. Firms may be analyzed as a portfolio of resources and abilities which can be combined in various ways, rather than a portfolio of products. By shifting the attention from product to resources and capabilities, SMEs can identify the sources of their competitive advantage. The underlying competitive advantage is the ability of top management to understand the process by which the knowledge-bases of SMEs are expanded and transformed into core competencies that can allow the firm to create and dominate emerging opportunities. This may require understanding and communicating with key members of the company the characteristics of the resources and capabilities under their control order, to know the potential of the company and what may be required to achieve it (Hamel & Prahalad, 1994; Hinds

& Kiesler, 1995). In addition, it may be necessary to create the appropriate rewards necessary to create a safe environment where challenging the status-quo is permitted and compensated (Galunic & Rodan, 1998; Heifetz & Laurie; 1997; Krueger & Brazeal, 1994).

Long-term oriented companies focus on leveraging their resources (Hamel & Prahalad, 1994); they use what they have in innovative ways to build up a number of core competencies and to reach their goals. On the other hand, shorter term oriented firms focus on maintaining a strategic fit between their capabilities and market demand. Long-term internationalization challenges the notion that successful organisations are those that fit or adapt to the environment and may require a change in the patterns of conducting businesses. Hamel and Prahalad (1994) suggest that managers may have to provide a sense of direction about the long-term market or competitive position that a firm hopes to build, a sense of discovery (Alvarez & Barney, 2007; Kirzner, 1973) that implies a competitively unique point of view about the future, and finally, a set of goals that employees perceive as inherently worthwhile. Therefore, SMEs may have to challenge the way they have been doing business in the past because they are immersed in a new economic reality (George, 2005; Kogut & Zander, 1992; Krake, 2004; Nelson & Winter, 1982).

In conclusion, having the managerial expertise and adequate organizational structures that facilitate the interpretation of the numerous changes in the markets in which SMEs are competing is crucial. Emerging economies are characterized by having gone through liberalization processes, and therefore, the value of the resources has changed. Organizational structure and managerial expertise are major constraints of SMEs that are amplified by unstable economic and political environments, institutional constraints, and high transaction costs due to inefficiencies in the input and output markets. The focus on day-to-day operations, the lack of information and knowledge about international markets due to characteristics mentioned before undermine the chances that SMEs may be able to expand internationally. The organizational structure required by a SME depends on the kind of international involvement it decides to pursue. Managers may need to invest time and resources analyzing and planning what form of international involvement would best benefit their firms and how to choose potential markets. Strategizing is a key factor for firms conducting international business.

Hypothesis 3(A): The greater the ability of managers to absorb market signals that may lead to changes in a SME's market-driven strategy, the higher the likelihood of having long-term internationalization.

Hypothesis 3(B): The greater the emphasis of senior manager(s) on day-to-day activities as opposed to long-term development activities, the higher the likelihood of having a short-term internationalization.

2.3.2 An internal perspective on the firm

2.3.2.1 Resource-Based View

An analytical examination of the resources of a firm may help to develop an understanding not only of possible short-run business strategies but also of future diversifications (Montgomery & Wernerfelt, 1988), growth strategies (Delmar, Davidsson & Gartner, 2003; Penrose, 1959; Stinchcombe, 1965.), and the sustainability of long-term rents (Rumelt, 1984; Wernerfelt, 1984). Emerging economies have gone through a process of liberalization and have opened their markets to international competition. The rationale behind this change is to force local companies to become more efficient and competitive to allow increased economic opportunity. SMEs can compete in the international arena, but they also have to face international competition from foreign SMEs (Knight, 2000 & 2001) as well as from MNEs.

The resource-based view considers firms as a bundle of different kinds of resources, a set of commitments to certain technologies, human resources, processes, and know-how that the manager-owner marshals. As such, no unanimous definition exists of what constitutes a “resource.” Wernerfelt (1984, p. 172) argues that “resources” can be “anything that could be termed a strength or weakness for a given firm. According to Helfat and Peteraf (2003), “resources” refer to an asset or input to production, tangible or intangible, which an organization owns, controls, or has access to on a semi-permanent basis. Grant (1991) argues that “resources” are inputs utilized by firms in their production processes. Further attempts have been made to characterize resources. They may be delineated as financial, physical, human, technological, and organizational (Azzone & Rangone, 1996; Grant, 1991) or as tangible and intangible (Collis & Montgomery, 1995; Galbreath, 2005; Hall, 1992). Clearly, while any factor or activity can be labeled as a resource, and its relative importance is dependant on the context, as Porter (1991, p. 108) points out, "resources are not valuable in and of themselves, but they are valuable because they allow firms to perform activities…business processes are the source of competitive advantage." As such, the next logical step is to identify those resources that can be a source of advantage. Liberalization modifies the very nature of the firm and its dynamics. Under liberalization, SMEs are no longer protected from foreign competition, and customers are more sophisticated and aware of alternative products and services. Markets rather than government forces determine prices and resource allocations. Before liberalization, companies used to perform their duties under the umbrella of state protection. They had a unique legal protection that made it easier for them to secure resource flows and so survive for a relatively longer period without making major changes in the way they conducted their business. Another important consideration is the influence of political power that supported industries and firms that otherwise would have closed due to their relative inefficiency when compared to international standards.

According to the resource-based view, focusing only on product-market strategies is not sufficient; instead, the long-term survival of a firm depends on the characteristics and endowment of its resources, which should be valuable, rare and difficult to imitate and to substitute (Amit & Schoemaker, 1993; Barney, 1991; Grant, 1991; Mahoney & Pandian, 1992). The manager-owner of SMEs from emerging economies would be in a better competitive position if he or she knew the internal resources and capabilities of his or her company. As Andrews (1980, p. 18-19) suggested, a firm may want to make its strategic plans "preferably in a way that focuses resources to convert distinctive competence into competitive advantage." Resources and capabilities are not immediately available to firms; a period of time and costs are required to accumulate those resources because markets are not perfect or complete. The ability of a firm to cope with changes in its environment is strongly influenced by its administrative heritage (Bartlett & Ghoshal, 1989). Thus, organizational history matters and can be an enabling or deterring force for change and adaptation.

The resource-based view does not consider all resources as equally important for the future of a firm. The ability to generate and to maintain rents depends on the degree of imitability and substitutability of the resources. A firm that exploits valuable, rare, and costly-to-imitate resources may benefit from a position of competitive advantage (Barney, 1991).

In this present study, "resources" are the:

> … stocks of available factors that are owned or controlled by the firm. Resources are converted into final products or services by using a wide range of other firm assets and bonding mechanisms such as technology, management information systems, incentive systems, trust between management and labor, and more (Amit & Schoemaker, 1993, p. 35).

An advantage of applying the resource-based view is that the resources and capabilities that a firm possesses can be recognized. Hence it may allow managers to identify the investments needed to capture the full economic value of a firm. Not all resources have the same value at a given point in time or over the course of the entire life cycle of a firm, hence what may be a source of competitive advantage in a single-period equilibrium analysis may not yield the same returns in a dynamic analysis. Moreover, resources are embedded in a complex social context (Barney, 2000; Jack & Anderson, 2002; Nahapiet & Ghoshal, 1998), are path dependent and markets are often incomplete (Barney, 2001; Peteraf, 1993); therefore developing resources may prove crucial for a SME.

In the context of a SME another distinction is important: different resources have different characteristics and consequently, different managerial challenges (Wernerfelt, 1989). As Penrose (1959) points out, an optimal pattern of firm expansion may exist, which requires a balanced use of internal and external resources in a particular sequence. This issue is particularly important in the context of the present study because it is usual that SMEs in emerging countries are controlled, managed, and run by one or a small group of individuals that have a deep but tacit knowledge of the firm. What really matters at this point is a clear identification—not just a vague idea—of the different resources on which a firm can depend. The resource-based view assumes not only economic rationality but also efficiency as one of the key motives that drives the decision making process. This approach is suitable for analysis of resource selection, development and use. An explanation of the origin of a firm's bundle of resources is not discussed, since it is beyond the scope of this paper.

Resources in SMEs are the consequence of complex social exchanges and are path dependent (Barney, 2000; Helfat & Peteraf, 2003; Helfat & Raubitschek, 2000). Firms own assets and resources because they have taken previous decisions that result in their current stock of resources. Some are bought and others are built inside the firm. A firm may not own a certain resource required for the implementation of its market strategy because that resource is non-tradable (Dierickx & Cool, 1989) and/or because it requires time and must be built by the firm. It is not clear whether all resources actually can be bought or sold, for example, reputation, loyalty, and trust (Arrow, 1974). The analysis of resources is especially important in regards to SMEs not only because small- and medium-sized businesses often are managed by their owners, but also because they often lack sophisticated managerial structures. SMEs also have fewer specialized functions than MNEs, hence, managers tend to focus on decisions related to day-to-day activities while neglecting long-term managerial considerations, such as changing trends in international markets, new technologies, and the development of new capabilities that might be required to remain competitive or to enter new markets. As a result of this characteristic, SMEs have less information and awareness about trends in the marketplace and how it is changing. Also, it is more difficult for them to adequately evaluate their strengths and weaknesses. In a more stable environment, like that faced by SMEs before the onset of globalization and liberalization, it may not have been a major concern, but today, it may very well be crucial.

When a country opens its economy to the rest of the world, the availability of inputs and final goods increases given the fact that trade barriers are lowered or disappear. Resources that were previously rare, difficult to imitate and to substitute due to legal protection may become relatively easier to substitute and relatively abundant after the liberalization process. Domestic prices tend to converge to the international prices in the case of tradable goods, therefore forcing local firms to become more competitive even if they are not competing internationally. As a consequence, firms may have to align their strategies with the comparative advantage of the home country, and reassess the relative value of the resources which may no longer be the foundation of their competitive advantage.

Given the heterogeneous nature of SMEs, it is difficult to group them into categories. However, a central characteristic of these firms is the fact that the manager-owner is a valuable asset, and therefore, a key reason why the resource bundles underlying production are heterogeneous across firms. It is worthwhile to note that according to Barney (1991), this phenomenon is a necessary condition to secure a competitive advantage, but it does not guarantee long-term advantage. For that reason, the resources of SMEs are difficult to imitate. The main characteristic of these companies is their human resources capability and, more specifically, a small number of manager/employees that have a tacit knowledge of the firm and its business as a result of years of experience. The knowledge accumulated after working closely with customers, suppliers, governmental agencies—and the resulting network created—is not easily duplicated and is dependant on the characteristics of the individuals involved because there are time compression diseconomies (Dierickx & Cool, 1989). Time is a crucial factor in the learning processes of the manager-owner because self-experience may have to be built. Another interesting characteristic of these firms is that their resources are difficult to imitate because of the interconnectedness of these resources, the tacit knowledge of their manager-owner that acts as an entrepreneur and thus becomes a special resource of the SME (Rangone, 1999).

The resource-based view implies that SMEs from emerging economies can be competitive if they develop strategies based on valuable, scarce, and difficult to imitate resources. To increase the possibility of finding new products and new markets, it helps if managers understand and identify key resources for their firms and share this information with the rest of the company. Managers developing a strategy for the SME's international expansion generally need to know what their resources are and the nature of the input and output markets in which they are competing. Resources deeply influence the expansion strategies that SMEs choose and which resources and capabilities to acquire in order to achieve their strategic plan. Moreover, given the characteristics of SMEs in emerging economies as mentioned previously, SMEs that mainly base their competitiveness on their own resources are constrained in terms of their international expansion. The extent to which SMEs have a strategy to compete in international markets, or survive the pressure in their local markets, is directly related to the extent that they have a clear understanding of the resources that add value to their activities and the complementary resources needed.

Hypothesis 4: The greater the senior managers' understanding and recognition of the resources controlled by their SMEs, the higher the likelihood of having long-term internationalization.

An over-emphasis in exploiting firm-specific assets may prove to be detrimental to the internationalization process because it only takes into consideration one aspect of the strategic process. As it was mentioned before, managers need to be alert to changes in the environment to discover new opportunities but also be alert to possible changes in the relative value of their resources. Resources are only valuable, rare, difficult to imitate and to substitute at a certain point in time and compared to another set of resources. Globalization and liberalization have not only increased the opportunities on the output markets but also the number of potential input sources.

2.3.2.2 Dynamic Capabilities

While the resource-based view provides a useful framework to help identify resources and to base the decision-making process on efficiency considerations, it does advance an understanding of the dynamics that occur while a firm is learning. The equilibrium-oriented perspective gives the Resource-Base View a static approach that can be relaxed by allowing learning, uncertainty, and shocks to be considered (Foss & Montgomery, 1995). An analysis of resources is not enough to explain why a firm may have an opportunistic or long-term internationalization strategy. Penrose (cited in Mahoney et al., 1992) suggests that resources are stocks and capabilities are flows. The concept of "capabilities" can help to understand the differences.

Capabilities exist when two or more resources are combined to achieve a goal. The present study introduces the concept of "capability" because it "emphasizes the key role of strategic management in appropriately adapting, integrating and reconfigurating internal and external organization skills, resources, and functional competences to match the requirements of changing environment" (Teece, Pisano. & Shuen, 1997, p. 515). In light of this definition of "capability," it is important to note that the relative endowment of firms may not necessarily relate to their financial performance because "only the service that the resource can render and not the resources themselves provide inputs into the production process" (Penrose, 1972, p. 25), rendering the deployment and combination of those services critical to the rent generation of the firm. As was mentioned before, it is well known in the literature that resources can be both tangible and intangible while capabilities are always intangible. Resources also have the characteristic that they can or cannot be traded in the market, but capabilities cannot be traded unless the company or a business unit is purchased. The environment in which SMEs work today can be considered as moderately dynamic, even if the vast majority of these firms are not in what usually are considered dynamic industries (such as high-tech or pharmaceutical). The main reason for this phenomenon is the increase in the degree of competition faced by SMEs.

Firms, whether they are in developed or emerging economies, require the exploitation of existing firm-specific capabilities and the development of new ones (Penrose, 1959; Teece, 1982; Wernerfelt, 1984). However, as Teece et al. (1997) stress, it is not only important to exploit those internal and external capabilities but also to engage in new capability development. The question now is how to define dynamic capabilities. Eisenhardt and Martin (2000) state that “dynamic capabilities” consist of specific strategic and organizational processes like strategic decision making that create value for firms within dynamic markets by manipulating resources into new value-creating strategies. In this context “dynamic” refers to:

> the capacity to renew competences so as to achieve congruence with the changing business environment; certain innovative responses required when time-to-market and timing are critical, the rate of technological change is rapid, and the nature of future competition in markets are difficult to determine (Teece et al., 1997, p. 515).

Dynamic capabilities allow an analysis of what kind of strategic decisions managers may take when confronted with the changing nature of international markets. Managers conceive “strategy” as a “continuing search for rent” (Bowman, 1974, p. 47). Over time, SMEs have seen the nature of their rents change. Before the economy was open to foreign competition, rents tended to flow from the asset structure. Two types of rents follow this description. The first is the “Ricardian rent” that can be achieved by owning a resource that is scarce (Ricardo, 1951), for example, patents, locational advantages, and copyrights. The other rent is called “monopolistic rent,” which is achieved through governmental protection or by collusive arrangements when barriers to potential competitors are high (Bain, 1968). For the vast majority of firms that were competing in closed economies, these two kinds of rents may no longer be achievable when competing in the international arena and even in local markets. Pro-market reforms normally reduce governmental influence in resource allocation and consequently, the relative prices of inputs and outputs tend to converge to their international prices. Resources that once may have been scarce within a country may become abundant, or a close substitute becomes easily available after firms achieve access to international markets.

The new type of rent is usually referred to as “Schumpeterian rent”. It tends to flow not just from the asset structure of the firm but also from the firm’s ability to reconfigure and transform itself. It may be achieved through risk–taking and entrepreneurial insight (Cooper, Gimeno-Gascon, & Woo, 1991; Rumelt, 1987; Schumpeter, 1934). Schumpeterian rents frequently require strong commitments to skill acquisition, learning and the accumulation of organizational and intangible or “invisible” assets (Itami & Roehl, 1987). A company may not have better resources but achieves rents because it makes better use of them (Penrose, 1959), therefore it can still be competitive in international markets. Senior managers, and the organization as a whole, are immersed in an unstable environment where organizational and managerial processes may be important for the survival of the firm. Dynamic capabilities are those new routines and organizational processes that can be manipulated by a firm to reconfigure its resources to be competitive.

Dynamic capabilities are indeed important to the future of SMEs in emerging economies, as they refer to the steps that firms must take not only to be competitive but to survive in a world increasingly more integrated. The idea behind dynamic capabilities is the capacity to reconfigure skills, resources, and organizational skills. As previously mentioned, to engage in long-term internationalization, SMEs may need to 1) improve their organizational structures by creating decentralized organizational processes, 2) examine the environment to identify changes in it, 3) assess markets and competitors (Dawar & Frost, 1999), and 4) reconfigure their abilities before the competition (Amit & Schoemaker, 1993; Teece et al., 1997). Dynamic capabilities are based on the critical assumption that sustained competitive advantage is dependent on the effective manipulation of knowledge resources (Eisenhardt et al., 2000). As mentioned before, it is important for firms to know what kind of resources they have available to be competitive, but that is only the beginning of the journey. According to Hoskisson et al. (2000) a majority of emerging economies have gone through a process of market liberalization. Hence, it follows domestic firms eventually may have to compete not only with MNEs but also with foreign SMEs. Ricardian rents are more difficult to sustain because the economy is open to foreign competitors and the probability of finding a substitute has dramatically increased with liberalization and globalization.

The changing nature of the rules of the game also entails a change concerning the relative value of resources, and therefore affects the competitive advantage of many SMEs. Regarding input markets, SMEs are constrained in their access to information and technologies, capital markets, and the labor markets. Regarding output markets, SMEs have little or no international experience which suggests a lower level of competitiveness, making it more difficult to compete with international firms. Another key limitation faced by SMEs is the lack of managerial expertise and consulting services. While this last constraint is part of the input market, it is worthwhile to mention it separately because it is not only quantitatively important in terms of the number of managers with international experience that can be hired by SMEs, but also because this constraint, by itself, is sufficient to limit international expansion.

The knowledge-based resources are, without question, the most interesting for the present study, and a key area in which SMEs are at a disadvantage. As mentioned earlier, local firms are forced to meet international standards regarding quality, productivity, and reaction time, so they can adapt to new trends. In contrast to the property-based resources of which competitors may have the knowledge to imitate or substitute, knowledge-based resources cannot be easily imitated because firms do not possess the know-how or because of causal ambiguity they are too difficult to duplicate. As Miller and Shamsie (1996) argue, "knowledge-based resources allow organizations to succeed, not by market control or precluding competition, but by giving firms the skills to adapt their products to market needs and to deal with competitive challenges" (p. 522)

Firms in emerging economies have to learn to adapt quickly to new circumstances. Due to the characteristics of the environment in closed-economies, SMEs do not possess the experience to deal with complex situations such as foreign competition and markets. Moreover, markets in emergent economies are not as complete or deep as in developed economies, therefore, some resources may not be available to SMEs. As a result of this lack of experience, SMEs have to increase their knowledge base and their exposure to activities that allow them to overcome their constraints. Strategic processes and the knowledge of the characteristics that SMEs possess may be important to unite all the efforts to pursue international expansion.

Resources in themselves cannot provide a long-term competitive advantage. Rents depend not only on the structure of the resources but also on the ability of firms to reconfigure and transform those resources. The likelihood that a SME will pursue international expansion is greatest in the presence of an ability of a firm to reconfigure and transform its resources through strategic process.

Hypothesis 5: The greater the emphasis of senior managers on new capabilities, the greater the likelihood of having a long-term internationalization

The resource-based view focuses on strategies for exploiting firm-specific assets and only secondarily considers managerial strategies for capability development, while the dynamic capabilities approach focuses on skill acquisition, learning and accumulation of organizational and intangible or invisible assets (Itami & Roehl, 1987). Consequently, the dynamic capabilities focus on resource development and reconfiguration that may enhance the competitive advantage of the SMEs, while the resource-based view assumes that valuable assets can be purchased or selected ex ante. Given the characteristics of SMEs and emerging economies, an understanding of how firms renew competences to respond to shifting environments may prove crucial to meet international standards.

2.3.3. Expanding the knowledge bases of SMEs: Learning Approach

The capacity to exploit a new set of opportunities depends, partly, on the strategic decisions made by managers. In some cases, these opportunities require at least a reconfiguration of the activities of the firm, but more often, they require the incorporation of new resources, and especially new processes. The notion of learning and unlearning may be important to increase the probability of successful adaptation to a new environment. In different areas such as managerial skills and the use of technology, the knowledge base of SMEs may not be sufficient to compete.

A firm learns to expand its knowledge base. Firm-specific, combinative knowledge, usually in the form of organizational routines, constitutes capabilities that ensure the performance and competitive advantage of the organization (Johanson & Vahlne, 1977). Organizational knowledge expands with a multi-layer (i.e., individual, group, organizational, societal) transformation from tacit to explicit knowledge (Nonaka, 1994). To avoid a competence trap (Caldart & Ricart, 2007; George, 2005; Siggelkow & Levinthal, 2005), capability rigidity (Levitt & March, 1988; Schreyögg & Kliesch-Eberl, 2007), or self-destruction (March; 1991), firms may be required to learn constantly. In particular, they are required to maintain a certain level of explorative learning, and to fight against learning barriers such as defensiveness (Argyris & Schön, 1974; Henfridsson, & Söderholm, 2000), inertia (Collinson & Wilson, 2006; Leonard-Barton, 1992), and myopia (Gupta, Smith, & Shalley, 2006; Levinthal & March, 1993).

In internationalization, a SME's existing resources may not be sufficient for use in some foreign markets. Knowledge is required about both the market and the firm. The literature mentions several types of knowledge related to a firm's internationalization process. For example, Andersen (1993) distinguishes between market-specific and general knowledge. Similarly, Eriksson, K., Johanson, Majkgard, and Sharma (1997 & 2000) elaborate on three interrelated components of international experiential knowledge: internationalization knowledge, business knowledge, and institutional knowledge. Internationalization knowledge is the knowledge of a firm's capability and resources to engage in international operations, in other words, knowing what knowledge is required in different situations and settings connected with internationalization and knowing where to seek this knowledge. Experiential market knowledge is that of the foreign markets in which the firm is going to operate; it has two aspects: foreign business knowledge, which is experiential knowledge about clients, markets, and competitors; and institutional knowledge, which is experiential knowledge about government, the institutional framework, rules, norms and values. Without knowledge acquisition, SMEs face serious difficulties when competing locally and internationally. When firms are considered as a system of purposeful actions, engaging in economic activities to achieve targets, organizational learning may be important to understanding how they can adapt and survive in a complex environment (Simon, 1955). "Organizational learning" is the process by which firms can cope with uncertainty and environmental complexity, and their efficiency depends on the capacity to learn how the environment is changing and then adapting to those changes (Alvarez, Agarwal, & Sorenson, 2005; Child, 1972; Daghfous, 2004; March and Olsen, 1976). This strategy is especially relevant to the subject of the present study where SMEs from emerging economies face new challenges resulting from changes to the rules of the game established by economic policies such as the monetary and trade policy, and tax reform, as well as political and institutional changes.

The literature suggests that SMEs can enhance their learning in two different ways. First, by coding the idiosyncratic knowledge and making it available to selected members in the company (Antonelli, 2008; Hall & Andriani, 2002; Shin, 2004). There is no doubt that some individuals possess knowledge that is a valuable and difficult-to-imitate resource for the firm, such as a deep business or personal relationship/knowledge with/of the business community or government. Different levels of learning creation exist in an organisation—at the individual and social levels—and each level has its own characteristics. Knowledge is located in the individual, and is largely tacit, being expressed through professional skills. It is important to make it explicit in the form of routines so that the organization as a whole can learn. According to Levitt and March (1988), routines capture the experiential lessons and make that knowledge obtainable by the members of the organization that were not part of the history of the company. Past experience and cognition are concretized in norms, standards, procedures, and job specifications. These behavior programs seem to dictate how things are and should be done (Zucker, 1977). This phenomenon is part of the process of building managerial expertise and an adequate organizational structure in order to disseminate knowledge within the firm. If a large number of individuals are allowed access to the know-how of the firm, the likelihood of the SME becoming more competitive and expanding its potential target markets may be increased.

The second way SMEs need to enhance their learning is to make changes in their knowledge base. When the socio-economic environment changes, a need arises to reformulate explicitly or implicitly how firms can react to new incentives. The first step is to understand the new dynamics, so SMEs can make the necessary adjustments in terms of what resources and capabilities still provide a competitive advantage, and what opportunities and threats result from the new rules. A company cannot develop or implement what does not make sense for its managers (Weick, 1998). Lessons from past experiences accumulated and stored within routines might have to change to reflect new information and knowledge. According to Zollo and Winter (2002): "When regulatory and competitive conditions change rapidly, persistence in the same routines can be hazardous" because managers and employees use the organizational memory or knowledge to make decisions and to formulate the present strategy of the firm. "Organizational learning" also can be defined as "the process within the organization by which knowledge about action-outcome relationships and the effects of the environment on these relationships is developed" (Duncan & Weiss, 1978, p. 84). The effectiveness of decisions taken by a firm is greatly influenced by its knowledge base, which in turn, is the result of the learning process.

The access to appropriate managerial skills, technologies, and information is crucial to become more competitive in an open economy. Emerging economies are characterized by a lower availability of management know-how, a lack of support services, a lack of private or public consulting services, and a lack of timely information. All of these factors have a negative impact on the ability of SMEs to use common techniques such as local or international marketing plans, quality control, or participation in a network. The extant literature suggests that SMEs need to enhance or broaden their knowledge base mostly through their own initiative (Acs & Yeung, 1999; Lu & Beamish, 2001; March & Olsen, 1976; Zollo & Winter, 2002). Furthermore, managers may have to take a proactive attitude towards encouraging learning, accepting higher levels of risk, and challenging the status quo to avoid competency traps (Ahuja & Lampert, 2001; Cohen & Levinthal, 1990), the creation of a dominant logic (Bettis & Prahalad, 1995) over time that may hamper the pursuit of new opportunities.

Shrivastava (1983) points out that this perspective of organizational learning is closely linked with sensemaking. Weick (1995) argues that management is inextricably bound by the process of imposing sense on past experiences. We try things, see the consequences, then explain them, and continue along. He suggests that first we have to act and then find out and select what works. Finally, given that we retain only those behaviours that appear desirable, managers must have a wide range of experiences and the competencies with which to deal with them to create novel, robust strategies. The new organizational reality emerges from the creation of newly shared-meaning. If a firm is going to survive, it is critical that a new shared-meanings frame emerge from the collective sensemaking process. SMEs need to unlearn many practices and routines to embrace new ones (Leonard-Barton, 1992; Siggelkow & Rivkin, 2005) that can be used to cope with the new requirements (Rundh, 2001) set by a more sophisticated demand and greater external competition. Weick (1995) argues that to engage in sensemaking is to construct, filter, frame, and to create facticity. According to Smircich and Stubbart (1985), when we analyze how an organization reacts and acts when faced with changes, we instinctively make assumptions about the organizational environment. The managers may have to focus on implementing a strategic learning process (Hamel & Prahalad, 1994), and to act as architects, interpreting events, objects, and situations to make them meaningful for the members of the firm, and to interpret them to make sense to employees (Peters & Waterman, 1982). It is important that not only individuals learn but also the firm, therefore, encoding is crucial to develop organizational memory (Argyris & Schon, 1978; Nilakanta, Miller & Zhu, 2006).

In the case of SMEs, the manager-owner is a person who is knowledgeable about almost all aspects of the business (Mintzberg, 1979). Moreover, his or her knowledge is personal in the sense that it is located in the mind, although not always encoded or available to the rest of the firm. Some degree of transfer from key members of the firm may be unavoidable to secure the future of the SME.

Without organizational learning, it is highly unlikely that a firm can successfully reconfigure and acquire new resources or capabilities in a changing environment. The concept of “organizational learning”—closely linked with dynamic capabilities—can be defined as “a learned and stable pattern of collective activity through which the organization systematically generates and modifies its operating routines in pursuit of improved effectiveness” (Zollo & Winter, 2002, p. 340). As mentioned before, labour markets in emerging economies are not as deep and sophisticated as in developed economies. In addition, emerging economies are characterized by frequent economic cycles, inadequate welfare systems, and rigid labour markets due to labour laws and underdeveloped financial markets. Therefore, there is little doubt that larger firms have a better chance to survive and grow in this kind of environment, providing a more stable workplace for their employees. Consequently, SMEs are at a disadvantage when the small numbers of professional managers and highly qualified workers can choose between working for SMEs or larger firms.

In this environment, managerial expertise is not easily obtainable. The new economic and competitive reality force SMEs to learn the new rules of the game, so they can expand their knowledge base by supporting learning within the firm through employees’ initiatives, by using the assistance of international agencies, or by acquiring resources from participation in networks. SMEs may have to increase their competitiveness independently of their level of international activities, with an understanding that different international expansion requires different kinds and depths of knowledge about international markets (Bell, McNaughton, Young, & Crick, 2003).

Hypothesis 6: The more dispersed the knowledge base within the SME, the greater the likelihood of a SME pursuing long-term internationalization.

SMEs may need to update and reconfigure the scope of their knowledge-base. Internally, they may need to incorporate world-class standards to increase their capability to absorb and make use of new knowledge, and to decrease their dependence on a single resource (for example, the owner of tacit expertise). Externally, they may need to find new sources to secure resources without owning them, for example, information about international markets, managerial expertise, or new technology. Changes in the knowledge-base may prove to be a requirement for a long-term internationalization strategy, but they probably would be requisite for any firms competing in an industry with tradable products. Given the characteristics of SMEs, the chance to increase the knowledge base may be reduced considerably if they act as independent, self-sufficient entities. Hence, SMEs may have to collaborate with SMEs and large enterprises (Jack, Dodd, & Anderson, 2004; Karra & Phillips, 2004). The opportunities for learning may be greatly influenced by the strategic processes of the SMEs (Beer, Voelpel, Leibold & Tekie, 2005). It may be acquired more efficiently if it is a deliberate practice established during the strategic process and reinforced with the use of the firm's capabilities as defined in a previous section (Gourlay, 2006b; Jordan & Jones, 1997; Quintas, Lefere & Jones, 1997).

2.3.4 How SMEs Access and Secure Resources

2.3.4.1 Networks approach

It is becoming increasingly difficult to define precisely where an industry begins and ends. Companies have to collaborate with, and learn from, leading edge customers and suppliers wherever they are located. A senior manager's role in creating strategy is being redefined. Firms may have to focus on corporate competencies integrated systems, sharing opportunities and risks with other firms that may provide the flexibility to work in a rapidly changing business environment.

SMEs, compared to larger firms, face major challenges in terms of securing resources, and these challenges are increased by the characteristics of emerging economies. Increasingly, networking is seen primarily as a "means of raising required resources" (Ramachandran & Ramnarayan, 1993, p. 515). Networks are a mechanism to coordinate economic exchanges that fall in the continuum between market and hierarchies (Powell, 1990). According to Podolny and Page (1998, p. 59), an economic network is a group of agents that pursue repeated, enduring exchange relations with one another. The entrepreneurship literature has studied the significance of networks to small firms (Arenius & DeClercq, 2005; Birley, 1985; Hoang & Antoncic, 2003), particularly as a means to obtain resources that smaller firms would not otherwise be able to acquire for their business (Elango & Pattnaik, 2007; Fernández, & Nieto, 2005; Starr & MacMillan, 1990). Networks are important instruments to ease the constraints facing SMEs in terms of access to capital, labor markets, information and technologies. A broad circle of friends and acquaintances can introduce manager-owners to a wider circle of resource holders, including suppliers, investors, employees, distributors, customers, and regulators (Davidsson & Honig, 2003). In fact, there is already some evidence in entrepreneurship research that entrepreneurs with larger networks identify more opportunities (Hills, Lumpkin, & Singh, 1997) and may enhance the firms' performance (Zaheer & Bell, 2005). In their domestic markets, SMEs face increased foreign competition and institutional inefficiencies that favor larger enterprises. In addition, SMEs still do not have the experience and standards needed to expand into international markets.

Emerging economies are characterized by macroeconomic and political fluctuations, so flexibility and the ability to muddle through unstable circumstances may be important to becoming competitive. Powell (1990) argues that networks are more flexible in their ability to adapt to change in their environment than hierarchies. They are different from markets because "their members are engaged in repeated exchanges that help sustain cooperation–collusion" and because "network members have thorough knowledge of each other's characteristics, which helps them match with each other or to refers to each other to outside business opportunities" (Rauch, 2001, p. 1179). The ability to access, commercialize, and act as a broker of new resources, especially knowledge, is key to improving the competitive levels of SMEs. Given Rauch's observation on networks, it may be useful to analyze firms as social networks to gain a better understanding of their performance. A manager's business network can be distinguished from his or her social network by the nature of their ties. Whereas social networks are based on friendship ties, business networks are based on instrumental ties (Larson & Starr, 1993; Lincoln & Miller, 1979). “Social networks” are a “set of nodes (persons, organizations, etc.) linked by a set of social relationships of a specified type” (Laumann, Galaskiewicz & Marsden, 1978, p. 458). If a social relationship exists, manager-owners may be able to elicit a resource commitment based on readily available interpersonal ties that eventually may lead to improved performance outcome (Chetty & Agndal, 2007; Zhou, Wu, Luo, 2007). These ties are most likely to occur in family or kinship networks where close relatives feel motivated or obligated to assist each other although there is an expectation such favors will be reciprocated in the long term (Chen & Glen, 2004).

Firms are embedded in network structures and “the economic actions and outcomes, like all social action and outcomes, are affected by actors’ dyadic (pair wise) relations and by the structure of the overall network of relations” (Granovetter, 1992, p. 33). In the case of SMEs, social networks and the concept of the firm in a network are interrelated in such a way that it is difficult to distinguish one from the other, since the manager-owner is a critical asset and driver of business activities. SMEs are mainly family-owned firms or businesses—with a highly concentrated ownership structure focused on individuals—in which non-economic relations have an important influence in business decisions. A SME may be part of a network not only because it may find complementary resources but also because managers may have friendship ties with other mangers. Non-economic reasons may be as important as economic reasons. Socially competent managers may also be more adept at capability building, because of their ability to form non-pecuniary (friendship) ties with various stakeholders, customers, employees, suppliers, distributors, and even competitors (Davidsson & Honig, 2003; Ingram & Roberts, 2000). Considering firms as social networks also allows an analysis of companies at any unit of analysis that may be considered pertinent. Even the environment can be conceived as a network of organizations that include "key suppliers, resources and product consumers, regulatory agencies, and other organizations that produce similar services or product" (DiMaggio & Powell, 1983, p. 148).

Where internal resources are important for a firm's performance (Gnyawali & Madhavan, 2001), resources also can be secured within networks that may allow firms to be competitive locally and internationally. Resources can be exchanged in networks because of the existence of relationships between managers and between firms that can share resources such as information, equipment, and personnel (Perrow, 1992). In order to understand the full benefits of being a member of a network, managers might have to pay attention to the characteristics of their partners, their position in the social structure and the extensiveness of ties between members of the networks (Adler & Kwon, 2002; Aldrich & Zimmer, 1986; Zaheer & Bell, 2005). It may be valuable to SMEs to collaborate not only with other SMEs but also with larger firms. International experience is a scarce resource for small and medium firms, and a fast and less risky method to obtain insight about how to compete in international markets is to engage in a rather stable and continuous exchange of information with other firms that posses that knowledge, for example, being a member of a subcontracting network or supply chain. Networks are an important tool for SMEs to learn and to develop new capabilities.

Walker, Kogut, and Shan (1997) suggest that network resources are of the same kind as social capital. Adler and Kwon (2002, p. 23) define "social capital" as "the goodwill available to individuals or groups. Its source lies in the structure and content of the actor's social relations. Its effects flow from information, influence, and solidarity it makes available to the actor." Social capital depends on the trustworthiness of the partner of a network and can facilitate the coordination and cooperation between firms, and may help firms to obtain legitimacy (Zimmerman & Zeitz, 2002). Given the particular ownership structure of SMEs, their managers are usually personally involved in most aspects of the operations of their firms. In particular, they tend to centralize important decisions and personally manage the relationships with key players in their environment. Consequently, it is highly probable that managers' individualism and the perception of trust play an important role in deciding whether to be a member of a particular network or not. Those personal ties may also increase the social capital of the networks, reducing the probability of opportunistic behaviors and increasing cooperative behaviors over time. Furthermore, given the level of institutional development in emerging economies, market information based on internationally accepted accounting principles may not be available, tax systems are not as sophisticated as in developed countries, and SMEs may have restricted access to financial markets. Therefore, relevant information probably would be exchanged through personal networks rather than markets.

According to Burt (1992, p. 65), the existence of a “relationship of nonredundancy between two contacts” creates social capital for the actor who is able to link up with a member of the network that possesses complementary resources. Those managers that act as brokers enlarge the set of opportunities for their SMEs by creating a brokerage opportunity between their contacts, thus giving the firm potentially useful information and control benefits. The present study argues that even redundant contacts can benefit SMEs given the institutional failures in emerging economies. Several authors (Birley & Westhead, 1990; Bonaccorsi, 1992; Elango & Pattnaik, 2007; Upton, Teal & Felan, 2001) argue that SMEs may have to participate in networks to learn and to expand their pools of resources. A network with a larger firm may help overcome inherent constraints of size and to achieve the efficiencies required for world-class competitiveness (Etemad, Wright, Dana, 2001).

Gnyawali and Madhavan (2001) suggest that a firm’s internal resources can be complemented by “capabilities created within a network of competing and cooperating firms rather than within the boundaries of a large vertically integrated organization” (Langlois, 1992, p. 4). Therefore, networks may help to increase a SME’s set of opportunities. In addition, external economies may help SMEs to make the best of their flexibility and entrepreneurial characteristics. SMEs from emerging economies have been insulated from international competition for a long period of time, which has affected the way their managers conduct business.

Managers may not be used to highly dynamic and competitive markets, or to collaborate with their direct competitors. A network can provide the resources to overcome high intermediate costs, fixed costs of complying with regulations, ease labor constraints and the limited capacity to market products, scan the environment, and increase political leverage. Networks can be an efficient source to acquire knowledge about managerial expertise, international markets, and how to incorporate new technologies and vital information in a relatively short time. Kale, Singh, and Perlmutter (2000, p. 232) caution scholars and managers "to pay greater attention to how a firm manages the alliance, post formation, especially with regards to building relational capital and managing conflicts." The capability of firms to manage their network can be considered a resource. Consequently, it may enhance the flow of information, the access to intangible resources and affect the firm's performance (Adler & Kwon, 2002; Zaheer & Bell, 2005) and networks also can be considered as an entry barrier.

Networks do have disadvantages. Belonging to a network requires time, as it is a path dependent process that can constrain the set of opportunities for alliances and limit exchange of information with outsiders (Gulati, 1999). Therefore, networks may constrain the set of opportunities by reducing the number and characteristics of partners in the network, potentially leading to homogenization and forcing firms to make decisions based on solidarity instead of economic reasons. Other costs associated with managing networks include time, the effort expended to scan the environment for potential partners with valuable complementary resources, potential free-rider behavior, and building and maintaining relationships. As such, the costs of networks are higher than those of hierarchical firms due to managerial constraints, which are prevalent in emerging economies.

In conclusion, networks are a vital instrument that SMEs can use to gain legitimacy, and to learn and expand their knowledge base about new techniques, technologies, managerial expertise, and international markets. In contrast to the resource-based view, network theory suggests that SMEs do not necessarily have to own, to develop or buy resources in order to secure their use. Firms may find resources in networks but they need to build the appropriate capabilities to locate and to marshal internal and external resources: to act as a broker. Once again, the strategic process may play a fundamental role to take advantage of networks by identifying potential partners and engaging in business activities. The next step for SMEs is to expand their networks from the domestic to the international level. This move will allow SMEs to gain experience about international markets without having to go through the actual experience of investing time and their limited resources, which will also make the Uppsala model less relevant. It is also critical for SMEs to increase their level of competitiveness, given that the competitors in the international arena are among the most efficient and successful firms in their industries. By putting these changes into effect, SMEs will move from learning *from* other firms to eventually learning *with* the members of networks, and therefore, increase the likelihood of achieving long-term internationalization. This type of strategy is the result of an explicit process that requires being reviewed when new resources and capabilities become available to the firm through learning and networking. It is a two-way iterative process between strategizing, learning, and networking.

Hypothesis 7: The greater the pooling of SMEs with similar constraints in terms of infrastructure requirements and governmental support related to export and import activities, the greater the likelihood those SMEs can have a long-term internationalization

SMEs become more competitive and start moving away from a short to a longer-term international strategic process by membership in a network. This strategy allows firms to learn from other firms, break the influence of the organizational culture, and replace learning-by-doing with a faster method of learning. The net benefit of being a partner depends on characteristics such as density and centrality, but there is no doubt that networks, even with their disadvantages, are a vital tool for SMEs in emerging economies. The different relationships that a SME has influences the type of international expansion it can achieve.

2.3.4.2 A Particular Kind of Network: Industry Clusters

This section briefly elaborates on industrial clusters. An extensive literature exists on this topic. Ricardo's "comparative advantage" can be considered as a pioneering concept of industrial clusters (Vom Hofe & Chen, 2006); and Marshall's exposition about externalities is based on industrial localization. More recently, industrial organization, organizational ecology, economic geography, and strategic management theorists have become increasingly interested in geographically clustered firms due to fact that this phenomenon is “strikingly common around the world” (Porter, 1990, p. 120). Some of these clusters are widely and well known, such as the case of Silicon Valley. The present study considers industry clusters as a special case of a network that is important for SMEs in their drive to overcome the constraints of emerging economies. McEvily and Zaheer (1999) define a “geographical cluster” as “a spatially concentrated group of firms competing in the same or related industries that are linked through vertical or horizontal relationships” (p. 1135).

Industrial clusters are characterized by having extensive interfirm exchanges and an advantageous environment to pursue business activities (Feldman, Francis & Bercovitz, 2005). Marshall (1961) identifies three reasons why industry localization may be an important factor to consider. First, the concentration of firms in a relatively small geographical space creates a market for workers with certain industry-specific skills. Second, clusters can promote the production and exchange of non-tradable specialized input. Third, a better chance exists for informational spillovers, and therefore, firms in a cluster can be more efficient and innovative. Krugman (1991) also points out that given the existence of market imperfections, pecuniary externalities also may play an important role in determining the concentration of industry in a specific geographic location. Some of the advantages of being in a cluster may be reduced considerably given the characteristics of emerging economies and may prompt a wave of take-over within the cluster. Pouder and St. John (1996) argue that clustered firms have a greater legitimacy than firms outside a cluster. In emerging economies, clusters can provide a critical mass to counterbalance the political influence of large firms and to increase the pressure for investments that affect the productivity of the cluster. Furthermore, competition within clusters increases productivity and new firm development (Brunelloa & Gambarottoa, 2007; Combes & Duranton, 2006; Porter, 1998). As mentioned earlier, SMEs in emerging economies suffer high transaction costs and imperfect input and output markets that greatly affect their mobility. SMEs participating in clusters, even with competitors, can be provided with several benefits in emerging economies. For example, it increases the political leverage of SMEs at home and it may help overcome institutional and managerial constraints. Also, it increases the leverage of SMEs in input markets (access to information, access to local and international capital markets, dissemination of information related to international markets) and output markets (increase international experience, competitiveness, and scanning the environment). For these reasons, SMEs with similar characteristics may also benefit from being in a cluster. Therefore, if a SME is not an original member of a cluster or is not created in a cluster, the chance of moving to an industrial cluster is relatively low.

Hypothesis 8: The degree of participation of a SME in an industry cluster is positively correlated with an expansion of its resources and capabilities.

2.5 THEORETICAL CONCLUSIONS

This chapter provides a framework to guide SMEs international expansion. The main focus is to differentiate the forces that may drive a SME to have a short-term internationalization strategy or a long-term international strategy. They have to compete with firms from developed economies with experience in highly competitive markets and, who in many cases, benefit from financial and technical support provided by governmental agencies.

Given the previous discussion, international expansion of SMEs from emerging economies may be more beneficial if it is a planned process, beginning with objectives, to resources and organizational structures needed to achieve those objectives. Increasing competitiveness may no longer be optional for those SMEs that seek to engage in long-term international operations or those competing in tradable goods industries. It may be valuable for SMEs to develop explicit strategic processes to meet world-class standards. Given that international marketing plans are firm specific, following another SME's successful strategy could lead to failure. For that reason, it may be important to question, to analyze and to choose potential markets. In order to do this properly, it may be valuable to make a detailed international marketing plan as part of the strategy of the firm. Identifying the existing resources, what organizational structures and investments are required to achieve a set of international objectives can prove to be the difference between successful or failed internationalization. Promoting and stressing the development of organizational structure and mechanisms to identify current resources and the investments needed to develop new ones could be important components of a strategic process. In addition, it may be useful to promote a learning culture within the firm to update the firm's capabilities and to transform the opportunities of being in a network into economic benefits.

Given the increasing competition that SMEs are facing, whether local or international, it may be important that they identify the resources required to be competitive. Furthermore, the dynamism of international markets is increasingly changing the relative values of resources and continually producing new opportunities and threats. In this context, the resource-based view provides a useful framework with which to identify valuable, rare, imperfectly inimitable and difficult to substitute resources (Barney, 1986). It also identifies investments required to pursue international operations. However, the mere fact of identifying valuable, rare and difficult to imitate and to substitute resources may prove insufficient. The strategic processes may have to emphasize resource reconfiguration and deployment rather than resource selection as prescribed by the resource-based view. Resources by themselves are not sufficient to ensure competitiveness as the competitiveness of SMEs may depend on their deployment and development. Consequently, it may be important to focus also on inimitable processes, positions and paths and not only on the resources. A shift from Ricardian and monopolistic types of rents to Schumpeterian rents may be beneficial whereby organizational processes become central to success in international markets.

The changes in the environment have increased the importance of knowledge acquisition. New rules and new competition have increased the need for flexibility, and shortened the period of time required to adapt to the new parameters. SMEs may find that the strategic processes will have to focus on expanding the knowledge base of the firm. Two aspects of this are worth mentioning. First, the knowledge that the senior manager has may be the basis for the competitive advantage. Given succession risks, it may be critical, for the long-term survival of the SME, to have some level of codification and sharing of knowledge among members of the SME. There is a trade-off to address between the risks of unintentional spins-off and expanding the knowledge base in order to become competitive. The second aspect is related to the strategic processes and the extent to which a formal structure may encourage the deliberate acquisition of knowledge, gained and learned by deliberate search. While non-deliberate and unplanned acquisitions are also important, they cannot be thought out in advance or formalized which may be problematic as the main method for acquiring new knowledge.

A central premise of the present research is that SMEs may not possess or be able to acquire the majority of the resources necessary for a long-term international expansion. SMEs do not necessarily need to own the resources or to internalize activities in order to have international operations. As previously mentioned, SMEs can draw resources from networks, not only allowing SMEs to engage in international activities, but also providing the opportunity for them to do so in less time. The networks approach complements the resource-based view suggesting that SMEs may benefit from knowing their resources, make them available to their employees (e.g. knowledge) and analyze what resources may be needed in the future. Being a partner in networks provides flexibility in the sense that SMEs have a larger pool of resources from which to draw on but that they do not own. For that reason, constraints due to incomplete and to imperfect markets can be reduced. Moreover, networks can serve as a tool to find and to secure resources, hence, increasing the competitiveness of SMEs faster than it would take to develop new resources. This characteristic is especially important in emergent economies where markets are not as sophisticated as in developed economies, and where SMEs may not have the financial capacity to develop or to acquire resources. SMEs from emerging economies may also lack the requisite information and knowledge on how to compete in international markets. The personal ties of senior managers will likely enforce norms of behavior among the members of the networks, increasing the social capital. This may reduce the likelihood of opportunistic behaviors, and increase the effective cooperative behaviors with their partner over time.

Even though SMEs from emerging economies may face more challenges than their counterparts in developed economies, there may be an interesting set of business opportunities for those with a global mindset. Given the characteristics described in this chapter, the necessary condition for a SME to engage in long-term international activities is to know the objectives, organizational structures and the resources required for the expansion. This first step is not a trivial one because it entails identifying what strategic processes are important to increase competitiveness. Therefore, it is likely that SMEs expand their knowledge base to meet world-class standards. Given that engaging in a long-term international operation entails securing a pool of resources, a necessary condition may be to join networks in which partnerships may help SMEs overcome their internal and external constraints while benefiting from their flexibility.

CHAPTER 3

THE ARGENTINE CONTEXT

3.1 A BRIEF REVIEW OF ARGENTINE ECONOMIC HISTORY

As a first step to introduce the empirical setting of this research, this chapter combines an examination of Argentina's economic history, and an overview of small and medium sized enterprises. Argentina is a classic case of an emerging economy that has been struggling for economic and political stability since its independence in the mid-nineteenth century. The entry of Argentina into the international community was fostered by exports of agricultural products such as wool, leather, meat and grains. By the end of the nineteenth century an increasing demand for agricultural commodities, combined with few restrictions on trade, favoured the development of an agricultural related industrialization. In the mid-1930s, Argentina accounted for 50 % of the world's export of corn and for 40 % of the world's export of meat (de la Balze, 1995). Not only did agriculture-related industries encourage international trade, they were also the main engine of industrial development and modernization in the country. Major multinational companies, such as Firestone and Johnson & Johnson, began operating in Argentina in the early 1920s. Also, from a demographic perspective, Argentina made important improvements during the first half of the 20th century, for example reducing the illiteracy rate from 80 % in 1870 to 13 % in 1947 (de la Balze, 1995).

Following World War II, Argentina's economic orientation changed drastically. The country adopted protectionist and interventionist policies that entailed an industrialization strategy of import substitution. The economic policies were often justified by nationalistic arguments and populist measures that resulted in several political and institutional crises. Large economic groups have traditionally had an important role in the development of the Argentine economy. Under the import substitution industrialization (ISI) strategies of the 1940s, 1950s and 1960s, economic groups were mostly active in the financial and manufacturing sectors such as the automobile, steel, petrochemical, and food and textile industries. They also had an important presence in export-related activities like in the case of the traditional petroleum and cereal export conglomerates. Nevertheless, they operated in an environment characterized by the relative predominance of small and medium-sized businesses (Teubal, 2004). The relatively small size of the domestic market did not allow for economies of scale and specialization, thus reducing investments in infrastructure, and increasing inefficiencies of the industrial sector. As result, the average growth rate of Argentinean exports between 1950 and 1970 was only 2.1 % (de la Balze, 1995). therefore, there was a decline in the importance of foreign trade to the Argentinean GDP.

The import substitution industrialization policies hindered the potential growth of the economy by making it impossible to assimilate technological advances, and by distorting the allocation of resources. Under this industrial policy, state-owned firms played a central role in redistributing wealth, and in making short-run macroeconomic policies to control inflation (Edwards and Baer, 1993). The rationale behind this economic model is that industrial protectionism would provide local firms with the incentives necessary to transform their productive structure, and therefore, to increase their productivity and efficiency in order to compete with foreign firms. The end result of this protectionist model was an economy with low growth potential, high operation costs and excessive governmental intervention, where between 1973 to 1988 public spending averaged 51 % of the GDP (de la Balze, 1995). Under ISI some of the largest companies were public services or producers of what were considered to be strategic goods such as oil, steel or coal, all of which were public companies or entities that were state operated. Since the mid-1970s, large companies – forming economic groups and/or conglomerates – acquired increased significance. During the ISI period, large companies coexisted side by side with medium and small business which represented an important part of the economy. However, under the new regime of accumulation that began in the mid-1970s and in particular during the 1990s, this situation changed substantially. Large companies increased their share of the market in almost every sector of the economy, marginalizing small and medium-sized business.

To put Argentina's growth into long-term perspective, in 1913, real GDP per capita in Argentina was 72 % of that of the United States, and higher than that of France, Germany and Sweden. In 1939 the GDP per capita was four times higher than Brazil's, and only 10 % and 20 % lower than France's and Germany's, respectively. By 1950, it was 52 % of that of the U.S. and still higher than that of Germany, which was recovering from the war. In 1990 the GDP per capita in Argentina was 28 % of what it was in the U.S., and far behind what it was in Western European countries (de la Balze, 1995).

3.2 TOWARDS AN OPEN ECONOMY

3.2.1 The Menem Administration

The end of the 20^{th} century was a turbulent period for Argentina, from both an economic and social perspective. In 1989 the monthly inflation rate grew from a one-digit level to above 50 % in just a few weeks. The situation had deteriorated to a point where the operation of the state was seriously disrupted, and the state itself was threatened (Heymann & Leijonhufvud, 1995). The situation provided a unique opportunity for the newly elected president Carlos Menem to undertake a series of economic reforms that have reshaped the economic landscape of the country.

The economic reform program undertaken by the Menem administration can be divided into three phases. The objectives of the first phase were to stabilize the economy, control the inflation and improve the fiscal accounts (see Table 3.1).

In order to achieve those objectives, the government suspended payments to public sector suppliers and contractors, froze most of the subsidies and extraordinary government expenditures and implemented price agreements with the private sector. These measures were implemented under the Government Reform Law which also provided the regulatory framework for the privatization process. In spite of some initial successes, such as a drop of the inflation rate from 197 % in July 1989 to 5.6 % in October 1989, doubts about the sustainability of the fixed exchange rate put an end to the first phase of reforms (de la Balze, 1995).

Table 3.1. SELECTED MACROECONOMIC INDICATORS

Year	GDP growth rate	Consumer price index	Public debt (% of GDP)
1989	-6.6	3079.5	40.3
1990	-0.5	2315.5	40.69
1991	10.0	172.1	36.3
1992	9.5	24.9	32.5
1993	5.7	10.7	23.4
1994	5.8	4.1	24.7
1995	-2.8	3.4	26
1996	5.5	0.1	27
1997	8.1	0.3	25.6
1998	3.9	0.7	27.6
1999	-3.4	-1.2	30
2000	-0.8	-0.9	45.7
2001	-4.4	-1.1	51.7
2002	-10.9	25.9	166.4
2003	8.8	13.4	138.7
2004	9	4.4	127.3
2005	9.2	9.6	73.9
2006	8.5	10.9	64
2007	8.7	8.8	56.7
2008	7.0	7.2	

Source: ECLA (1998); International Monetary Fund (2001); INDEC (2009)

The second phase of economic reforms corresponded to the tenure of a new Minister of Economy, Herman Gonzalez, a close associate of President Menem. The new team abolished price controls, including exchange rate control, implemented a long-term rescheduling of the public debt and tried to keep the public deficit under control. Most of the public deficit had its origins in soft budget constraints under which government agencies and state-owned firms operated (Kornai, 1986). During the last quarter of 1989, the Central Bank deficit accounted for almost 5 % of the GDP, and monthly interest payments for almost

50 % of the monetary base. In order to control the inflationary process caused by the high growth rate of the monetary supply, the Central Bank was prohibited by law to finance the treasury (de la Balze, 1995).

The last phase of this cycle of reforms began in January 1991 with the appointment of Domingo Cavallo as minister of economy. The main objectives were to re-establish domestic and international confidence and stability. In March 1991, the Congress enacted the Law of Convertibility that pegged the Argentinean currency to the U.S. dollar (in January 1992 the exchange rate was fixed at one peso to the dollar). Consequently, the U.S. dollar became the accounting and transaction currency in Argentina, and the national currency was to be backed entirely by foreign-denominated assets. The rationale for pegging the exchange rate to the dollar was to provide a nominal anchor for the economy and to reduce the incentives for policymakers to engage in discretionary policies to achieve short-term goals (Barro & Gordon, 1983; Calvo, 1978). In 1989 and 1990 the annual inflation rate was over 1,000 %, and after the adoption of a currency board in 1991 it fell to under 5 % by the end of 1994 (Mishkin, 1998).

During this last phase of the economic reforms, Argentina underwent a rapid privatization program. The prevailing logic was that privatization was a good instrument to enhance the country's reputation to attract FDI and to reduce public deficit (public firms accounted for 25 % of total public spending in late 1990). Most of the revenue from the privatizations, about US$ 14.2 billion, was used to maintain the fixed exchange rate and to counter the deficits in the fiscal and current accounts (Fajnzylber, 1996). An additional objective of privatization was to improve the efficiency of state-owned enterprises, which were mainly concentrated in key sectors such as the utility, energy, transportation and communication sectors. Given the fact that public enterprises occupied a predominant role in the provision of key inputs, the deterioration of their efficiency had a destructive impact on the private sector's productivity. Galiani, Gertler, Schargrodsky, and Sturzenegger (2005a) found that profitability and operating efficiency of privatized, nonfinancial firms increased substantially following the implementation of privatization. The improvement – which could be seen in a 350 % increase in investment – was mostly because of the implementation of new management practices, new technologies and production processes, all of which were facilitated by easy access to the international finance market and trade liberalization. However, efficiency and profitability also improved because of massive layoffs. The number of public employees fell from roughly 670,000 to 285,000 by the end of 1992, a 57 % reduction in the personnel (de la Balze, 1995). It is important to mention that most of the former stated owned companies were acquired by MNEs and domestic economic groups (Teubal, 2004).

Whilst privatization enjoyed public support in the beginning and had positive impacts on the quality, costs, and availability of services and products, at the end of the 1990s it became highly unpopular. While businesses benefited from lower utility rates, household rates increased in some areas. In addition, no regulatory system was properly implemented. According to Wise (2000, p. 109) "in principle, state firms were divested under the guidelines of formal antitrust legislation: however, hindsight shows that the political will of the Menem administration to combat monopolistic business practices has been nil." The overall dynamics of the Argentine economy in the 1990s led to a substantial concentration and centralization of capital and to the consolidation of large firms, excluding small and medium-sized business. This process continued thereafter under the De la Rúa and succeeding administrations (Teubal, 2004).

3.2.1.1 Liberalization Process and International Insertion

During the 1990s Argentina went through two types of deregulation. The first deregulation measures were aimed at lowering costs, generally through increased competition in the domestic market, or at opening investment opportunities in areas where foreign investment had been restricted by law. For example, monopoly rights of existing wholesale distributors for internal trade in goods and services were eliminated, and new wholesale markets and businesses were created. This first deregulation was important to attract foreign investors. A second group of deregulation measures was designed to attract foreign direct investment. Argentina started a trade liberalization program during the mid-1970s and intensified it during the 1980s, when the Alfonsín administration reduced the average weighted tariff from 99 % to 48 % (Berlinski, 2003). The tariff structure was modified again in 1991 to include only three levels: 0 % for raw material, 11 % for intermediate inputs, and 22 % for manufactured final goods. In 1993, the government eliminated tariffs on capital goods and created a scheme that permitted duty-free imports of turnkey plants. Imports of capital goods increased from US$ 800 million between 1982 and 1990 to over US$ 5.8 billion in the period from 1992 to 2000. The rationale behind the Menem administration's industrial policy was that capital goods imports, FDI and technology transfers would be the key to enhance domestic production and productivity. Following that premise, fifty-one bilateral investment treaties (BITs) were signed, the failed Multilateral Economic Agreement on Investment (MAI) proposed by the OECD was endorsed, and the General Agreement on Tariffs in Services (GATS) was adopted. Also, the old Argentina Patent Law was modified in 1995, following the General Agreement on Trade-Related Intellectual Property Rights (TRIPs). Argentina became one of the largest recipients of FDI in the developing world with an investment of US$ 76 billion between 1992 and 2002, 60 % of which was related to takeovers (Chudnovsky et al., 2007). Investment measured as a percentage of GDP went from 13.2 % in 1990 to an average of 21.8 % in the period of 1993 to 1999 (Baer et al., 2002). It is possible that the higher level of foreign competition that domestic firms were facing because of the lowering of protection had an important impact on the investment plan of the private sector by favouring investment in imported capital goods. The relatively less expensive access to capital goods and to new technology facilitated productivity gains (Chudnovsky et al., 2007). The Convertibility Plan favoured non-tradable goods and sectors that based their competitiveness on foreign technology. The natural resource and capital-intensive sectors grew at the expense of labour and knowledge-intensive ones (Baer, Cavalcanti, & Silva, 2002).

In addition to the reduction of trade barriers that took place under the General Agreement on Tariffs and Trade (GATT), Argentina deepened its economic integration with its neighbours. In 1988 the country signed the Treaty for Integration, Cooperation and Development with Brazil, and in 1989, over 60 % of the tariff lines were liberalized (Estevardeordal, Goto & Saez, 2000). By 1991, Argentina, Brazil, Uruguay and Paraguay created a common market called MERCOSUR. The internal trade liberalization began in 1991 with a 47 % drop in the rates applied by each country to internal MERCOSUR imports. After that, successive reductions took place every six months in order to achieve a zero tariff on most goods by the end of 1994. However, countries were allowed to maintain internal tariffs for a limited number of products. In 1995 the members agreed to have a common external tariff that ranged from 0 to a maximum of 20 %; each member was allowed to maintain a list of up to 300 exceptions out of 8,000 tariff positions that were negotiated.

3.3 THE IMPACT OF EXTERNAL SHOCKS

The late 1990s were characterized by global macroeconomic turbulence that had a profound impact on the Argentine economy: the Mexican "Tequila Effect" in 1995, the Asian crisis in 1997 and then the Russian and Brazilian crises. Of all the external shocks, the Mexican crisis was probably the most damaging to Argentina's economy. Unemployment rose to 17.5 %, industrial production fell 11.6 %, poverty rates rose to 22.6 % and GDP decreased by 5 %. In 1999 the Brazilian crisis dealt another major blow to an already shaky economy. Brazil, Argentina's largest trading partner - 30 % of its total exports - devaluated its currency in coordination with the other members of MERCOSUR. Brazil underwent an important devaluation of its currency by 18.4 % vis-à-vis the

Argentine peso (see Table 3.2) (Fanelli 2002). Not only did Argentina's exports decrease considerably, but also Brazilian goods and services became relatively cheaper for Argentinean consumers. Argentina's economy went into a recession from 1998 to 2002, with a 28 % fall in real GDP and an increase in unemployment rate to 23.7 % by 2002 (Saxton, 2003).

The turbulent international environment increased the pressure on the Argentinean economy and highlighted the long-term weaknesses of the country's economic model. The newly elected President Fernando De la Rúa opted to continue with the currency board scheme. The new administration's main objectives were to keep the fiscal deficit under control in order to fulfill the country's external commitments, and to ease public discontent by implementing social-oriented policies.

Table 3.2. THE IMPACT OF EXTERNAL SHOCKS ON ARGENTINA'S ECONOMY (1998-1999)

Fall in terms of trade (% variation)	11.1
Fall in export prices (% variation)	20.0
Fall in exports to Brazil (% variation)	30.0
Devaluation of the Brazilian real vis-à-vis the Argentine peso (wholesale price index)	18.4
Appreciation of the U.S. dollar vis-à-vis the Euro (%)	10.0
Net capital outflows (% of GDP excluding FDI)	1.4
Increase in public sector interest payment (% of GDP)	1.0

Source: Fanelli (2002)

However, the increasing public deficit and the level of the debt service limited its ability to undertake active social policies. This situation left the government with two options to reduce the fiscal imbalance and to spur growth: 1) cut spending, which would be politically difficult, or 2) raise taxes. The government opted to increase the personal income tax rate to 35 %, the combined rate of federal payroll tax paid to 32.9 % and the value-added tax to 21 %. In addition, taxes were also imposed on exports and financial transactions. It is not surprising that an estimated 23 % of the economic activity was informal and between 30 to 50 % of all transactions evaded taxes (Saxton, 2003).

In 2001, the de la Rúa administration tried to gain support from the political elite and instil confidence in the economy by appointing former minister of economy Domingo Cavallo. He changed the fixed exchange rate from one peso for one U.S. dollar to a 50–50 combination of the dollar and the euro to improve the competitiveness of exporters and businesses competing with imports. A series of tax incentives and commercial policy instruments were put in place to promote production and exports in tradable sectors, but they were not enough to stimulate competitiveness. Cavallo also unsuccessfully attempted to have a “zero-deficit” policy by implementing a voluntary debt swap and by reducing public employees’ salaries and retirees’ pensions. December 2001 began with the imposition of restrictions on cash withdrawals from banks (the so-called *corralito*) and on capital movements, in response to large withdrawals in November. The country sank from recession into outright depression and by the end of 2001, civil unrest forced President de la Rúa to resign. Adolfo Rodriguez Saa was appointed provisional president by the congress. He declared a default on the public debt, which isolated Argentina from the international financial community (Saxton, 2003). The new president resigned after less than one week.

In January 2002, Duhalde assumed power as interim president and Argentina regained some degree of political stability. One of the first measures adopted by the Duhalde administration was to end the convertibility system and devaluate the peso from 1 per dollar to 1.4 per dollar in order to promote an export-driven recovery. Later, under pressure from the IMF, the foreign exchange market was liberalized and the dollar attained a maximum of 4 pesos per dollar in June 2002, despite a US$ 7.5 billion cumulative intervention by the Central Bank (Chudnovsky & Lopez, 2007). The Duhalde administration confiscated savings by forcibly converting bank deposits and loans from dollars to pesos, compulsorily prolonged time deposits, seized the dollar reserves of banks and converted all contracts to pesos on a one-to-one exchange rate. It imposed exchange control, suspended bankruptcy proceedings, doubled penalties for employers who laid off employees and established a variety of new taxes and regulations (Saxton, 2003).

3. 4 CHARACTERISTICS OF THE ECONOMIC AND INSTITUTIONAL ENVIRONMENTS

3.4.1 The Economic Environment

The economic recovery, which started in the second quarter of 2002, was caused by a conjunction of several factors: (1) the political and social situation became less volatile, (2) the Central Bank made preparations for the emergence of a market interest rate that would allow banks attractive returns, and therefore, rebuild their portfolios, and (3) inflation began to decelerate and some degree of economic stability was achieved. In 2002, the inflation rate gradually fell to a manageable level, thanks to fiscal surpluses, frozen public service rates, and public salaries that barely increased. Even after the Central Bank regained its capacity to release money without foreign currency support, the monetary expansion was moderate and met the higher demand for funds. However, after several years of high growth, an expansive monetary policy, and subsequent changes in relative prices (such as high wage increases in 2005 and 2006), the inflation rate is showing an upward trend (Chudnovsky & Lopez, 2007).

In 2003 the Kirchner administration started restructuring the foreign public debt with the IMF and the World Bank. In June 2004 the Argentine government proposed that for a defaulted debt of US$ 81.8 billion, new bonds would be issued totalling US$ 38.5 billion if at least 70 % of the creditors accepted the offer. At the beginning of 2005, the government announced that 76.2 % of the defaulted debt had been accepted. With the achieved cut, the debt as a proportion of the GDP dropped from 126 % to 70 % (Chudnovsky & Lopez, 2007). In December 2005 the Argentine government decided to retire the outstanding debt with the IMF (worth US$ 9.5 billion) using accumulated reserves.

Table 3.3 SAVINGS AND INVESTMENT AT CURRENT PRICES AS PERCENTAGE OF GDP

Year	**Fixed Gross Domestic investment**	**Internal Savings**	**External Savings** (Indebtedness)
1993-1994	19.5%	15.6%	3.9%
1996-1998	19.2%	15.3%	3.9%
2003-2006	20.4%	23.4%	-3.0%

Source: INDEC (2009)

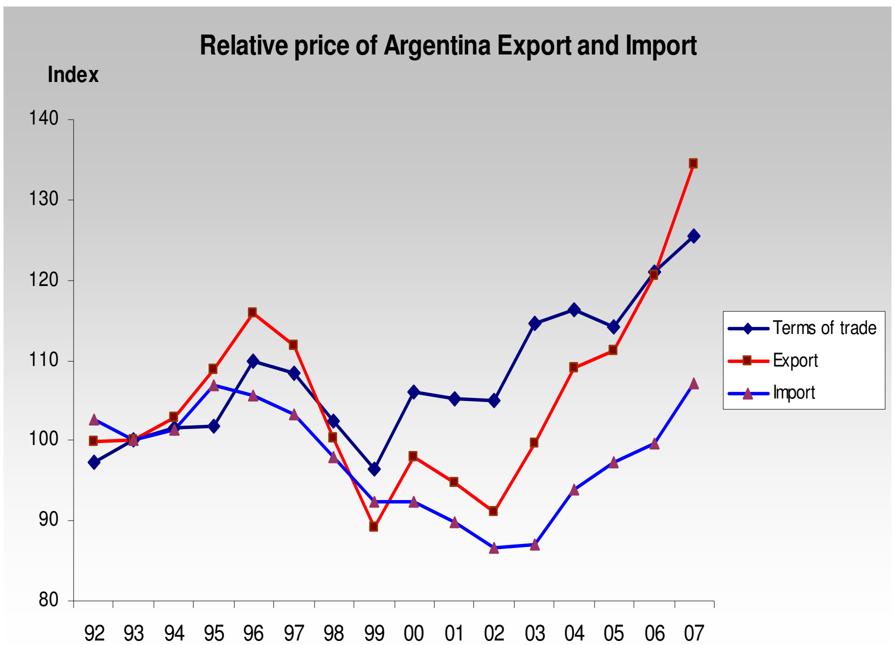
Another key variable and crucial component of the global demand that showed steady improvement was investment. According to the ECLA, gross capital formation as % of GDP increased from 11.3 % in 2002 to 20 % in 2005

(Economic Commission 2004). In 2006, and for the fourth consecutive year, gross investment was the component of the GDP that grew at the highest rate (18.7 %), followed by private consumption (7.7 %), exports (7.4 %) and public consumption (5.2 %). This increase raised the investment rate by 21.7 %, exceeding its previous peak in 1998 by 0.6 % points (INDEC, 2009). However, unlike what happened in the 1990s, this investment was financed mostly by internal savings, given that the inflow of capital is negative (see Table 3.3).

The adjustment of the balance of trade was the consequence of a sharp decrease in imports because of the economic recession; the other factor was a very favourable global context with commodity prices at historical maximums. After the crises of 2001 the official monetary policy was to keep a stable and high real exchange rate to promote productivity gains and to benefit export-oriented sectors. Since 2003 the surplus of the balance of trade has grown mainly because of the favourable exchange rate and international commodity prices (see Figure 3.1). In 2005, exports reached an all-time peak of US$ 40 billion. However, the highly favourable international prices, especially for mineral and agriculture-related commodities, accounted for most of the growth in value (see Figure 3.1) (Chudnovsky & Lopez, 2007).

Regarding the characteristics of the exporters, there has been a substantial increase in the number of firms exporting, from 11,305 in 2001 to 15,053 in 2006 (CEP, 2006). Of all the exporters in 2006, 72 % were small or medium-sized firms and 5 % were large firms. However, in terms of value there was still a high concentration of exports as large firms accounted for 92 % of the country's exports (US$ 42 billion), even though there was a 51 % increase in the value of exports since 2002 (CEP, 2006). Moreover, the change in relative prices after devaluation has favoured sectors that produce tradable goods. According to Chudnovsky & Lopez (2007), labour and skill-intensive sectors, such as textiles, shoes and industrial machinery, recorded large gains in production levels between 2002 and 2005. In this context, exports grew 40 % in real terms from 2002 to 2006 and represented 14 % of the GDP, well above the 10 % average between 1993 and 2001 (Ministerio de Economia y Desarrollo, 2009).

Figure 3.1. ARGENTINA'S TERMS OF TRADE



Source: INDEC (2009)

However, Argentina did not take full advantage of the international situation unlike Brazil and Chile whose exports grew 96 and 118 %, respectively, during the same period (Chudnovsky & Lopez, 2007).

3.4.2 The Institutional Environment

Argentina's economic and public policies have been characterized by their high volatility, incoherence and lower quality even when compared to other developing countries (Spiller & Tommasi, 2003). In Argentina policies are frequently reversed, often at each minor change in the political landscape, whether those changes are in the administration or changes in some key cabinet member or senior bureaucrats. Having stable policies does not mean that policies cannot change at all. Changes tend to respond to changing economic situations or to failure of previous policies, rather than to flimsy political winds. Instead of having incremental changes, building upon achievements of previous administrations, Argentina's public policies tend to be volatile and characterized by large swings and by lack of consultation with different groups in society (Scartascini, Stein, & Tommasi, 2009).

In spite of the dramatic shifts on economic policy from highly interventionist to extremely pro-market and back, Argentina has achieved some degree of economic development, although below its potential. A favourable international context with an unprecedented strong external demand for products where Argentina has both competitive and comparative advantages has been the main reason for the fast economic recovery. Unfortunately, the development of good institutions and stable, credible, well-enforced public policies has not been a priority of the political system (Abdala & Spiller, 2000). After the 2001 recession, the economic policy has changed again and it has become more interventionist, changes in the regulatory policy have been made in an ad hoc fashion and property rights have been weakened consistently. Moreover, Spiller and Tommasi (2003) argue that "Argentina has a generalized incapacity to implement efficient intertemporal political exchanges and that leads to defective public policies". Furthermore, different policies designed to address the same realities seem to lack consistency.

The State has unilaterally appointed directors to the boards of directors of the largest Argentinean companies, informally and formally pressuring economic agents to control key prices such as exchange rates, oil and agricultural products. Such practices highlight the weak institutional development of the country. Macroeconomics and political science theories place great importance on the credibility of economic policies and institutions as a determinant of their effects (Acemoglu, Johnson & Robinson, 2004; Calvo, 1989; Drazen, 2000; Knack & Keefer, 1995). Regardless of how good a policy looks on paper, it will not have the desired effects if economic and social actors do not believe that it will be implemented effectively. Rauch and Evans (1999) rank Argentina in the bottom 5 among 35 developing countries in terms of bureaucratic quality. In addition, the lack of an independent, accountable and professional bureaucracy makes the implementation of good public policies even more complicated (Spiller & Urbiztondo, 1994). Public policies are the result of actions taken by several actors in the policymaking process. It may be beneficial if different agents acting in the same policy domain coordinate their actions to produce rational policies. However, in Argentina, policymaking on certain key issues involves a large number of actors that do not communicate adequately with each other, leading to what Cox and McCubbins (2001) have called “balkanization” of public policies. A major concern is the extent to which political institutions facilitate the political agreements necessary to sustain effective public policies (Spiller & Tommasi, 2007). Lack of coordination often reflects the non-cooperative nature of political interactions (Scartascini, Stein, & Tommasi, 2009).

Not only have domestic policies been short sighted and, therefore, low quality, but the foreign policies have been as well. Argentina’s only consistent foreign ally has been Venezuela. Diplomatic relationships with neighbouring countries such Uruguay, Chile and to a lesser extent Brazil have been difficult. The European countries and USA are carefully watching what is happening with foreign owned companies amid growing concerns about nationalization and price controls. Another important factor that is isolating the county from the international community is its shaky relationship with Paris Club and private investors. The incapacity to maintain its contractual and financial commitments have put Argentinean companies in an unfavorable situation to compete in international markets.

3.5 SMALL- AND MEDIUM-SIZED ENTERPRISES IN ARGENTINA

3.5.1 SMEs during the 1990s

As mentioned previously, Argentina had a long period of import substitution policy which had a profound impact on the operating features of most of the small and medium sized enterprises. SMEs were accustomed to low competition in markets characterized by high uncertainty. Even though SMEs are a heterogeneous group of firms that compete in most of the economic sectors, Yoguel (1998) found that they shared some common weaknesses. Most of them had centralized management, a weak network of collaborative arrangements with other companies, poor international presence and outdated technologies. Of the changes described in previous sections, the opening and liberalization of the economy has strongly affected the way SMEs conduct their operations. Senior managers have been unable to adapt to the new economic circumstances (Kantis, 1996). As can be seen in Table 3.4, these types of firms play a very important role in terms of employment and number of establishments, although their participation has declined after the liberalization process. According to the 1994 economic census, 99.2 % of the firms had fewer than 50 employees and were responsible for 70 % of employment (INDEC, 2009).

Table 3.4. NUMBER OF SMES DIVIDED BY NUMBER OF EMPLOYEES IN 1984 AND 1994

Number of Employees	Number of Firms 1984	1994	Change (%)	Composition (%)	
Total	107,708	95,812	-11.0	100.0	100.0
1 -5	72,098	68,765	-4.6	66.9	71.8
6-10	16,037	11,807	-26.4	14.9	12.3
11-50	15,474	12,189	-21.2	14.4	12.7
More than 50	4,099	3,050	-25.6	3.8	3.2

Source: Cristini and Bermudez (2004)

In 1984 and 1994, the number of employees (26.2 %) and firms (11 %) in the manufacturing sector experienced a sharp decline mostly because of the economic reforms. In that scenario, manufacturing SMEs increased their relative importance in terms of number of firms (from 96.2% to 96.8%) and in terms of percentage of all employees (45.6% to 49.6%). In spite of these figures, according to the 1994

Economic Census, firms with more than 100 employees accounted for 67.4 % of the manufacturing production; firms with fewer than 50 employees for 22.3 %.

3.5.2 Public Policy towards SMEs during the 1990s

The macroeconomics reforms implemented by the Menem Administration brought about the recovery of the financial system and capital market. The efficiency and competitiveness of financial institutions have improved through re-organization and privatization, despite the sudden economic crisis in Mexico, which has had a serious and negative impact on Argentina's financial system. According to the OKITA Report (1996), SMEs have major difficulties accessing credit principally because financial institutions have insufficient resources for long-term loans. The requirements for mortgages and guarantees were too strict for most of the SMEs and the procedures for being granted a loan too complex. In addition, there were almost no possibilities for obtaining equity financing. Even though there were special financing programs for SMEs by Banco de Inversión y Comercio Exterior (BICE) and Banco de la Nación (BNA), those programs were not well known by the majority of the SMEs' owners.

According to the OKITA (1996) report, the development of technology by Argentine SMEs has been constrained by insufficient financing, shortages of expert human resources, technological information and know-how, expensive machinery or equipment, and insufficient support for innovative activities. In order to overcome these obstacles, the Argentine government started the "Small and Medium-Size Enterprises Promotion 3-Year Plan" in 1992, which included a plan for the development and acquisition of new technology.

The area specifically addressed by the Menem administration regarding SMEs was related to the quality improvement of SMEs. The main obstacles faced when conducting quality development activities are difficulties in changing the enterprises' culture, insufficient institutional support and the lack of financial resources (McDermott, 2000). Some SMEs have been enthusiastically running quality improvement programs since 1990. The aim of these systems is to increase the likelihood that products or services are designed and produced to meet or exceed customer requirements. Among such programs, 5-S programs, problem analysis tools, cell production system and quality self-control are the most common ones implemented. However, many SMEs that still exist subject their final products to little more than visual checks or inspections that rely only on venire micrometers and other unsophisticated instrumentation. In order to improve the quality systems, the following polices were recommended but not always implemented by the government: 1) develop practical programs in Argentine quality-control research and education organizations, 2) construct a nationwide quality service network at provincial and local levels, 3) subsidies for SME quality improvement projects, and 4) to increase the supply of long-term, low-interest financing for SMEs (McDermott, 2000).

Argentina invested in many support programs for SMEs during the 1990s. According to the Secretary of PyMEs (SePyME), which was created in 1997, Argentina has approximately 300 programs and lines of credit to support SMEs (IAMC, 1999). McDermott (2000) argues that Argentine policies that have aimed to improve the competitiveness of SMEs have focused on foreign trade liberalization, finance, and training and technical assistance programs. In most respects, these policies have fallen short of aiding SMEs. Furthermore, he suggests that the administering agencies, participating banks, and the firms are unable to even start a common dialogue about the creation of quality projects and corresponding financial instruments.

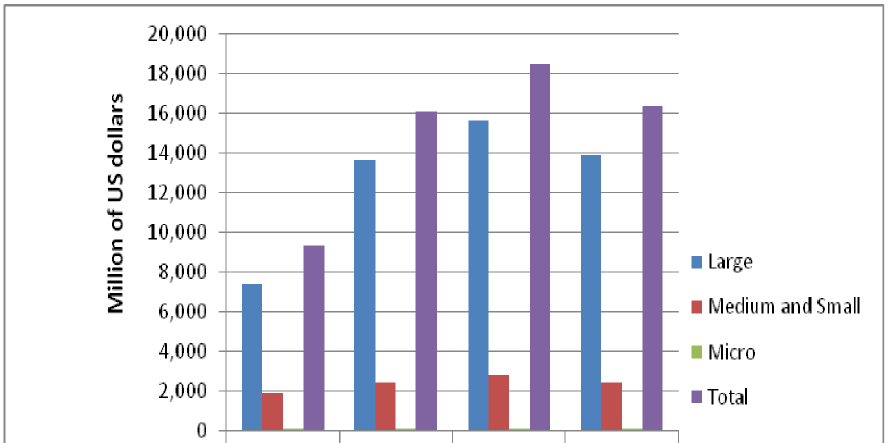
3.5.3 Export-oriented SMEs during the 1990s

Some empirical studies suggest that the SMEs' exports are radically different from the rest of the economy (Gatto & Ferraro, 1997; Moori-Koenig & Yoguel, 1996). Most of the exports of the sector were final goods with relatively high value-added, which implies a certain degree of sophistication of the work force. It is important to notice that the relative weight of the SMEs exports compared to the total exports was modest, given the difficulties that SMEs faced to compete internationally (Milesi, Yoguel & Moori-Koenig, 2001).

According to Crespo, Yoguel and Moori-Koenig (2001), in 1999 there were 10,136 firms engaged in exporting activities from which 41 % (4,224) were small and medium-size firms and represented 20 % of the value of industrial exports. Large firms accounted for 3 % of the number of firms and for 79.5 % in terms of export value. It is clear that large firms play a predominant role in Argentinean exports.

Since 1993, large companies have grown faster than the SMEs' exports, which have reversed the tendency of previous years (Moori Koenig & Yoguel 1996). The SMEs' exports grew by 29 % between 1993 and 1999, while exports of large firms grew by 88 % during the same period. The foreign sale of large companies went from being 79 % of total foreign sales in 1993 to 85 % in 1999 (Armengol, 2004), reinforcing the notion of a highly concentrated export structure in Argentina (see Figure 3.2).

Figure 3.2. EXPORTS DIVIDED BY FIRMS' SIZES MEASURED BY NUMBER OF EMPLOYEES



	1993	1996	1998	1999
Large	7,401	13,639	15,660	13,919
Medium and Small	1,847	2,413	2,751	2,377
Micro	62	81	82	79
Total	9,310	16,133	18,493	16,375

Source: Armengol, 2004

With respect to the main export destinations, MERCOSUR was a major destination for small and medium-sized firms. Large firms' exports to MERCOSUR grew from 22 % in 1993 to 39 % in 1998, and SMEs' exports grew from 35 % to 47 % in the same period (see Table 3.5).

Table 3.5. DESTINATIONS OF EXPORTS BY SIZE OF FIRMS IN MILLIONS OF U.S. DOLLARS (SMEs)

Year	MERCOSUR		EU & NAFTA		Rest of the World		Total	
1993	649	35.1%	672	36.4%	526	28.5%	1847	100%
1996	1071	44.4%	641	26.7%	702	29.0%	2413	100%
1998	1285	46.7%	741	26%	752	27.3%	2751	100%
1999	960	40.4%	730	30.7%	687	28.9%	2377	100%

Source: Crespo, Yoguel and Moori Koenig (2001)

As shown in Table 3.6 during the 1990s, the export structure of Argentinean exports remained relatively stable. Three major sectors: food, beverage and tobacco, metallurgical, and machinery, accounted for almost 70 % of the exports in terms of value and 60 % in terms of number of firms, even though the relative weight is larger for large firms (71%) than for SMEs (63%).

Table 3.6 INDUSTRIAL EXPORT STRUCTURE OF SMES IN PERCENTAGE

	Number of Firms		Exports	
	1993	**1999**	**1993**	**1999**
Food, beverage and tobacco	22%	21%	31%	32%
Metallurgical and construction	18%	17%	16%	16%
Oil refinery, chemical and plastics	18%	21%	18%	18%
Machinery and equipment	17%	17%	12%	16%
Textile and clothing	6%	7%	5%	7%
Leather, footwear, etc.	8%	4%	10%	6%
Pulp and paper	8%	8%	5%	6%
Others	3%	2%	3%	1%
Total	100%	100%	100%	100%

Source: INDEC (2009)

In conclusion, during the nineties Argentinean exports grew considerably, especially to MERCOSUR. The concentration of the exports had increased and a few large firms accounted for a large portion of the international trade. While the composition of the exports stayed relatively stable, within each sector there was a tendency to export goods based on natural resources and/or commodities. Small and medium enterprises suffered a relative decline both in the international and domestic markets compared to large firms. At the end of the decade, the macroeconomic situation became critical given a combination of an adverse international environment and an overvaluation of the Argentina Peso.

3.5.4 Characteristics of Export-oriented SMEs and their Principal Markets

With the collapse of the convertibility regime and the subsequent devaluation of the Argentinean currency, domestic production of tradable goods was boosted. Even though the country's total exports accumulated a growth of 81 % between 2002 and 2006, the percentage of SME exports has remained almost constant after the effect of the devaluation was incorporated in the relative price matrix. The domestic markets play a fundamental role in SMEs' survival and growth. Furthermore, the smaller the firm in terms of number of employees, the more important the local market is. Among small firms, there was even a slight reduction in export growth from 15.9 % to 15.5 % between 2006 and 2007. In the case of medium sized companies, exports rose from 17.6 % to 18.2 % between 2006 and 2007 (Sarudiansky, 2009). There are two key reasons for the importance of domestic market and the importance of the size of the companies when engaging in internationalization.

First, the sustained growth of the domestic demand, due to the economic boom and the limited production capacity of the SMEs, has limited the amount of exports. Given the choice, most of the companies choose to compete in their own markets instead of competing in a foreign environment. To compete in a foreign market involves meeting certain requirements that not all SMEs are able to achieve in the short-term. For example, SMEs need to meet international quality standards, to invest in foreign market research, and to establish contacts with potential buyers overseas. According to surveys conducted by Observatorio Pyme (2005, 2008) the proportion of medium-sized firms exporting is more than triple the number found among small firms. In general, more SMEs are involved in export activities but the export sales per firm have been declining.

Table 3.7. PERCENTAGE OF SME EXPORTS BY PRIMARY DESTINATION

Trade Block	2000	2003	2004	2005	2006	2007
MERCOSUR	41.6	28.5	28.6	27.7	27.9	29.5
Brazil	*29.3*	*21.6*	*20.9*	*19.2*	*19.0*	*19.7*
ALADI	17.0	19.4	20.7	22.2	23.9	25.1
Chile	*10.3*	*11.8*	*12.0*	*13.5*	*13.5*	*12.6*
E.U.	13.2	18.5	16.8	16.5	15.2	15.0
NAFTA	16.9	17.3	17.0	15.7	14.9	13.5
Asia Pacific	4.2	4.3	4.0	3.7	3.5	3.5
Middle East	1.7	2.5	2.9	2.3	1.7	1.8
Oceania	0.5	0.9	0.7	0.8	0.8	0.7
Rest of the World	4.9	8.6	9.3	11.1	12.1	10.9
Total	**100**	**100**	**100**	**100**	**100**	**100**

Source: INDEC (2009)

MERCOSUR is still the most important destination for SMEs' exports, but its importance has been decreasing from 41.6 % in 2000 to 29.5 % in 2007. The reason for this trend is the decline in exports to Brazil, which is Argentina's most important commercial partner; interestingly, exports to the other members of MERCOSUR has increased even though in absolute terms it remains small. The second largest destination is the Asociación Latinoamericana de Integración (ALADI) with 25.1 % of the total SMEs' exports in 2007. It is also one of the fastest growing destinations for SMEs' exports, having grown more than 47 % since 2000.

The other major trading blocs, the European Union and NAFTA, only represented 15 and 13.5 %, respectively, in 2007. It is worth mentioning that while NAFTA as trading block is not a major destination, individually, the U.S.

has been consistently among the three largest importers of SMEs' goods along with Chile and Brazil (see Table 3.7).

<u>3.5.5 Major Sectors Involved in SMEs' Exports</u>

As was previously mentioned, SMEs' exports in 2007 represent 11 % of Argentinean exports; nevertheless, their participation has decreased from 14 % in 1998 mostly because of the increase of large firms' exports. Traditionally, large firms' primary exports are commodities (e.g. mining, oil and agricultural products, etc.) where prices and quantities tend to react rapidly to changes in demand. SMEs usually sell products with more valued-added (Observatorio Pyme, 2009). In 2007 the most important exports of SMEs were related to food, beverages and tobacco. Within this sector, meat, fruits and vegetables accounted for almost 50 %. The other major sector is the metallurgic sector, in which capital goods accounted for almost half of the exports. Both sectors experienced important growth between 2000 and 2007; the food, beverages and tobacco exports grew by more than 130 % and the metallurgical sector by more than 100 %.

Between 1998 and 2008 the SMEs export structure has remained relatively unchanged with little or no variance in the relative weight of each item on the total exports. Throughout the last 10 years, the increase of exports was limited to a few products: agricultural products (e.g., cereals, meats, oils, etc.), auto parts manufacturers, metallurgical products and machinery.

The latter category in 2008 began to have a relatively large weight in the export structure, which is linked with the improvement of the technological content of foreign sales. SMEs are improving their manufacturing processes and exporting goods with more value added.

Table 3.8 SMES EXPORTS BY SECTORS IN MILLIONS OF U.S. DOLLARS

Sector	2000	2003	2006	2007	2007 % SMEs Exp. /Total Exp.
Food, beverage and tobacco	644	776	1325	1,512	8.9
Leather and shoes	129	93	123	132	11.6
Wood and paper	118	137	240	245	26.6
Metallurgical goods	695	743	1,200	1,452	12.6
Capital goods	*339*	*363*	*603*	*757*	*43.3*
Automakers	*86*	*91*	*158*	*175*	*3.0*
Construction and others	*269*	*289*	*439*	*520*	*12.9*
Plastic and chemical goods	465	448	704	819	10.0
Textiles and clothing	125	94	128	177	36.4
Other	27	32	67	61	75.3
Total	**2,203**	**2,325**	**3,787**	**4,398**	**11.1**

Source: Observatorio PyMEX (2009)

These improvements can be considered an indication of a more technological oriented production, especially in those SMEs that are actively involved in foreign markets (see Table 3.8) (CERA, 2008).

3.6 EVOLUTION OF SMES SINCE THE 2001-2002 CRISIS

The economic crises that Argentina suffered during 2001 and 2002 have had a profound impact on investment decisions, consumer credit and provoking a strongly negative impact on the employment and welfare of the population (Novick, Tomada, Damill, Frenkel, & Maurizio, 2007). One of the most important consequences of the crisis was an important devaluation of the Argentina Peso that modified all relative prices in the economy. The economy began to recover by mid-2002 and so did the SME sector. The percentage of SMEs reducing their activities reached a peak of 76 % in 2000-2001 and declined to 60 % in 2002-

2003. The situation continued to improve and in 2005, partially due to a favorable international situation, 65 % of SMEs were expanding their business activities. In 2007, the manufacturing production expanded at an annual pace of 8.6 % and employment grew by 5.1 % (Observatorio Pyme, 2009).

In spite of the unprecedented economic boom, SMEs are facing important challenges. The most commonly cited challenge is a sharp increase in the direct production costs, which creates uncertainty about the future profitability of the company. Interestingly, since 2002 the profitability of SMEs has not achieved the same margins as the profitability of large firms. As it was mentioned previously, SMEs have difficulties gaining access to financial markets, and therefore, lower profitability has a direct impact on the ability to invest in machinery and equipment (75% of cases) and recruit new workers (50% of cases); most of the companies have adopted a combination of increasing their prices and augmenting their productivity (Observatorio Pyme, 2009).

Historically SMEs have always struggled to make the necessary investment in physical and human capital to be able to compete against larger firms and international competitors. According to Observatorio Pymes (2009), 42 % of industrial equipment was considered to be outdated compared to 8 % in the case of large firms. The number of industrial SMEs that invested in capital goods remained constant in 2005, about 54 % of the total, although the amounts invested were higher than in 2004. The percentage grew to 57 % in 2007 which is an encouraging number compared to the low levels from the 1998-2002 period, but below the 75 % attained in 1997. It is also still below the international average where, for example, Italy has an average of 80 % even though it is not a country characterized by a high level of productivity in the European context. In Argentina, the SME investments were mostly directed to three types of projects: a) to increase production capacity, b) to develop and to launch new products, and c) to reduce costs. The sources to finance productive investments have been a major challenge for the SMEs even though there are some promising signs that it is becoming more accessible. In 2003 only 5 % of the investments were funded by banks whereas 90 % with the SME's own resources. The proportion of investment funded by the financial sector grew from 8 % in 2005 to 22 % in 2007 (Observatorio Pyme, 2009).

Some of the other challenges often mentioned by managers are the increasing competition from foreign companies, lack of a qualified work force and an unstable business environment. In 2006 approximately 40 % of companies felt that their domestic market had been severely threatened by imports, with the percentage increasing to 88 % in the footwear industry, and to 65 % for the textile and clothing sectors. The major threats came from Chinese companies with 52.5 % of total imports and Brazilian firms with 30.4 %. Regarding the pool of qualified workers, the shortfall in the endowment of human capital available in the country is one of the constraints to the industrial development process. Industrial SMEs reported that one in three companies have had difficulties in recruiting highly qualified workers and professionals in 2007 (Observatorio Pyme, 2009). The last major concern of the SMEs is the overall economic climate and lack of clear public policies. As was mentioned before, the difficulties in accessing the financial market and the lack of a pool of skilled workers are the consequences of poor long-term public policies.

The economic perspectives for 2009 are not promising. In addition to a complicated external situation, several internal factors are worsening the international crisis. The legislative election in 2009 adds a degree of political instability to an already difficult situation. Controversial governmental actions, such as the nationalization of the private pension funds, lack of credible official economic indexes and conflicts with key private and institutional foreign investors are casting doubts about the continuity of the Fernandez administration. It is also worth mentioning due to its economic significance the long conflict with the powerful agricultural associations. The root of the conflict was the imposition of export taxes and bureaucratic controls on the export of several key agriculture products including beef, dairy, cereals, and soybeans (Argentina's most important farm export). The reaction of farmers was, and still is, a series of rallies throughout the country and crippling strikes that shut down highways for grain trucks bound for export and caused scattered food shortages. The combination of wrong farm policies and one of the worst droughts in the last half century have cut the overall grains and oilseed crops of Argentina by almost 40 %. As a result, Argentina could be forced to import wheat, milk and beef in the near future (MercoPress, 2009, La Nacion, 2008).

3.7 CONCLUSION

In spite of some early signs of economic distress, the overall economic outlook does not anticipate an economic downturn of the magnitude of the 2001-2002 recession. However, the effects of the lower international and internal demand, as well as the limited access to international financial markets have put pressure on government budget expenditure. In addition, the government has been accused of creating an adverse business environment. Official statistics about the economy such as consumer price index have come under strong criticism from private consultants and the IMF. The government has discouraged both local and foreign investors. Several European and North American firms have been forced to sell their Argentinean companies -totally or partially- to local investors such as Aerolíneas Argentina and YPF-Repsol. Even some domestic companies, like the media conglomerate El Clarin that have been critical of the government, are under pressure. Arguably, the most damaging and long conflict of the government has been with the powerful agriculture sector. As a consequence, the exports of agricultural products have dropped by 55 % in 2009 (El Clarin, 2009).

Despite the international financial crisis, the local financial system did not suffer any major collapse. Unfortunately, as was explained previously, there is a clear bias that works against SMEs. The access to the financial market is still very complicated for SMEs and there is a lack of support from public financial entities (CERA, 2008; McDermott, 2000; Observatorio Pymes, 2009); therefore most of the investments have to be financed with their own capital which is highly sensitive to SMEs' profitability. If SMEs are to become competitive at international levels, they will have to increase their investments in new equipment, training and technologies and that requires access to financial markets.

As mentioned, SMEs play a crucial role in the Argentinean economy by being the largest provider of employment (78 %) and contributing to 40 % of the GDP (INDEC, 2009). Improving the competitiveness of Argentina's economy may be inextricably linked with the strengthening of the crucially important small and medium-sized enterprises sector. The economic recovery has not been sufficient to strengthen the competitiveness of SMEs and to generate conditions to overcome a number of major constraints that severely limit their productive potential. Khanna and Palepu (1997) have argued that emerging economies lack proper institutions relative to developed countries. MNEs from emerging economies tend to be less competitive than their counterparts from developed economies partially because the poorer quality of the institutions (Cuervo-Cazurra & Mehmet, 2007), hence, the pervasive effect on smaller firms may be worse. These institutional weaknesses hamper SME competitiveness not only in the international arena but also in the domestic market where large businesses take advantage of these institutional inefficiencies. SMEs are vulnerable to inefficient and incomplete markets, where information problems and misguided regulations hamper fluid communications between buyers and sellers. Mody (2004) also emphasizes the importance of economic, political, judicial and regulatory stability.

For the past 6 years, Argentina has had some degree of economic and political stability. Nevertheless, the nature of economic and judicial interaction between agents is still transaction-specific instead of institution-specific. Consequently, not everybody plays according to the same set of rules, favoring clientelism and corruption that, on average, is more detrimental to small businesses than to large business. To foster SMEs productivity, the country may have to establish a predictable and transparent legal framework and regulatory environment that fosters the development of businesses and is conducive to increased investment flows. It may also be important to strengthen the capacity to enforce legislation for the speedier resolution of commercial disputes, which will reduce transaction costs. It has become clear over the past years that in order to compete internationally, a fluid dialogue between the Government and SMEs on enterprise development policy and legislation may be beneficial. Furthermore, the economic development literature suggests that countries may have to invest not only in building good institutions, but also foster non-governmental institutions that may improve the rule of law, and are therefore relevant to SMEs' development and competitiveness (Acemoglu, Johnson and & Robinson ,2004; Barro, 1997; Rodrik, Subramanian & Trebbi, 2002). Nevertheless, most observers agree that the potential export capacity of Argentinean SMEs is highly significant (European Commission, 2007).

CHAPTER 4

METHODOLOGICAL APPROACH

This chapter presents the methodological approach used in the dissertation. I will explain why Argentina was chosen as a suitable country to conduct my research. Then, details about the sample will be provided as well as a careful explanation of the methodology used to collect and to analyze the data.

4.1 RESEARCH SAMPLE

4.1.1 Targeted Country

There were several criteria used to select the country for this research. The first and most important was the clear categorization of the country as an emerging economy. The country selected must have a socio-economic and institutional development that corresponds to the characteristics of an emerging economy. There is no doubt that Argentina falls under the category of an emerging economy both in the academic and business practitioner literature (FTSE, 2008; Neumeyer & Perri, 2001; Schmukler & Vesperoni, 2006).

The chosen country should also have an important presence of SMEs and international potential. It must possess the natural or human resources which can help local SMEs to be present in international markets or to be internationally competitive. Argentina is a country with vast natural and human resources and, in the past, it had already been one of the most open economies in the world (de la Balze, 1995). Furthermore, SMEs play a crucial role in the Argentinean economy by being the largest provider of employment (78 %) and contributing to 40 % of the GDP (INDEC, 2009).

Another criterion was the researcher's familiarity with the language, culture and socio-economic characteristics of the country, all of which may be important to understanding local idiosyncrasies. Given the difficulty of collecting data in emerging economies, having a personal network was also important for data collection purposes. Collecting data in emerging economies is a challenging task for reasons ranging from cultural characteristics, such as a manager's reluctance to share information, to the poor quality, absence, or manipulation of economic information; therefore it was vital to count on personal connections to improve the likelihood of collecting data. Regarding the next criterion, I studied and worked in the region, therefore, I am very familiar with the culture and idiosyncrasies of Argentina. In addition, my thesis supervisor Professor Toulan has conducted studies in Argentina; more specifically, about the internationalization of Argentinean firms. Professor Toulan's knowledge about the region and his contacts were important factors in the selection of the country for this study. Not only is Argentina an interesting case because of my knowledge of the region, but also because it possesses the potential to reach a high level of internationalization.

4.1.2 Targeted Firms: ProPymes

In order to reduce the constraints previously mentioned, it was decided to seek the endorsement of a well-known network of SMEs in Argentina. The targeted companies constitute a network called ProPymes, created by the Techint Group in 2002. When this research was started, ProPymes was in the process of expanding its activities in Mexico and in Venezuela where it had a strong presence.

Unfortunately, in 2008, Venezuela nationalized the largest steel producer in the country Ternium Sidor which was controlled by the Techint Group. Regarding Mexico, ProPymes suggested that collecting data in Mexico would be difficult; therefore, this research focuses only on SMEs from Argentina. Nevertheless, the companies that are part of ProPymes compete in different industries (see Table 4.1) and share enough characteristics with the rest of the firms that the findings can explain the internationalization processes of an average company.

TABLE 4.1. DISTRIBUTION OF PROPYMES' FIRMS BY ECONOMIC SECTORS

Sector	Number of Firms	Percentage
Machinery equipment	80	29%
Construction	38	14%
Agriculture machinery	32	12%
Car industry	22	8%
Households goods	16	6%
Oil	15	5%
Infrastructure	9	3%
Furniture	7	3%
Transport equipment	9	3%
Capital goods	7	3%
Packing/bottling	6	2%
Others	34	12%
TOTAL	**275**	**100%**

Source: Techint (2008)

As mentioned in Chapter 1, ProPymes is constituted of small and medium suppliers and customers of the Techint Group, all of them are independent from the Techint Group. Its main objectives are to strengthen the Techint companies' value-added chain and develop the Argentine industrial network. The main reason for the creation of the program is the belief that the success of Techint's suppliers and customers has a direct impact on its own long-term performance. In short, this program consists of a network of associations through which a large company, Techint, provides resources and other forms of support to its small and medium size customers and suppliers. From the 250 firms that formed ProPymes in 2006, approximately 40 % are suppliers and 60 % are customers of Techint. The network includes different sectors such as "industrial machinery" (28 %), construction (13 %), farm equipment (12 %), car parts (7 %), oil and gas (5 %), and others (13 %). It is important to mention that even though most of the firms associated with ProPymes are SMEs, some companies are not necessarily small firms in terms of the number of employees but they are small or medium size in terms of their turnover.

4.2 DATA COLLECTION

In order to address the hypotheses discussed in the conceptual chapter, it was decided that a survey methodology would be appropriate. The 10-page questionnaire was developed for this study and it includes three types of questions: data-based questions such as number of employees and exports as percentage of sales, a 7-point Likert-type question, and viewpoint questions such as managers' impressions about network activities (see Appendices D and E). The questionnaire was translated into Spanish and was pre-tested on a small sample of firms with similar characteristics as the target population. It was also reviewed by two experts on the topic. Most of the questions are Likert-type questions because of the input received from the pilot test; businesspeople and experts on the topic suggested that managers would be more inclined to answer this type of question.

In order to obtain a better response rate, it was decided that ProPymes would handle the communications with the firms including the questionnaire itself. ProPymes handled the questionnaire emailing process because the program has continuous communication with the firms, in some cases, almost on daily basis. Each firm in the original sample was contacted either by email, or usually through personal communication, in order to explain what was required and the objectives of this study. Every firm involved with ProPymes received a letter introducing the project, its characteristics and participants and a Spanish version of a questionnaire specifically developed for this project. Each SME in the Argentine portion of the population was contacted at least once, and three additional reminder emails were sent to the non-respondents. The first email took place on September 20th, 2007, the second email was on December 18th, 2007 and the last on January 24th, 2008. As previously mentioned, given the close relationship between ProPymes and the sample population, the SMEs' managers were reminded almost monthly following the first email. Of the 245 questionnaires emailed, 50 responses were received, thus giving a response rate of 18.2 %.

4.2.1 Descriptive Statistics

As can be seen, there is a wide disparity in firm members' age, with a median of 35 years and an age span between 1 to 103 years old (see Table 4.2).

Table 4.2. FIRM AGE

Average Firm Age	38 years
Range	1-103 years

In terms of sales, the sample ranges from firms with sales of US$ 500,000 to over US$ 118 million in 2006, with a majority falling between 3 and 20 million dollars (see Table 4.3).

Table 4.3. SALES DISTRIBUTION 2006

Sales (US$ million)	0-.5	0.5-1	1-3	3-5	5-10	10-20	20-50	50 +
# of Firms	1	5	4	8	10	6	6	1

The size, measured in number of employees, varies between 9 and 1,265 employees but the majority falls in the 9-100 employees range. In order to be consistent with the theoretical framework 3 firms were excluded from the statistical analysis given that they had 800, 900 and 1,265 employees and could therefore not be considered medium-sized enterprises (see Table 4.4).

Table 4.4 EMPLOYEE DISTRIBUTION

# of Employees	<50	50-100	100-150	150-200	200-250	250-300	300-500
# of Firms	14	10	9	1	4	2	2

Regarding foreign operations, 18.8 % of the firms are not engaged in any direct foreign operation; however, 74.6 % of those firms sell mainly to multinational firms. About 60 % of the companies have foreign sales above 10 % of total sales (see Table 4.5).

Table 4.5. PERCENT FOREIGN SALES, 2006

Foreign Sales	0	<5 %	5-10 %	10% - 20%	20% - 30%	30% - 40%	40% - 50%	60% +
# of Firms	9	10	7	7	5	5	2	3

It is important to note that only three firms have foreign direct investments (FDI) which are distribution facilities. Therefore, export is the only measure for short-term internationalization. Argentina is the main market for the majority of the firms but there is a slight increase in the importance of other markets both in Latin America and elsewhere (see Table 4.6)

Table 4.6. DESTINATION OF SALES

	Sample Average		**Only Exporters**	
	2002	**2006**	**2002**	**2006**
Argentina	88.7 %	85.1%	81.1%	76.8%
Latin America	9.8%	11.6%	15.2%	17.0%
Outside Latin America	1.5%	3.3%	3.7%	6.2%

As shown in Table 4.7, most of the capital invested in the companies comes from Argentina. This is not surprising given the size and age of the firms. Some of the companies, especially the larger ones, are among the older firms, and the Argentinean economy was not particularly open to foreign investors at that time. The three companies with foreign participation are from Brazil.

Table 4.7. NUMBER OF FIRMS BY ORIGIN OF INITIAL CAPITAL

National	46
Foreign	3

Tables 4.8 and 4.9 provide a general perspective of the perception of senior managers and owners about the level of competition facing their companies as well as the countries of origin of their main competitors. About 45 % of the firms have not perceived any significant changes in their environment. However, 36.4 % of the firms have observed an increment on the level of competition between 2002 and 2006; only to 18.6 % of the firms in the sample have perceived a reduction during the same period.

Table 4.8 PERCEIVED CHANGE IN THE LEVEL OF FOREIGN COMPETITION BETWEEN 2002 AND 2006

Level of Competition	# of Firms	% of Firms
No significant change	20	44.4 %
Increase	16	35.5 %
Decrease	8	17.8 %
No answer	1	2.2 %

The main competitors of the companies in the sample in the Argentinean market are Brazilian and other local companies. As expected, Chinese firms are playing a more active role in Argentina and this has been the topic of much debate within ProPymes. The other main origin of competitors is NAFTA, which has increased as a source of competitors. The US has been always been an important commercial partner for Argentina. In addition, Mexico is also becoming an increasingly important trade partner for Argentina and the MERCOSUR. Mexico has signed a bilateral trade agreement with both Argentina and the MERCOSUR, to foster their economic relationships.

Table 4.9. ORIGIN OF DOMESTIC COMPETITION

2002	# of Firms	2006	# of Firms
Brazil	22	Brazil	22
Argentina	17	Argentina	17
Chile	1	Chile	3
NAFTA	7	NAFTA	13
Europe	9	Europe	8
China	3	China	10
		Australia	1

Furthermore, the Techint Group has been increasing its presence in Mexico, which also shows the strategic importance of this country to the Argentinean business community. The new agreements that facilitate bilateral trade may be the reason why the number of competitors from NAFTA has increased (see Table 4.9).

Table 4.10. SUMMARY OF MANAGERS' EDUCATION LEVEL

	# of Firms	% of Firms	No answer
Manager with foreign education	11	22%	3
Manager with foreign work experience	12	24%	4
Manager with graduate degree	21	42%	4
Manager with undergraduate degree	40	80%	3
Manager with technical degree	25	50%	2

Table 4.10 shows that almost half of the managers in the sample have a graduate degree from local universities. A relatively small number of managers have working experience in foreign markets. Managers with foreign work experience may prefer to work for large firms, mostly multinational firms.

Managers with foreign experience are usually people who work or have worked for MNE and there may be fewer economic incentives and working conditions are lower quality to work for smaller (Belfield, 1999), local firms unless it is a family firm.

Table 4.11. DECISION-MAKING PROCESSES (% of respondents)

	Never	Sometimes	Most of the Time
Decisions are centralized	11.6%	20.9%	67.4%
Decisions are taken after considering the advice of suppliers and customers	18.6%	32.6%	48.8%
Managers meet to exchange ideas before making a decision	4.5%	13.6%	81.8%

Concerning the decision-making process, the vast majority of managers exchange ideas with colleagues before making a decision. Almost half of the firms also take into consideration their suppliers and customers before making important decisions that may affect their relationship with other members of the value chain. Interestingly, even if most of the managers meet to exchange ideas, the final decision is taken not by consensus but by a senior manager or CEO (see Table 4.11). This characteristic of the decision making process is surprising and has been addressed by the cross-cultural literature extensively (Hofstede, 2001). Regarding economic outlook, the majority of managers perceived an opportunity for growth. The data from the survey suggest that the business environment is more competitive and firms require higher level of sophistication (e.g., technological requirement). Therefore, SMEs may require more resources and capabilities in order to compete successfully against companies with more resources.

Table 4.12. CHARACTERISTICS OF THE ENVIRONMENT OF FIRMS (# of respondents)

	Decreased			No Change	Increased		
	1	**2**	**3**	**4**	**5**	**6**	**7**
Growth opportunity	0	0	0	1	7	29	7
Technological requirement	0	0	0	8	10	25	1
Intensity of competition	0	0	0	4	9	26	4
Competitors with greater financial, technical and distribution resources	0	1	3	10	13	14	2
Adversity due to legal and regulatory instability	0	3	1	10	11	10	9
Adversity due to economic instability	0	2	2	9	9	16	7

In spite of this, there is a clear perception that firms have the opportunity to growth but it will require investments in facilities, new technologies and training. The respondents think that their competitors have access to more financial, technical resources and distribution channels, and that the technological requirements have increased. During the conversations with managers and ProPymes' senior staff, it was clear that managers are not necessarily concerned about acquiring state of the art technologies but equipments that can be adapted to their necessities and that will allow them to increase their competitiveness. In addition to the challenges directly related to the firms, it seems that managers' concerns over the economic, legal and regulatory environment are growing (see Table 4.12).

Table 4.13. LEVEL OF PLANNING RELATED TO EXPORTS (% of exporting firms)

	Never	Sometimes	Always
Formal planning	29.5%	22.7%	47.7%
Exporting depends on fluctuations of local demand	65.1%	16.3%	18.6%
Exporting depends on "one-time" sells	8.9%	13.3%	77.8%

Considering the motivations and reasons to engage in exporting activities, most of the firms have some type of formal planning, and the fluctuation of the local demand does not seem to be relevant when planning to go abroad. Furthermore, most of the firms' approach to exports is as a one-time event instead of considering it to be a long-term activity (see Table 4.13 and 4.14).

Table 4.14 SELECTED VARIABLES INFLUENCING EXPORTS (% of exporting firms)

	Unimportant	Neutral	Very Important
Exchange rate	4.3%	10.9%	84.8%
Cost of raw material	25.6%	14.0%	60.5%
Governmental support	50.0%	9.1%	40.9%
Superior technological products	23.3%	14.0%	62.8%
High quality products	15.9%	0.0%	84.1%

The price of raw materials and the exchange rate seem to be particularly important for firms. This is not surprising given that Argentina, since 2002, has kept the exchange rate at competitive levels to stimulate the growth of the exporting sectors (see Chapter 3). The economic literature suggests that this type of macroeconomic policy is only effective on the short-term. Eventually, sustaining economic growth may require improving the macroeconomic, political, and social stability of the country (Jones & Olken, 2005; Kochhar et al., 2007). Nevertheless, it is important to note that high quality, superior technological product is also important to the enterprises. If this is the case, it may be possible to find investment in new technologies and processes as well as quality controls along the different activities of the value chain.

4.3 OPERATIONALIZATION OF THE MODEL

The objective of this research is to examine the internationalization strategies of SMEs from emerging economies by focusing on Argentine SMEs. The first strategy depends on macro- and microeconomic factors exogenous to firms and is a short-term internationalization. The other strategy, which is a long-term internationalization (Toulan, 1997), implies a strong commitment by firms to become competitive at international levels. Since local markets are being internationalized, it may be necessary for SMEs to become international if they are to remain competitive in their local markets (Garrett and Lange, 1995; Levitt 1983; Porter, 1990; Wei and Christodoulou, 1997; Yip 2003). As a result of this paradigm shift, it can be suggested that in the long-term, internationalization need not be based only on geographical considerations, but it may also be based on intangible factors such as world-class standards and managerial processes.

The conceptual component of this dissertation identifies the following set of dependent variables: 1) long-term internationalization, and 2) short -term internationalization (see Table 4.15).

The questions on the survey were designed to operationalize the concepts described in Chapter 2. Measures for tangible and intangible aspects were devised and subsequently, short-term and long-term variables were built. In order for a firm to be engaged in short-term internationalization, it must be physically present in a foreign market.

Table 4.15. DEFINITION OF THE DEPENDENT VARIABLES

Dependent Variable	Definition
Long-term internationalization	Existence of both intangible and tangible internationalization
Short-term internationalization	Presence of only tangible internationalization

The specific measure used to operationalize short and long-term internationalization can be found in Table 4.16. Given the characteristics of my sample the only physical presence that the firms have in foreign markets are their product, therefore, it was decided to use exports as a measure for short-term internationalization. I use exports both as a dichotomous variable (yes/no) and as a continuous variable. This approach will allow me to take into consideration not only whether the firm is engaged in exports but also the impact of the export intensity; it reflects the belief that internationalization is not a linear process. Regarding the operationalization of long-term internationalization, I used two measures. This internationalization strategy, as explained in Chapter 2, is a combination of intangible and tangible internationalization. It involves new managerial processes and organizational capabilities that will improve the capacity of firms to react to and anticipate changes in the market and to reconfigure and develop resources accordingly. Consequently, the operationalization of this dependent variable should capture the actions done by companies to become competitive at international standards. The first operationalization is IntBenchStd. This variable is used as a proxy to represent the importance of having organizational and administrative processes that are at international standards to implement a long-term internationalization strategy (Grant, 1996a; Miller, 1988; Tolbert, 1985; Spanos & Lioukas, 2001). In order to achieve these objectives, managers may have to periodically revise and compare the administrative structure of their firm against international firms in order to incorporate new processes (e.g., best practices) and to modify the organization structure to become more efficient and competitive (see Chapter 2).

Table 4.16 OPERATIONALIZATION OF THE DEPENDENT VARIABLES

Dependent Variables	Definition
Short-term Internationalization	
Export%	• % of sales outside Argentina
ExportBin	• Firm exports (Y/N)
Long-term Internationalization	
IntBenchStd	• International standard (Likert)
	• Periodic update of administrative structure (Likert)
NetInvset	• Investment to improve network activities (Likert)

IntBenchStd is an average between how often the firm follows international standards and the frequency that it updates its administrative structure in order to implement best managerial practices.

The other operationalization of long-tern internationalization is NetInvset. This variable measures the firm's investment in its network activities. The network literature suggests that SMEs may need to tap into the resources of a network if they are to improve their competitiveness to meet international levels. Being part of a network appears to improve the chances for SMEs to overcome their constraints in term of legitimacy, resources and capabilities (Elango & Pattnaik, 2007;Davidsson & Honig, 2003; Zimmerman & Zeitz, 2002) and improve the SMEs performance outcome (Chetty & Agndal, 2007; Zhou, Wu, Luo, 2007). Therefore, this variable represents the effort done by managers to access a pool of resources and capabilities that should improve the likelihood of elevating their competitiveness to international levels. As explained in Chapter 2, SMEs may not be able to achieve this unless they participate in a network (see Table 4.16).The choice of the dependent variable for Hypotheses 1(A), 1(B), 2(A), 2(B), and 6 is IntBenchStd. The decision was based on theoretical considerations about which variable represents the concept of long-term internationalization strategy according to the theoretical approaches used in Chapter 2 to develop each hypothesis. Following the same rationale, Hypotheses 3(A), 3(B), 4, 5, 7, and 8 were tested using NetInvset as the dependent variable (see Table 4.17). With the data collected from the survey described above, empirical tests were run.

The bulk of the hypotheses were tested using continuous ordinary least squares (OLS) and logistic regressions. Both types of regressions are among the most common linear model analysis in the social sciences. The reason why I am using two models is because short-term internationalization (Export) can be treated as either a continuous or dichotomous variable. The logistic regression is formulated to predict and explain a binary variable and it has less strict assumptions and it is more robust when those assumptions are not met than, for example, discriminant analysis. The coefficients would reflect the impact of the independent variables on the likelihood of events or dependent variable. I also use continuous regressions because they enable distinguishing between firms with different export intensity. From a managerial perspective, firms with a high proportion of export sales to total sales are in a very different strategic situation than firms whose export-to-total sales ratios are almost insignificant. From a statistical point of view, logistic regressions treat them as part of the same category. The operationalization of independent variables is shown in Table 4.17 for each hypothesis.

Table 4.17. OPERATIONALIZATION OF HYPOTHESES

	Dependent Variable	Concept	Independent Variables
H 1.a	**Long-term Int'l** (IntBenchStd : periodic update of administrative structure and international benchmark)	Experience of senior managers concerning highly competitive business environments	• **GraduatEDU**: Managers with a graduate degree • **HighQualP**: How important is having a high quality product for your export • **InternationalStand**: Customers and suppliers follow international standards • **TypesofSup**: Main supplier sells to local firms or MNE
			Control Variables
			• **Age**: Firm age in years • **EnvInstability**: Adversity due to legal and regulatory instability

Table 4.17 OPERATIONALIZATION OF HYPOTHESES (cont')

	Dependent Variable	Concept	Independent Variables
H 1.b	**Long-term Int'l** (IntBenchStd : periodic update of administrative structure and international benchmark)	Communication by senior managers of the relative importance of resources within the firm	• **CentralizeDecision**: Level of centralization of the decision-making process • **MeetingEM**: Frequency of meetings between managers and employees • **ExchangeM**: Managers meet to exchange ideas before making strategic decisions • **CoopCustSup**: Firm invests resources to improve cooperation with customers and suppliers
			Control Variables
			• **Age**: Firm age in years • **NetworkAct**: Firm invests resources to improve network's activities/transfers

Table 4.17 OPERATIONALIZATION OF HYPOTHESES (cont')

	Dependent Variable	Concept	Independent Variables
H 2.a	**Long-term Int'l** (IntBenchStd : periodic update of administrative structure and international benchmark)	Higher levels of knowledge coding, sharing, and creation within a SME	• **CentralizeDecision:** Level of centralization of the decision-making process • **ChangeInvTech:** Firm's focus on using technology after joining ProPymes • **ChangeHR:** Change in human resources skills changed after joining ProPymes • **MeetingEm:** Frequency of meetings between managers and employees
			Control Variables
			• **Age**: Firm age in years • **FirmInitia**: Main reason to introduce new technology is firm's initiative

Table 4.17 OPERATIONALIZATION OF HYPOTHESES (cont')

	Dependent Variable	Concept	Independent Variables
H 2.b	**Long-term Int'l** (IntBenchStd : periodic update of administrative structure and international benchmark)	Development of a formal international marketing plan	• **CoopCustSup**: Firm invests resources to improve cooperation with customers and suppliers • **FormalPlan**: Firm has a formal international expansion plan • **IBassocia**: Firm collects IB information from industrial/trade association • **ExchangeM**: Managers meet to exchange ideas before making strategic decisions
			Control Variables
			• **Sales2006**: Sales 2006 • **NetworkAct**: Firm invests resources to improve network activities/transfers • **Changeexp**: Change in level of exports after joining ProPymes

Table 4.17 OPERATIONALIZATION OF HYPOTHESES (cont')

	Dependent Variable	Concept	Independent Variables
H 3.a	**Long-term Int'l** (NetInvset : investment to improve networks activities)	The ability of managers to absorb market signals that may lead to changes in an SME's market-driven strategy	• **CompetitorsResources**: Changes in main competitor's resources measured in terms of capital, information and distribution channels • **InfoInter**: Firm invests resources to obtain information about international markets • **CoopCustSup**: Firm invest resources to improve cooperation with customers and suppliers • **CommuD:** Firm invests resources to develop a long tern relationship with main customers • **OneProduct**: How much having only one product influenced a firm's exports
			Control Variables
			• **Sales2006**: Sales 2006 • **CustomerSatis**: Level of customer satisfaction after joining ProPymes

Table 4.17 OPERATIONALIZATION OF HYPOTHESES (cont')

	Dependent Variable	Concept	Independent Variables
H 3.b	**Long-term Int'l** (NetInvset : investment to improve networks activities) **and** **Short-term Int'l** (ExportBin **:** Firm exports (Y/N))	The emphasis of senior manager(s) on day-to-day activities as opposed to long-term development activities	• **InfoCust**: Firm invests resources to obtain information about customers and suppliers • **ChangeProd**: Change on the line of products offered by the firm • **SharingInf**: Level of information shared with suppliers and customers • **GraduatEDU**: Managers with a graduate degree • **MarketingInvest**: Level of investments in marketing after firm joined ProPymes
			Control Variables
			• **Age**: Firm age in years • **EconomicInst**: Adversity due to economic instability

Table 4.17 OPERATIONALIZATION OF HYPOTHESES (cont')

	Dependent Variable	Concept	Independent Variables
H 4	**Long-term Int'l** (NetInvset : investment to improve networks activities)	Senior managers' understanding and recognition of the resources controlled by their SMEs	• **ExchangeM**: Managers meet to exchange ideas before making strategic decisions • **DecisionCuSup**: Decisions in the firm are taken considering suppliers and customers' advice • **InterBench**: Firm benchmarks international firms • **NationalBench**: Firm benchmarks local firms • **IntensityCompetition**: Degree of competition in the industry • **ChangeInvM**: Change in the firm's investment in marketing & distribution after joining ProPymes
			Control Variables
			• **Sales2006**: Sales 2006 • **EnvInstability**: Adversity due to legal and regulatory instability

Table 4.17 OPERATIONALIZATION OF HYPOTHESES (cont')

	Dependent Variable	Concept	Independent Variables
H5	**Long-term Int'l** (NetInvset : investment to improve networks activities)	Emphasis of senior managers on new capabilities	• **GovTraining**: Government support for training related to international business • **ProductsIM**: Impact of ProPymes in terms of expansion of line of products • **ChangeHR**: Change in human resource skills after joining ProPymes • **ChangeInvTech**: Firm's focus on using technology after joining ProPymes
			Control Variables
			• **Age**: Firm age in years • **NumberEmpl**: Number of employees • **InternationalEx**: Impact on the international expansion of the firm after joining ProPymes

Table 4.17 OPERATIONALIZATION OF HYPOTHESES (cont')

	Dependent Variable	Concept	Independent Variables
H 6	**Long-term Int'l** (IntBenchStd : Periodic update of administrative structure and international benchmark)	Dispersion of the knowledge base within the SME	• **TrainingInves**: Firm's investment in training has change since joining ProPymes • **FormalPlan**: Firm has a formal international expansion plan • **ChangeHR**: Change in have human resource skills changed after joining ProPymes • **CentralizeDec**: Level of centralization of the decision-making process • **ChangeManager**: Change in managerial skills of the firm changed after joining ProPymes
			Control Variables
			• **Age**: Firm age in years • **GovTraining**: Government support for training related to international business

Table 4.17 OPERATIONALIZATION OF HYPOTHESES (cont')

	Dependent Variable	Concept	Independent Variables
H 7	**Long-term Int'l** (NetInvset : investment to improve networks activities)	Pooling of SMEs with similar constraints in terms of infrastructure requirements and governmental support related to export and import activities	• **IBassocia**: Firm collects IB information from industrial/trade association • **ChangeInvTech**: Firm's focus on using technology after joining ProPymes • **MarketingInv**: Level of investments in marketing and distribution after the firm joined ProPymes • **Growthopp**: Change in the growth opportunity for the firm • **GovPromotExp**: Government support for export activities • **GovTraining**: Government support for training related to international business
			Control Variables
			• **Age**: Firm age in years • **Changeexp**: Change in export activity due to ProPymes

Table 4.17 OPERATIONALIZATION OF HYPOTHESES (cont')

	Dependent Variable	Concept	Independent Variables
H 8	**Long-term Int'l** NetInvset : investment to improve networks activities)	Participation of an SME in an industry cluster	• **FinacialImp**: Financial Impact of joining ProPymes • **ChangeHR**: Change in human resource skills after joining ProPymes • **TechnoCust**: Incorporation of technology is done with customers' advice • **ExpansionAB**: Impact of ProPymes in terms of expansion in Int'l markets • **TypesofSup**: Main supplier sells to local firms or MNE
			Control Variables
			• **Age**: Firm age in years • **AdmIMPROV**: Impact of ProPymes in terms of improvement in the administrative processes

CHAPTER 5

EMPIRICAL RESULTS

The data from the survey described in Chapter 4 were used to test each of the hypotheses. The hypotheses have long-term internationalization and short-term internationalization as their dependent variables. The dependent and independent variables in the hypotheses were operationalized as shown in the previous chapter. The operationalization of long-term internationalization used only 2006 data on firm exports. Given the continuity of the dependent variable, an ordinary least square (OLS) regression was run to test each hypothesis, whereas logistic regression was used for short-term.

5.1 EMPIRICAL RESULTS

5.1.1 Strategic Approach

Hypothesis 1(A) states that the greater the experience of senior managers concerning highly competitive business environments, the greater the likelihood of long-term internationalization. The results indicate that three factors have a positive impact on long-term internationalization: 1) managers with graduate education (GraduatEDU), 2) high quality products (HighQualP), and 3) age of the firm (see Table 5.1). A graduate education helps provide managers with knowledge of the most efficient and effective methods of delivering a particular outcome, whether those are related to the latest management or technical trends. Another point to take into consideration is that most managers with a graduate education attended either U.S. or European universities, providing them with experience working in foreign firms as part of the curriculum of those programs.

According to Holm-Nielsen, Thorn, Brunner, and Balán (2005) between 1993 and 2002, the number of Latin American postsecondary students in the United States increased by 50 %. In the case of the managers who attend Argentinean universities, most of their graduate programs are based on either U.S. or European programs and include exchange programs with foreign universities; hence, the educational components in terms of academic programs are rather similar. The exposure to a foreign academic environment can enhance the likelihood of interaction with classmates and/or businesspeople from different parts of the world and it influences managers' perceptions of international businesses. It also adds an international element to the managers' networks that can facilitate the international expansion of their firms. Furthermore, characteristics of an educational level may be considered legitimate proxies for the cognitive orientation and knowledge base of managers (Finkelstein and Hambrick, 1996; Herrmann and Deepak, 2002), which is assumed to have an important influence on the strategic decisions of the firm. The positive sign of graduate education (GraduatEDU) coincides with the theoretical predictions.

The next coefficient is related to the perceived importance of producing a high quality product (HighQualP). High quality outputs usually involve a strategy aimed at embedding awareness of quality in all organizational processes, from design to development, quality of raw materials, production, servicing and documentation. This generally is associated with a dominant logic (Prahalad and Bettis, 1986) that focuses implementing a stable system that guarantees minimum standards of the outputs not once, but in a long-term perspective. In addition, meeting international standards (safety, environmental friendliness, reliability, etc.) may be an important part of strategy to compete in the most profitable markets such as the Japanese, European or North American markets.

Table 5.1. HYPOTHESIS 1(A) AND 1(B)

Dep. Variable: Long-term Int'l **Measure**: IntBenchStd **Regression**: OLS	**1 (A)**	**1 (B)**
Age	.056*** (.017)	.0222 (.033)
GraduatEDU	.689* (.395)	
HighQualP	.696* (.360)	
InternationalStand	.015 (.364)	
EnvInstability	-.218 (.316)	
TypesofSup	.828 (.800)	
CentralizeDecision		.196 (.234)
MeetingEM		1.228** (.015)
ExchangeM		.459 (.419)
NetworkAct		.659 (.579)
CoopCustSup		-.324* (.125)
Constant	2.961 (2.45)	.1.563 (2.99)
	F(6, 24) = 3.79 Prob > F = 0.0085 R-squared = 0.3596 Root MSE = 2.3438	F(6, 22) = 12.17 Prob > F = 0.023 R-squared = 0.4715 Root MSE = 1.9531

† $P \leq 0.1$; * $P \leq 0.05$; ** $P \leq 0.01$

Argentinean companies, as in the case of many emerging economy firms, are at a disadvantage exporting to developed markets with respect to local firms because consumers in developed markets equate emerging market firm products with poor quality (Aulakh, Kotabe & Teegen, 2000; Cordell, 1993). The sign the coefficient coincides with the theoretical framework in Chapter 2. The last significant factor in Hypothesis 1(A) is the age of the company. The coefficient is positive which means that the older the firm, the higher the likelihood of engaging in long-term internationalization. The arguments in the international entrepreneurship literature that posit that younger firms might have a higher propensity to engage in long-term internationalization may be less suitable to explain a long-term internationalization in an emerging economy.

As was explained in Chapters 2 and 3, firms in emerging economies face a variety of challenges that firms from developed economies do not have to overcome. In general, it may not be correct to confound the age of a company with its size or the level of resources under its control. Nevertheless, in the case of Argentina it may indicate a certain degree of resilience to overcome socio-economic adversities so characteristic in the country. The older the firm, the more resilience it has, therefore it can engage in short-term internationalization with less risk and also in long-term internationalization because it may have higher chances of surviving exogenous shocks. Hence, it may consider investing in, for example, a quality control system or training for its work force. It is important to mention that the inertia argument and the unlearning of existing routines may be less relevant for the firms of my sample because ProPymes' mandate is to support the implementation of "best managerial practices" and new technologies (see Chapters 1 and 4). It is possible that firms outside a network, whose main objective is to increase their members' competitiveness and to foster their internationalization, would suffer from a higher degree of inertia, a competency trap, dominant logic and core rigidities (see Table 5.1)

Hypothesis 1(B) suggests that the greater the communication by senior managers of the relative importance of resources within the firm, the greater the likelihood of long-term internationalization. Two factors are statistically significant in explaining long-term internationalization. The first factor is the frequency with which managers and employees meet to exchange ideas and for training purposes (MeetingEM). This coefficient has a positive sign, which coincided with the prediction of the model in Chapter 2. The more frequent the meetings between managers and employees, the better the comprehension of mangers of how to implement new processes or how to improve existing ones. It also allows employees to express their opinions about existing products or potential new products directly to those in charge. For these reasons, meetings between employees and managers might contribute to the creation of a new culture based on collaboration instead of antagonism. It is important to note that it does not guarantee a more collaborative culture if employees feel they may lose their job or if managers act in a paternalistic manner without taking into consideration employees' input. It can also be used to explain the rationale behind strategic decisions and getting them easily accepted and even more important, to make managers more approachable for employees. Nevertheless, meetings might have to be carefully planned by managers in order to gain employees' trust and show them the benefit of this approach. The second factor (CoopCustSup) is the frequency of investments by the firm to improve cooperation with customers and suppliers. The sign of this coefficient is negative, which contradicts the theoretical model of Chapter 2. According to the statistical test, the more the firm invests resources to improve its cooperation with its suppliers and customers, the less likely it will have long-term internationalization. A probable explanation is that the firms in the sample did not include their special relationship with Techint Group and, therefore, with ProPymes in responding to the question. However, it may also be the case that all the firms have included their relationship with ProPymes in their answers. Unfortunately, such distinction cannot be identified in the data. The Techint Group is a large and successful conglomerate with a very strong international presence. Through ProPymes, it has invested resources to help its suppliers and customers improve their competitiveness mostly by providing academic and training programs, access to financial markets and international representation (for more information see Chapter 4). As a result, the return on investment on information about other suppliers and customers may not be attractive to the companies (see Table 5.1). As one can see, the results presented in Table 5.1, the adjusted R^2 are 0.359 for Hypothesis 1(A) and 0.471 for Hypothesis 1(B) in both cases significant at the 5 percent level.

Hypotheses 2(A) states that higher levels of knowledge coding, sharing, and creation within a SME are positively correlated with a firm's long-term internationalization. There are two factors that are statistically significant. One is the change in the level of skills of the work force after joining ProPymes (ChangeHR) and the other is the frequency with which managers and employees meet to exchange ideas for training purposes (MeetingEm). Both factors have a positive sign consistent with what was hypothesized in the theoretical model. The characteristics described about Argentina in Hypotheses 1 (B) also apply in this case. A more qualified and trained work force implies that the employees have a better education and, therefore, they are more likely to create new products or services and to share, to code or to make use of new processes or new technologies. This increases the chances of firms becoming more competitive, not only domestically but also internationally, therefore, increasing their opportunities of having long-term internationalization as predicted by the model. Regarding the frequency of meetings between managers and employees, as explained previously, the more frequently they meet, the more likely knowledge regarding, for example, the state of economy, new processes, or new administrative practices will be shared or coded. Internal individual processes like experience and talent obtain tacit knowledge that is difficult to code. Therefore, it cannot be managed and shared as explicit knowledge, and to rely on personal tacit knowledge is risky. Conversion of tacit knowledge to explicit or at least the ability to share it offers greater value to the firm (Haldin-Herrgard, 2002). It also increases the opportunities to adapt foreign technologies, equipment and processes to local needs, thereby enhancing their efficiency and efficacy. As a result, the firm is more competitive and more likely to have long-term internationalization (see Table 5.2).

Hypothesis 2(B) states that the development of a formal international marketing plan may have a positive impact on the long-term internationalization. There are three factors with a positive sign that are statistically relevant. The first one is the firm’s sales, and even though the coefficient is very small, it predicts that the larger the sales, the more likely the company will engage in long-term internationalization. Sales can be conceived as a proxy for resources, and given the limited access to financial markets that SMEs have, it is not surprising that most of the companies have to find an alternative source to finance their investment in capital goods. Most of the time the alternative source is their own capital. This might be especially relevant when those investments are in areas such as new product development programs or in marketing research.

Another factor is the frequency with which a firm collects international business information from industrial or trade associations (IBassocia). The more information the firm collects, the higher the likelihood it will engage in long-term internationalization as was predicted by the theoretical model. This is important not only to engage in short term internationalization but also to be aware of the latest trends alongside the value chain of the firm (new products, new intermediate goods, new regulations, new technologies, processes, etc). The last factor with a positive coefficient is the frequency that managers meet to exchange ideas before taking a strategic decision (ExchangeM).

Table 5.2. HYPOTHESIS 2(A) AND 2(B)

Dep. Variable: Long-term Int'l **Measure**: IntBenchStd **Regression**: OLS	**2 (A)**	**2 (B)**
Age	.0124 (.005)	
ChangeInvTech	-.125 (.278)	
CentralizeDecision	-.101 (.081)	
ChangeHR	.315* (.181)	
FirmInitia	.412 (.641)	
MeetingEm	.66** (.082)	
CoopCustSup		-.357 (.290)
Sales2006		2.73e-8* (1.27e-8)
FormalPlan		.073 (.256)
Changeexp		.270 (.256)
IBassocia		.683* (.341)
NetworkAct		.069 (.196)
ExchangeM		.932** (.401)
Constant	-.889 (.648)	.462 (2.99)
	F(6, 21) = 2.26 Prob > F = 0.077 R-squared = 0.250 Root MSE = 2.01	F(7, 19) = 1.52 Prob > F = 0.2192 R-squared = 0.2974 Root MSE = 2.0798

† P ≤ 0.1; * P ≤ 0.05; ** P ≤ 0.01

Given the complexity of being competitive at the international level and the already discussed characteristics of SMEs, it is imperative that all possible scarce resources are pulled together, and in the case of SMEs, those are the senior managers (Mintzberg, 1979). The results presented in Table 5.2 show an adjusted R^2 of 0.25 for Hypothesis 2(A) with the results significant at the ten percent level. For Hypothesis 2(B) the adjusted R^2 is 0.297

Hypothesis 3(A) states that the greater the ability of managers to absorb market signals that may lead to changes in a SME's market-driven strategy, the higher the likelihood of having long-term internationalization. Three factors are statistically significant. The first one with a positive coefficient is the perceived change in the main competitors' resources (CompetitorsResources). The possibility that a main competitor is in the position to improve, for example, its manufacturing processes or technologies, distribution channels or their cost effectiveness, implies a major threat to the survival of the company. Therefore, as predicted in Chapter 2, the rational action that the firm may have to take is to increase its own competitiveness. As explained elsewhere in this thesis, increasing a firm's competitiveness at an international level may be important to having a long-term internationalization; therefore, the sign of the coefficient is consistent with the theoretical predictions.

A second significant coefficient is the dependence of the firm on one product (OneProduct) and, as predicted by the model, it has a negative sign. A firm may be less likely to have long-term internationalization strategies if it lacks the possibility of discovery (Hayek, 1978) of new products or new markets for existing outputs. In other words, firms might find it beneficial to be alert to new market opportunities (Kirzner, 1997). A firm that mainly depends on a single product is more vulnerable than a firm with a portfolio of products. New product development (NPD) capabilities are not usually one of the most important priorities for managers of SMEs (Woodcock, Mosey, & Wood, 2000) in developed countries.

Table 5.3. HYPOTHESIS 3(A)

Dep. Var.: Long- term Int'l **Measure**: NetInvset **Regression**: OLS	**3 (A)**
Sales2006	-1.35e*-8 (1.2e*-8)
CompetitorsResources	.361* (.198)
CommuD	-.094 (.063)
InfoInter	.498* (.198)
CoopCustSup	.233 (.241)
CustomerSatis	.078 (.035)
OneProduct	-.451† (.213)
Constant	3.729 (2.439)
	F(7, 24) = 2.77 Prob > F = 0.029 R-squared = 0.205 Root MSE = 1.705

† P ≤ 0.1; * P ≤ 0.05; ** P ≤ 0.01

As explained in Chapter 4, ProPymes has several programs to implement and to stimulate the adoption of NPD. Therefore, even though most of the firms in the sample are from the manufacturing sector, managers are well aware of the pros and cons of having a limited number of products. The different support programs of ProPymes are proving critical for the companies in order to overcome some of the problems of implementing NPD programs or even expanding the current line of products. The third significant factor is the level of resources invested by the company to obtain information about international markets (InfoInter). As predicted by the theoretical framework, the sign of the coefficient is positive. Information about trends, both in the input and output markets, may provide managers with a better understanding of the direction of the industry and help them to identify new opportunities. The results presented in Table 5.3 show that the adjusted R^2 for Hypothesis 3(A) is 20.55 when applying an OLS regression significant at the five percent level.

In order to test Hypothesis 3(B), I used first a linear regression and then a logistic regression (see Chapter 4). For the linear regression, there were three coefficients with a positive sign and one negative. The older the firm, the lower the likelihood of engaging in short-term internationalization. The sign of this coefficient is consistent with theoretical predictions. Older firms tend to be larger firms with an established network and have already proven that they are resilient to the economic and political cycles. It may be possible that older firms had invested more resources in rent seeking activities (Krueger, 1974), therefore, they may have better opportunities to secure contracts in the domestic market. The State is a relatively big client in many industries as explained in Chapter 3. It is well known among business people in Argentina that to be able to do business with provincial and national governments –the largest customers in many markets - firms have to know somebody with decision-making powers (Auyero, 2000; Cachanosky, 2008).

The next significant coefficient is the investments by the firm to obtain information about customers and suppliers (InfoCust). The positive sign of this factor contradicts the prediction of the theoretical framework. It implies that the higher the investment in gathering, communicating, delivering, and exchanging information about the company's main customers and suppliers, the more likely the firm will engage in a short-term internationalization. The theoretical framework suggests that firms that have information about customers may have more incentives to engage in long-term internationalization. Most, if not all the firms in the sample, have either foreign customers or customers that demand international standards such as Techint Group. A possible explanation for the sign of the coefficient is that the firms are taking advantage of short-term comparative advantages such as exchange rate or lower production cost. It is important to remember that the data was collected during a period when the international demand was at very high levels. The next coefficient, the degree of information sharing between the company and its main customers (SharingInf) also contradicts the theoretical predictions. Some of the most useful information about customers and suppliers is probably private information that companies would not share unless there is a close business relationship. A SME can invest resources collecting and analyzing public information about its supply chain and customers but it may not be as valuable as private information shared between companies or between companies and customers when working closely to develop new products or to improve their business relationships. It may be possible that the information provided some specific short-term international expansion such as one-time exports. Argentinean SMEs can engage in sporadic export activities given the relatively competitive prices of inputs – Argentina is a rich country in terms of natural resources - or by consequences of macroeconomic policies such "competitive" nominal exchange rates (see Chapter 3). Therefore, the internationalization activities are not related to a strategic commitment to add value to international customers, but to take advantage of a temporary situation caused by factors outside the firm. It may also be possible that it was a deliberate choice by managers to take a short-term perspective instead of utilizing the information to develop a long-term strategy. As mentioned in Chapter 4, long-term internationalization requires the commitment of senior mangers, therefore, these senior managers should be convinced that the risks of a potential long term benefit are higher than more secure short term benefits.

The last factor is related to the perception of the economic environment (EconomicInst) within which the firm has to compete. The positive coefficient implies that the more adverse the economic environment, the higher the chances a firm will engage in short-term internationalization. Keeping in mind the specific characteristics of Argentina, firms tend to avoid or to postpone major investments when an economic or political situation becomes difficult to assess and unpredictable. Argentinean political leaders are prone to populist economic measures when the economy is in trouble and especially during presidential and congressional election campaigns. In addition, Argentinean institutions, such as the judicial branch or legislative branch, have not been able to provide stability; therefore, firms tend to be skeptical and extremely careful before making long-term decisions. Therefore, the more adverse the environment, the less likely a SME will undertake the investment required, for example, to update their technology, equipment or training of personnel in order to be able to compete.

Hypothesis 3(B) was also tested using a logistic regression. In this case, one coefficient was found statistically significant (see Table 5.4).

Table 5.4. HYPOTHESIS 3(B)

Dep. Var.: Short-term Int'l **Measure**: NetInvset **Regression**: OLS	**3 (B)**	**Dep. Var.**: Short-term Int'l **Measure**: ExportBin **Regression**: Logit	**3 (B)**
Age	-.067* (.026)		.006 (.028)
GraduatEDU	-.474 (.527)		.009 (.476)
IBassocia	.011 (.021)		.555 (.384)
InfoCust	.809* (.342)		.516† (.287)
EconomicInst	1.21* (.518)		-.508 (.328)
ChangeProd	-.121 (.032)		-.243 (.327)
SharingInf	1.04† (.509)		-.405 (.482)
Constant	.851 (3.25)		.57 (3.58)
	F(6, 22) = 4.9 Prob > F = 0.0025 R-squared = 0.3455 Root MSE= 3.1736		Wald chi2(6) = 11.17 Prob > chi2 = 0.083 Pseudo R2 = 0.182

† $P \leq 0.1$; * $P \leq 0.05$; ** $P \leq 0.01$

The coefficient, which has a positive sign, is the investments by the firm to obtain information about customers and suppliers (InfoCust). As explained in the previous paragraph, the sign of this factor does not coincide with the theoretical prediction. In theory, companies that invest in obtaining information about their customers and suppliers may have a longer-term perspective of the firm's business, emphasizing building new capabilities and competences that may allow them to be more efficient by knowing their customers' needs. A possible reason for the sign of the coefficient is the quality of the information and the capacity of the firm to analyze the information. If the information about the customers only provides limited information such as willingness to buy existing products or managers are unable to discover a potential long-term benefit for the company, it may be difficult for them to make any long-term investment. The results presented in Table 5.4 show that the adjusted R^2 for Hypothesis 3(B) is 0.345 at a significant level of 1 percent when applying an OLS regression, and pseudo R^2 of 0.182 when applying a logistic regression significant at 10 percent.

5.1.2 An internal perspective of the firm

Hypothesis 4 states that the greater the understanding of the resources controlled by the firm, the higher the likelihood of having long-term internationalization. The data indicates that three factors are statistically significant. The first one is the exchange of information between managers (ExchangeM) before making strategic decisions. The sign of this coefficient is positive, which is consistent with the existing theory. Managers from different departments or areas of firms have different perspectives, knowledge and interests. If a SME is going to become internationally competitive, the different areas of the firm must work together. In addition, given the socio-cultural characteristics of Argentina, senior manager/owners tend to centralize important decisions, so it is a positive sign when managers recognize that teamwork is better for the long-term benefit of the firm. The second factor, which has a positive sign, is how often the firm conducts its domestic benchmark (NationalBench).

Table 5.5 HYPOTHESIS 4

Dep. Variable: Long-term Int'l **Measure**: NetInvset **Regression**: OLS	**4**
Sales2006	-2.81e*-8 (1.95e*-8)
ExchangeM	1.64† (.882)
DecisionCuSup	1.07 (.771)
InterBench	-.211 (.354)
NationalBench	.825† (.506)
IntensityCompetition	1.53 (.918)
ChangeInvM	-.813† (.414)
Constant	-9.33 (8.88)
	F(7, 20) = 2.61 Prob > F = 0.0435 R-squared = 0.2606 Root MSE = 3.306

† $P \leq 0.1$; * $P \leq 0.05$; ** $P \leq 0.01$

The positive sign of this coefficient emphasizes the relevance of knowing what may be the competitive advantage of the firm and its weakness. If a firm is to engage in a long-term internationalization and be competitive at the international level, it must be available to reconfigure, to redeploy its resources and to find – in its network - those resources it may need. For these reasons, it is imperative that a firm knows what its resources are, and their present and future values. The last factor is the change in the firm's investment in marketing and distribution after joining ProPymes. Interestingly, this coefficient is negative which contradicts the theoretical prediction. The results presented in Table 5.5 show that the adjusted R^2 for Hypothesis 4 is 0.26 at a significant level of five percent.

Hypothesis 5 suggests that the change in the efficiency of the work force (ChangeHR) is the only factor that has a statistically significant and positive effect in long-term internationalization. Human resources have been considered in the academic and business literature as the main resource of any firm; therefore, a trained work force is important. A more prepared and competent personnel, partially because of ProPymes training programs, increases the likelihood of having long-term internationalization. If managers also have a larger pool of capable employees, then it is more probable that these firms will become more competitive.

In addition, there is little incentive to invest in new technologies, new processes or a quality control system if the firm lacks the human resources to take full advantage of these costly investments. A better-prepared and more educated work force is also more aware of the challenges, opportunities, and difficulties that a firm faces. In a country such as Argentina where education levels are not the best by international standards, it may be beneficial to take advantage of any opportunity to train the work force (see Table 5.6). The results presented in Table 5.6 show that the adjusted R^2 for Hypothesis 5 is 0.165.

Table 5.6. HYPOTHESIS 5

Dep. Variable: Long-term Int'l **Measure**: NetInvset **Regression**: OLS	**5**
Age	-.0001 (.017)
NumberEmpl	.0007 (.002)
GovTraining	.126 (.341)
ProductsIM	-.290 (.316)
ChangeHR	.550* (.211)
InternationalEx	.267 (.421)
ChangeInvTech	-.619 (.568)
Constant	7.89 (2.99)
	F(7, 20) = 1.09 Prob > F = 0.4048 R-squared = 0.1658 Root MSE= 2.1682

† P ≤ 0.1; * P ≤ 0.05; ** P ≤ 0.01

5.1.3 Expanding the knowledge bases of SMEs

Hypothesis 6 states that the more dispersed the knowledge base within the SME, the greater the likelihood of a SME pursuing long-term internationalization. Three coefficients are statistically significant and all have a positive impact on long-term internationalization. SMEs that have a formal plan related to their international expansion (FormalPlan) have a higher likelihood of engaging in long-term internationalization. The creation of a plan implies an understanding of the resources and capabilities of the firm as well as an analysis of the environment (for more information see Chapter 2). It also makes explicit to the rest of the firm what the objectives of the company are, and what actions would have to be taken in order to achieve those goals.

The next coefficient is the degree of centralization of the decision-making process. Interestingly, it has a positive coefficient which usually is associated with a relatively small number of employees having the necessary knowledge to make strategic decisions.

Table 5.7. HYPOTHESIS 6

Dep. Variable: Long-term Int'l **Measure**: IntBenchStd **Regression**: OLS	**6**
Age	.027 (.024)
TrainingInves	-.196 (.542)
FormalPlan	.406† (.214)
ChangeHR	.899† (.440)
CentralizeDec	.477† (.267)
GovTraining	-.329 (.326)
ChangeManager	-.117 (.205)
Constant	2.130 (2.82)
	F(7, 20) = 6.97 Prob > F= 0.0003 R-squared = 0.5167 Root MSE = 2.0896

† P ≤ 0.1; * P ≤ 0.05; ** P ≤ 0.01

If this is the case, important knowledge would be available only to a few people in the company instead of being shared with all those who may apply it. On the other hand, a higher degree of centralization may facilitate communication and control within the firm. The explanation behind the sign of this coefficient may also be related to the characteristics of the firms in the sample. A strategic decision such as investing in new processes, new technologies, or to actively participate in international business will be taken at the highest level. Because of the ownership structure of this type of company, it is a decision that will affect the wealth of the owners and senior managers in a much larger way than if these were multinational companies; most of the time, it is a "family decision".

The other statistically significant coefficient is the change in the quality and skills of the work force after joining ProPymes. As mentioned earlier, in order to be internationally competitive it may be important to train the most important resource of the company (see Table 5.7). The results presented in Table 5.7 show that the adjusted R^2 for Hypothesis 6 is 0.5167 significant at the 1 percent level.

5.1.4 How SMEs access and secure resources

Concerning Hypothesis 7, the results show that the frequency with which a firm collects international business information from industrial and/or trade associations (IBassocia) is positively associated with long-term internationalization. SMEs may not have the same level of resources as their larger counterparts; furthermore, they may not have the physical presence in international markets that MNEs do. The most reliable and efficient means to collect information about international markets is through trade associations. Industrial associations also provide useful information about the technological changes in the industry as well as new processes, new suppliers or substitutes; briefly, every aspect related to that specific industry. Furthermore, information released by public agencies may not be as precise or accurate as the information provided by industrial or trade associations[2]. Another statistically significant coefficient is the amount of investment in marketing (MarketingInv) made by the firm after joining ProPymes. Interestingly, the sign of this factor is negative which does not concur with the theoretical model. This means that the more a firm invests in processes for creating, communicating, delivering, and exchanging offerings that add value to its customers, the lower the likelihood of having long-term internationalization. A possible explanation for this discrepancy is the fact that the firms in the sample are taking advantage of the Techint Group distribution channels and marketing expertise. The final significant coefficient is the perception of growth opportunities in the domestic market. The sign of the coefficient is negative which means that higher perception of growth based on the domestic market has a negative impact on the long-term internationalization. This result is consistent with the theoretical prediction. International expansion usually implies taking higher risks rather than competing only in the domestic market. If managers perceive that the domestic market opportunities meet their expectation, then, it may not be logical for those companies to engage in an international expansion. Furthermore, if the potential growth of the domestic market is due to an increase in the demand, it may be possible for firms to take advantage of the economic boom without having to become more competitive even though this may be a risky long-term strategy.

[2] Opposition parties, the business community, and former ministers have accused public agencies such as INDEC of manipulating macro and microeconomic figures for political purposes (La Nacion, 2009; El Clarin, 2008).

As explained in Chapter 4, ProPymes is using the brand and accessing resources of the Techint Group. ProPymes has access to more than 30 of Techint's offices worldwide to foster the international expansion of its members. Furthermore, and maybe more importantly, ProPymes also has access to a well-connected, highly experienced and qualified international staff. In addition, ProPymes provides reports about international markets, their regulations and what may be suitable entry modes. It also works with the Argentinean foreign office to explore new foreign market opportunities in those countries where the

Table 5.8. HYPOTHESIS 7

Dep. Variable: Long-term Int'l **Measure**: NetInvset **Regression**: OLS	**7**
Age	-.035 (.0192)
IBassocia	1.131* (.438)
ChangeInvTech	.106 (.348)
Changeexp	0.810 (.562)
MarketingInv	-.82072* (.348)
Growthopp	-2.688† (.835)
GovPromotExp	-.287 (.498)
Constant	25.4 (4.25)
	F(7, 19) = 2.94 Prob > F = 0.028 R-squared = 0.4408 Root MSE= 2.875

† $P \leq 0.1$; * $P \leq 0.05$; ** $P \leq 0.01$

Techint Group is not actively doing business (for more information see Chapters 1 and 4). Considering the services provided by ProPymes, investments made to improve the "marketing characteristics" might not be a high priority for managers. Given the limited resources to which they have access, there may be other investments (capital goods, equipment, and quality control systems) that have higher priority for managers. This may be a probable cause as to why marketing investments has a negative coefficient (see Table 5.8). The results presented in Table 5 .8 reveal that the adjusted R^2 for Hypothesis 7 is 0.44 significant at the five percent level.

Hypothesis 8 states that by being involved in a group of companies like ProPymes, SMEs may have access to a wider option of resources and capabilities. In this case the only factor that was statistically significant is the financial impact of ProPymes (FinacialImp) (see Table 5.9). Chapters 2 and 3 note the difficulties for SMEs to access financial markets in Argentina. The different programs ProPymes has to help its members have access to the financial market at reasonable interest rates have also been briefly explained in previous chapters. According to Bebczuk (2004), credit policies do not show the desirable degree of transparency, making it difficult to pass any sound judgment about the impact of the programs in place on SMEs. Furthermore, he argues that "it is undeniable that private financial intermediaries have an anti-SME bias" (Bebczuk, 2007: 29). Even with the bias against SMEs from private banks, Bebczuk (2004) points out that public banks do not appear to perform better than private banks in improving the access to credit top SMEs.

Table 5.9. HYPOTHESIS 8

Dep. Variable: Long-term Int'l **Measure**: NetInvset **Regression**: OLS	**8**
Age	.002 (.014)
FinacialImp	.420* (.186)
ChangeHR	.266 (.254)
TechnoCust	.200 (.150)
AdmIMPROV	-.056 (.225)
ExpansionAB	-.110 (.198)
TypesofSup	-1.140 (.751)
Constant	5.888 (1.37)
	F(7, 21) = 3.51 Prob > F=0.0119 R-squared = 0.3410 Root MSE = 1.9928

† P ≤ 0.1; * P ≤ 0.05; ** P ≤ 0.01

Several studies have concluded that the scale of state programs are consistently small and that little information is disclosed on key criteria such as project selection and costs and benefits of the programs (Bebczuk, 2007; Briozzo & Vigier, 2006).

McDermott (2000) argues that the main problem for SMEs to access bank finance is a combination of structural and relational factors: the existence of quasi-oligopolistic banks and their reluctance to invest in SMEs. He also argues that from the demand side, SMEs often lack the experience, information, and knowledge to present credible projects. Additionally, during the 2001-2002 recession the financial system collapsed and private institutions became even more reluctant to work with SMEs. The opportunity that ProPymes offers to its members to have access to resources to improve their competiveness and international expansion is certainly unique and important for small firms in a country such as Argentina. The results presented in Table 5.9 show that the adjusted R^2 for Hypothesis 8 is 0.341 significant at the 5 percent level.

CHAPTER 6

CONCLUSION

As mentioned in Chapter 1, the central aim of this research is to provide an integrative framework to explore how SMEs from emerging economies can compete at international standards against foreign companies whether in foreign markets or in their domestic markets. The theoretical part of the dissertation seeks to explain the internationalization process of small and medium sized enterprises from emerging economies; the empirical portion of this study focuses on SMEs from Argentina. In order to achieve the research objective, the internationalization process is placed on a continuum between short and long-term internationalization. The short-term strategy depends on factors exogenous to firms such as economics and socio-political factors. Long-term internationalization is a combination of tangible and intangible internationalization (Toulan, 1997), which implies a stronger commitment by firms to become competitive at international levels.

6. 1 CONTRIBUTION OF THE DISSERTATION

6. 1.1 Empirically Based Contributions

The first theme of this dissertation is associated with the new “rules of the game” that firms must face and how managers understand the new realities and adapt their companies by providing purpose and direction to the members of the firm. The first family of hypotheses relates to the experience of managers in highly competitive environments and with the internal communication concerning a firm’s main resources and capabilities. Authors such as Weick (1995), Westley

(1990) and Andrews (1987) have emphasized the importance of the fit between managers' interpretative schema and the environment. The empirical results suggest that the age of the firm, graduate education of mangers and the importance of a "high-quality" product are key factors to explain long-term internationalization. Even though the international entrepreneurship literature has suggested that new ventures are more prone to having long-term internationalization (Knight & Cavusgil, 1996; Nummela, Saarenketo & Puumalainen, 2004; Oviatt & McDougall, 2005), this may not be the case for a country with the characteristics of Argentina. According to the empirical evidence, the age of the firm is positively correlated with long-term internationalization. It may indicate that older firms are in a better position to make the long-term investments because they have proven capable of surviving socio-economic cycles so characteristic in emerging economies. Therefore, the older the firm, the more resilience it has, therefore it can engage in long-term internationalization with less risk because it may have higher chances of surviving exogenous shocks. Hence, it may consider investing in, for example, a quality control system or training for its work force. Older firms may also have a better network than younger firms, hence, potentially better means to secure resources. As mentioned in previous chapters, SMEs in Argentina have considerably less support from the government compared to SMEs from developed economies (see Chapter 3), to overcome financial barriers to obtain new technology and knowledge transfer than SMEs from developed economies. Therefore, failures of young firms in developed economies are less likely to be attributable to inadequate resources and capabilities than in Argentina. In addition, older firms have an established network, and the data from the survey suggests that they have survived economic recessions, hence, these firms may be perceived as having better extra-market capabilities (political connections, legitimacy, and resilience).

The perceived importance of high quality products for exports is an interesting trend for SMEs. Argentina's exports are mainly commodities or goods with low aggregate value. As mentioned in Chapter 4, even within Argentina, foreign products are perceived as better than local goods (Aulakh, Kotabe & Teegen, 2000) with some exceptions such as agriculture related products where the country possesses well-known comparative and competitive advantages. Regarding the communication aspects, the most important issue here is that managers assess the competitive position of the firm vis-a-vis domestic and international competitors. It may be more difficult to have a long-term internationalization strategy without knowing what resources the firm has which are valuable, rare and difficult to imitate and to substitute (Barney, 1991; Porter, 1998).

Interestingly, in the OLS regression analysis, the firm's cooperation with customers and suppliers had a negative coefficient in relation to long-term internationalization. The findings suggest that an excessive focus on existing suppliers and customers may constrain the ability of firms to be alert to new business opportunities, to changes in the industry, and, therefore, to make the necessary investments to meet the demands of a changing environment.

Furthermore, SMEs that rely too much on a few important suppliers and. especially customers may be adopting a risky long-term strategy.

The second family of hypotheses is about the characteristics of SMEs regarding their organizational structure and the importance of a limited number of individuals who posses knowledge or resources that have not been made available to the rest of the firm. The long-term internationalization strategy of the firm is hypothesized to be associated with the development of the work force. The participation of ProPymes has had a positive effect on the perception of managers about the competence of their work force. A better-trained and prepared work force is more effective and allows the company to implement new processes or technologies. Related to the previous point, meetings between employees and managers are also important for the company's international future and for any increase in its competitiveness. Connected to coding and sharing knowledge, investing resources to have better trained personnel, to collect information about international markets, and providing the opportunity to exchange ideas may be important to have a long-term internationalization. The findings suggest that meetings between managers and meetings between managers and employees may have a positive impact on the long-term internationalization. Interestingly, the elaboration of the formal plan is not a significant factor but the exchange of information between managers is significant as well as the information collected from trade associations. This suggests that managers consider exchanging information more important than taking all the steps necessary to make a plan.

The findings related to Hypothesis 3(A) suggest that firms that are reliant on one main product will have problems engaging a long-term internationalization. Even for firms in the manufacturing sectors as in my sample, there is a perception among managers that in order to compete in international markets, and even in local markets, firms need to diversify their outputs. The findings suggest that SMEs with a broader line of products are in a better position to engage in long-tem internationalization. A company may be more inclined to invest its resources to upgrade their technology, its manufacturing processes, to train their personnel, if it can spread the risk by having a large number of products (Scherer, 1980). The chances that the customer will find a better product increases with the level of competition. Hence, relying on one or few products is a highly risky long-term strategy. Another finding related to market-driven strategy and internationalization strategy is that the more resource-abundant the competitors are, the more likely the SME will engage in long-term internationalization. The Argentinean economy has gone through deregulation and open market oriented policies since the 1990s, at least with the neighboring countries (MERCOSUR). As a result, SMEs have to compete with a larger number of international firms, most of them MNEs. In addition, those that are suppliers of Techint Group have to meet international standards.

The findings related to Hypothesis 3(B) suggest that firms that invest resources to obtain information from their customers and suppliers and share information with them may be more likely to engage in a short-term internationalization. A company with these characteristics proactively seeks to have a good business relationship with its customers and suppliers. In theory, these types of companies should have longer-term internationalization, hence, emphasizing building new capabilities and competences that may allow them to be more effective by knowing their customers' needs. A possible reason for the sign of the coefficient is the quality of the information and the capacity of the firm to analyze the information. If the information about the customers only provides limited information such as willingness to buy existing products or managers are unable to discover a potential long-term benefit for the company, it may be difficult for them to make any long-term investment. Firms may be only taking advantage of short term competitive advantages such as exchange rates or lower production costs. However, it may be a risky strategy if the company is not necessarily upgrading its capabilities and resources to become more competitive or to meet the future demand of its customers. It is taking advantage of a short-term opportunity. The quality of the information should also be taken into consideration as well as the strategic choice of the mangers and their capacity to recognize long-term opportunities. The quality of the information may just not justify or allow managers to make a strategic commitment. It may also be possible that managers are unable to recognize the implications, both positive and negative, of the information.

Another finding suggests that older firms are less likely to engage in a short-term internationalization. This result may relate to the changes in the economic environment. Older firms were created in a time when it was more difficult for SMEs to engage in international business. For example, there used to be more trade restrictions, transportation costs were higher, and information was not as easily available as it is today. Furthermore, even with trade agreements, there are still important trade and commercial disputes with other members (see Chapter 3). On the other hand, younger firms were competing from inception in a more dynamic environment with international companies already established in most of the industries. Economic instability also has an impact on the internationalization strategy of SMEs. In this case, the more unstable the economy, the more likely is the SME to engage in a short-term internationalization. When the economic situation is unstable, firms may base their international activities on the comparative advantage of the country (cheap labour, raw materials). Companies need a certain level of predictability to make long-term investments such as those required to engage in a long-term internationalization. In addition, SMEs already have problems accessing capital markets to finance productive investment. If the economic situation becomes unstable, even if firms are willing to invest in the long-term, they may not have the opportunity to do so.

An analytical examination of the resources of a firm may help to develop an understanding not only of possible short-run business strategies, but also of future diversification (Montgomery & Wernerfelt, 1988), growth strategies (Penrose, 1959), and sustainability of long-term rents (Rumelt, 1984; Wernerfelt, 1984). The results for Hypothesis 4 show that frequency of firm benchmarking against national standards has a positive effect on long-term internationalization, while international benchmarking was not significant. Perhaps the domestic market is still the most important market for most SMEs. Finding information about competitors and customers that are already acting in the domestic markets may be easier than searching for information from firms competing in foreign markets. Furthermore, managers may find that what is happening in their local markets is more important and pressing than trends, opportunities or potential threats developing in foreign markets. The exchange of information between managers also has a positive impact on long-term internationalization, which is consistent with the theory. Since competition is an exogenous factor, and it is not something that a SME manager wants to face, managers may have to focus on promoting communication among themselves in order to have a better understanding of the resources and capabilities of their firms. Surprisingly, investment in marketing and distribution channels has a negative impact on long-term internationalization. Firms that belong to ProPymes are able to utilize Techint Group distribution channels, therefore, managers might prioritize investment in other areas where they do not have support or assistance. From a long-term strategy perspective, this dependence may be disadvantageous for the SME.

The results in Hypothesis 5 suggest that a better trained work force may be important for recombined resources in order to create new capabilities and be able to compete at international standards. The improvement perceived by managers in their workforce after joining ProPymes has a positive effect on the long-term internationalization. This finding is consistent with the theoretical development. Training aimed at achieving high standards provides the basis to develop competitiveness and deal with the complexity of a global economy (Kapur & Ramamurti, 2001; Ng, 2005). Higher levels of education allow firm managers to draw resources from a pool of qualified individuals and may increase the likelihood of having more efficient organizational processes, adopting new technology faster, and respond to changes which is important for long term internationalization. SMEs in emerging economies may not have the resources to train their personnel. However, if they are part of a network, they may have the opportunity to use another company's resources (Techint Group) to train its personnel.

As explained in Chapters 2 and 3, small and medium-size firms need to expand their knowledge base in order to compete both internationally and in domestic markets, and this is the main focus of Hypothesis 6. Several authors (Child, 1972; Kor, Mahoney, & Michael, 2007; March & Olsen, 1976; Zahra, Sapienza, & Davidsson, 2006) have emphasized the importance of adopting an organizational learning approach by which firms can cope with uncertainty and environmental complexity. A key characteristic of a learning organization is learning how the environment is changing in order to adapt to those changes. Most of the resource-acquisition processes also require learning the necessary know-how in order to cope with the new manufacturing, managerial and/or technological requirements. To be internationally competitive requires strong commitments to skill acquisition, organizational learning and accumulation of capabilities in terms of both the tangible and intangible (or "invisible") types (Itami & Roehl, 1987) that are continually re-combined and re-configured to improve competitiveness. Interestingly, the findings indicate that a high degree of centralization of the decision making process is associated with achieving long-term internationalization. This may be related to the cultural characteristics of the country. For example, Argentine managers have ranked relatively high on Hofstede's power distance scale (Hofstede, 1991). This implies that, on average, members of a society accept and expect hierarchical relationships; therefore, managers may have a tendency to have an authoritarian and paternalistic type of leadership. In addition, the relatively high ranking on Hofstede's uncertainty avoidance index may also imply that people are likely to feel uncomfortable in novel or unknown situations. It may also relate to the ownership structure of the companies. Most of the SMEs are privately- held companies or family businesses.

SMEs, compared to larger firms, face major challenges in terms of securing and updating resources, and these challenges are heightened by the socio-economic characteristics of Argentina. The results for Hypothesis 7 suggest that firms look for private organizations such as trade associations for information and market research. Public information is not always available and sometimes is not trustworthy. Consistent with previous studies, the results also imply that the higher the perceived potential growth of the domestic market, the less likely that companies will engage in a long-term internationalization. International expansions are usually more risky than domestic expansion, especially for SMEs. Long-term internationalization entails being able to compete at the international level, not necessarily to have a physical presence in international markets. Therefore, especially during an economic boom, firms may have to start investing in upgrading, renewing, or developing new resources and capabilities while they have access to financial resources. The findings in Hypotheses 4 and 7 suggest that when large firms, like the Techint Group, act as a hub in a network, there may be some crowding out effects in terms of investment in marketing and distribution channels. It is important for managers of the SMEs in the sample to be aware of this phenomenon in case ProPymes's policy changes in the future. Furthermore, they may be losing some lucrative opportunities by not developing their own set of processes for creating, communicating, and exchanging potentially valuable information with customers.

The final topic relates to the challenging context that most SMEs face in Argentina. The trade policies adopted by the countries since the 1990s under MERCOSUR and the emergence of Chinese and Indian companies as strong competitors in international and domestic markets have added further pressure on SMEs to meet international standards to increase their competitive level. From a historical perspective, international business researchers were first interested in large companies in developed economies (Bartlett & Goshal, 1986; Buckley & Casson, 1976; Dunning, 1988; Knickerbocker, 1973; Vernon, 1966). Models developed to explain SME internationalization such as the Uppsala and stage model (Cavusgil, 1982; Johanson & Vahlne, 1990; Johanson & Wiedersheim-Paul, 1975) might face serious challenges in applicability to SMEs in emerging economies. The stage model may not take into consideration the characteristics of a country such as Argentina. The stage model assumes that firms have the time to accumulate key resources. The stage model also fails to consider alternative organizational structures such as networks (Baum, Calabrese & Silverman, 2000; Oviatt & MacDougall, 2005) that can mitigate "the liability of smallness" (Briderl & Schiussler, 1990). Given the characteristics of the Argentinean economy, the results of Hypothesis 8 suggest that having a partnership with a large firm that can provide access to financial markets may be important to achieve long-term internationalization. Small and medium firms need to invest in capital goods, in training programs to become more competitive and, later, to compete in new markets (Wickramansinghe & Sharma, 2005; Smallborne, Leigh, & North, 1995). Financial institutions – private or public - may be unwilling or unable to provide the financial support required (Bebczuk, 2004 & 2007; McDermott, 2000). Long-term internationalization may require investing in equipment to update the organizational and manufacturing capabilities, to develop new products or services, and to train the personnel. Consequently, having access to financial resources may prove essential. If a company cannot secure funding in the financial markets or through governmental programs, it may be able to tap into financial resources through its network.

6.1.2 Contributions to Theory

The most important finding of the dissertation is that the conceptualization of what it means to be an international firm is a complex topic that requires a multidisciplinary approach. The differentiation between short and long-term internationalization is only a first step in the theorizing on the internationalization of SMEs. Approaches such as traditional international business models are, and will be, relevant in the future given the unavoidable imperfections of markets such as resource endowments and governmental intervention, among others. However, a more fruitful approach must also include how firms reconfigure, develop and secure resources, processes and capabilities.

In the international business literature, foreign involvement usually results from one of two factors: a) the firm possesses some monopolistic advantage that it can use in another country (Buckley & Casson, 1976; Vernon, 1966, or b) the host country owns resources that are valuable to the foreign firm (Calvet, 1981; Dunning, 1988; Vernon, 1966). While these reasons may be necessary and sufficient conditions in developed economies, it may not be the case for SMEs from many emerging economies. The findings suggest that monopolistic advantage may not be a usual reason for SMEs to engage in short or long term internationalization. Furthermore, their need to upgrade even basic aspects of the manufacturing and organizational processes suggests that they may be vulnerable to new competitors. The differences in the sophistication and depth of markets in developed and emerging economies have a profound impact on managers' decisions. When the structures that allow buyers and sellers to exchange goods, services and information are incomplete or manipulated or, they simply do not exist, the parameters to make resources allocation decisions differ, especially with respect to long-term investments such as those to achieve scale economies, or to invest in social capital rather than pursuing short-term strategies. The locational advantage such as natural resources or lower production cost may not provide the basis for the internationalization of this type of firm considering the change in the environment described in Chapter 3.

The classic international business literature assumes the environment of the firm is mainly passive (Buckley & Casson, 1976; Dunning, 1988; Knickerbocker, 1973; Vernon, 1966). It is also assumed to have an orderly and predictable pattern of change. However, pro-market reforms, trade agreements, and globalization of the environment and industry have changed and challenged those assumptions. The passive role of the environment in the classic international business theories has faced severe challenges by globalization brought about by a combination of change in public policy to reduce barriers to mobility of enterprise, individuals, goods and services, and capital, technology, expansion of communication, and increased competition. The eclectic theory of MNEs (Dunning, 1988 & 1993), for example, does not assign much of a role to the environment. This is in part due to the theory's assumption about the institution of MNE as a resourceful entity capable of investing and thus altering, if not dominating, the environment especially in developing counties, hence, affecting the nature of the environment and competition within it. In contrast, a SME is assumed to be resource-poor with little or no market power, especially in emerging economies. Managers are required to understand and interact with the environment from the outset in order to acquire the necessary resources, and time may become a crucial variable. This interactive characteristic of the SMEs becomes even more influential when the environment changes rapidly and unpredictably due to the interaction and interplay of other competitors, customers, suppliers and governments.

Furthermore, the findings suggest that not only is the environment not passive, it may even be hostile to SMEs. In addition to increased competition from foreign firms, SMEs also face an unstable domestic environment that may decrease the incentives for long-term investment required for long-term internationalization strategy. The findings in Hypotheses 3(A), 4 and 7 show that SMEs may have to scan the environment continuously in order to assess opportunities, risks, resources and potential rewards. Therefore, interaction with the environment is essential for the firm to survive and grow. The context in which SMEs from emerging economies have to conduct their business operations adds more complexity to the topic of long-term internationalization. Investments to obtain more information about customers, and the customers and suppliers willing to share information may lead in developed economies to a long term investment such as building a strong relationship, planning new products or services. The findings suggest that in Argentina, SMEs may tend to engage in short term internationalization.

The traditional international business approaches focus mostly on structural conditions and competitor positioning; the strategic processes are focused on entry and mobility barriers. In emerging economies, the average level of competitiveness and internal growth of firms may be below that of firms from developed economies as a result of market conditions, macroeconomic policies and institutional constraints (Hoskisson et al., 2000; Peng & Heath, 1996). While Dunning (1988 & 1993) incorporated the firm's internal factors (ownership-specific factors) into his framework, there is no clear description of how to identify and develop such resources; however, the resource based view and dynamic capabilities approaches provide an adequate framework to do so. The strategic processes focus not only on entry and mobility barriers, but also on resource selection, reconfiguration and deployment. The Uppsala model may be less relevant for SMEs where networks can be relied on to secure both tangible and intangible resources. SMEs are no longer required to have first-hand experience in a market in order to be competitive in that market. International activities require general and market-specific knowledge, which is gained not only by experience, but also by having the appropriate partners. SMEs from emerging economies may not have access to the same quantity and quality of resources as SMEs from developed economies, or large firms whether from developed or emerging economies. Apart from this additional constraint, SMEs may also face an environment where new competitors, new suppliers, new products or services are rapidly changing the way business is conducted, hence, time is becoming a crucial factor in contrast to the assumption of the Uppsala model.

Aside from highlighting the benefits of adopting a perspective that takes the context in which firms are competing into consideration, this study also contributes to the debate on the importance of having a management team committed to long-term internationalization, and to the advantages and disadvantages of belonging to a network in order to achieve long-term internationalization. Overall, the research tends to suggest that SMEs may need to have a sense of urgency to acquire and develop resources and capabilities in the context of a more dynamic environment (more competitors, new product, new customers, and new regulations). Consequently, time to access resources may become a sensitive factor to consider when analyzing a company's competitive advantage. The findings also suggest that in the context of an emerging economy, a firm's long-term internationalization may be linked with the characteristics of its network. The findings indicate that when a network has a large company providing resources to which the SMEs might otherwise not have access, there is a higher likelihood that the firms in the network may engage in long-term internationalization. The literature suggests that companies may benefit more if their networks are composed of non-redundant contacts. However, the findings indicate that, for SMEs from an emerging economy, having redundant contacts within the network may prove beneficial for the network as a whole and for the SMEs in particular. Having several firms that face similar constraints may increase the incentives for the large company to provide technical, managerial or financial support. However, there is a potential risk of using the assistance and support provided by the network without developing its own resources and capabilities, which may be a risky long-term strategy. Accessing resources is a necessary condition to have long-term internationalization but, ultimately, it depends on the managers' strategic choice.

Finally, the research suggests that given the complexity of the topic, a combination of multiple frameworks including strategic choice, the resource-based view, the learning-organization and network approach, may help explain the long-term internationalization of SMEs.

6.1.3 Implications for Managers

While SMEs from Argentina face challenging times, the set of potential opportunities for those willing to transform themselves has increased. The necessary condition for a SME to undertake long-term internationalization is for managers to make a strategic commitment to invest the necessary resources in order to be able to face international competition even if they do not physically enter international markets. Among the lessons learned from the analysis is that a manager's choice of strategy can have a significant impact on how well the firm is able to adapt to compete against international companies. Becoming an international company is not only about having a physical presence in a foreign market. It is important to re-focus the firms' outlook from competing in a protected domestic market to competing in markets with a strong presence of international companies. In addition, managers may have to shift their focus from short-term rent and profit seeking to long-term internationalization. The findings also show that SMEs may not be able to have a long-term internationalization without a portfolio of products. This may require investments such as in training programs and new product development programs. Since the goal is to have a long-term strategy, this may require improving communication within the companies, involving different people during the decision making process, working across boundaries (Hamel & Prahalad, 1994; Hinds & Kiesler, 1995), and creating the appropriate rewards necessary to foster a safe environment where challenging the status-quo is permitted and compensated (Galunic & Rodan, 1998; Heifetz & Laurie; 1997; Krueger & Brazeal, 1994). Policies, regulations, and more importantly, knowledge acquired in the past may have to be coded and shared with the employees. Sharing information regarding strategic aspects of the company in an emerging economy context is not a trivial step. It would emphasize the commitment from managers to actions that are important to increase the firm's competitiveness.

SMEs do not control or have access to all the resources they may need to be competitive. Given the increased competition resulting from pro-market reforms, trade agreements, globalization, the rise of China and India as major international players, SMEs may have to increase their productivity and competitiveness independently of their level of international activities. Firms face the dynamics of rapidly changing relations with both external and internal stakeholders (buyers, suppliers, investors, competitors, regulators, etc.), which have their own motivations that the firm cannot control. Based on the findings, given the resources required for engaging in long-term international internationalization and the characteristics of an emerging economy, SME participation in a network may enable it to access needed resources. The expertise, experience, political, business and academic connections of Techint Group has helped the SMEs to overcome internal and external constraints while taking advantage of, and benefiting from, the inherent specialization and flexibility of networks. It is beneficial that SMEs collaborate not only with other SMEs but also with larger firms as in the case of ProPymes. Managers with international experience are a valuable resource for companies and probably more so for small and medium firms. These managers can provide a faster and less risky method to obtain insights about how to compete in international markets. Another possibility, which may be more accessible for SMEs, is to engage in a rather stable and continuous exchange of information with other firms that already posses that knowledge. Networks are an important tool for SMEs to learn and to develop new capabilities. It is important to notice that when a firm joins a program like ProPymes, the results suggest that it tends to rely on the network resources rather than develop its own resources. It is important to mention that despite the advantage of being part of a group of companies like ProPymes, there are some potential risks that mangers should take into consideration. The results showing an inverse relationship between long term internationalization and investments in marketing and distribution channels suggest that SMEs may not be investing as much as they should in developing their own marketing skills because they are using Techint Group marketing and distribution channels. It may be risky for the SMEs to take for granted that ProPymes will provide the same level of assistance in the future.

6.1.4 Implications for Policymakers

From a country-level perspective, small and medium sized enterprises may provide a viable model with an important role to play in social mobility and wealth creation. They may have an important short-term impact on the economic growth of Argentina by shifting the emphasis from short-term financial objectives to longer-term goals such as meeting an international level of competitiveness. The distinction is noteworthy because the former is influenced by the local and short-term orientation of managers to see results as quickly as possible.

Policymakers can assist SMEs by eliminating or reducing institutional, legal, and financial barriers to obtaining important resources such as external financing and technology. Artificial asymmetries and deficiencies force the smaller firms to turn to international agencies to improve their competitiveness. For example, international agencies co-finance educational programs, and the transfer of technology and information (European Commission, 2009).

A long-term internationalization, as opposed to short-term internationalization, implies long-term investment and expanded domestic and international opportunities. By favoring the development of the latter, governments will also develop an interesting policy instrument for creating both income and employment, while enhancing the long-term competitiveness of the economy. The spill-over effects may have a positive impact on the rest of the economy not only in terms of a relatively faster diffusion of knowledge, technology, best managerial practice and information about new markets, but they may also improve the subjective “business environment” of a country. In enhancing the firms’ and country’s competitiveness, government can also play an important role in making pertinent information available to help reduce transaction costs. The findings show that investments to obtain information about international markets, about competitors and suppliers have a positive effect on long-term internationalization. Therefore, the greater the exposure to information that may allow managers to identify changes in the markets, the higher the likelihood for creation of incentives to promote entrepreneurial activities (Mises, 1949). Government should foster its crucial role of creating trustworthy economic information. It should also foster access to international markets for those companies that may not be part of a foundation like ProPymes. More importantly, the government may have to review its program to promote exports because the results show a negative coefficient with long-term internationalization.

The SME sector is central to the Argentine economy from a growth and efficiency perspective. However, on average, it has been difficult for SMEs to employ their advantages and a favorable international environment. As mentioned previously, a number of structural constraints affect the SMEs and are impeding their growth. These include: a) an unfriendly business environment characterized by costly and lengthy company registration procedures, b) slow and costly legal procedures, d) lack of arbitration mechanisms to solve commercial disputes between firms, e) limited access to credit and financial services, f) lack of access to tailored training services and technical assistance and, h) weakness of current public policies. Long-term growth and socio-political stability cannot be achieved without credible institutions and policymaking processes. Because institutions largely lack credibility, stability, and public policies lack coherence across different areas of government, their implementation is difficult. Argentina needs to improve its bureaucracy by making it efficient, modern and independent from the political power; the country needs to reduce corruption and political favouritism, which remain at high levels.

6.2 Limitations of the Dissertation

This dissertation has several limitations. First, there is the possibility of having a common method bias (Doty & Glick, 1998; Podsakoff, MacKenzie, Lee, & Podsakoff, 2003) given that the same individual provided the information for the dependent and independent variables. Another limitation is that my sample is restricted to members of ProPymes in Argentina. As I have discussed in Chapters 3 and 4, ProPymes provides its members with a large variety of high quality services that in many developed economies are provided by the market or government. Therefore, firms in the sample enjoy access to some resources that other SMEs in Argentina do not. Furthermore, all of the companies are suppliers or customers of the Techint Group, which provides them with relative stability as long as Techint is performing well financially. The unexpected coefficient signs for the firm's investment in resources to improve cooperation with customers and suppliers (CoopCustSup) in Hypothesis 2(B), the change in the firm's investment in marketing and distribution (ChangeInvM) in Hypothesis (4), and the level of investments in marketing and distribution (MarketingInv) in Hypothesis (7) may be due to the unique aspects of the ProPymes sample.

Another important characteristic is that most of the firms are from the manufacturing sector, which may introduce a bias in the results. More importantly, the major limitation is the lack of a control group that may have provided a broader understanding of the internationalization process of SMEs in Argentina. It would have improved the overall strength of the findings to have a broader sample in terms of the number of companies and industries, especially companies that do not belong to any cluster or foundation like ProPymes. The fact that all companies are Argentinean is also a limitation.

6. 3 Directions for Future Research

In the future, I plan to expand the work presented in this dissertation in several ways. The first will be to refine the concept and operationalization of the internationalization of firms and markets. It would be of interest to analyze whether firms are using similar entry modes independently of the markets' characteristics. This may include different industries and different regions within the same country. I would also like to explore the impact of long-term internationalization at the regional level to compare the different internationalization processes of SMEs from Argentina and Brazil and the impact on the economic development of both countries. Moreover, I wish to replicate this study in more countries in order to compare firm reaction to local regulatory and economic regulations; for such a project it would be interesting to include developed and emerging economies in order to be able to compare the different internationalization paths.

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Appendix A: Additional information about the Techint Group

The Techint Group is composed of six main companies. Tenaris, the leading global supplier of tubular products and services used in drilling, extraction and production of oil and gas, in process and power plants, and in specialized industrial and automotive applications. Tenaris has manufacturing facilities in Argentina, Brazil, Canada, Colombia, Italy, Japan, Mexico, Romania, and the USA. Its proprietary global service and distribution network is present in 25 countries. The company has an annual production capacity of 3.4 million tons of seamless, and 2.7 million tons of welded pipes, and employs 23,900 people worldwide. It accounted for 47 % of Techint's revenue in 2007. Tenaris is a public company with its shares listed on the New York Stock Exchange and in Buenos Aires, Italy and Mexico; Ternium is a leading Latin American supplier of flat and long steel products, with world-class steel mills and facilities located in Argentina, Mexico, Guatemala and the United States. It is one of the leading steel companies in Latin America with annual sales of approximately USD 8.5 billion and annual shipments of approximately 7.5 million tons of finished steel products. It accounted for 35.5 % of Techint's revenue in 2007. Ternium is a public company with its shares listed on the New York Stock Exchange. Techint E&C (Engineering and Construction), a group of companies based in Italy, Argentina, Mexico and other Latin American countries, as well as the Middle East and Africa, specializes in the design and construction of pipelines, oil and gas facilities, petrochemical plants, power plants and transmission lines, mining and metal complexes, and other infrastructure and civil projects. It accounted for 7 %

of Techint's revenue in 2007. Tenova is a major supplier of technological solution for the metals and raw materials industries worldwide, targeting the need for quality, efficiency and environmental safeguards of its clients. Tenova is present in Australia, Austria, Belgium, Brazil, Bulgaria, Canada, Chile,China, Germany, India, Italy, Kazakhstan, Mexico, Poland, Romania, Russia, SouthAfrica, USA and Uzbekistan. It accounted for 6 % of Techint's revenue in 2007. Tecpetrol is active in oil and gas exploration and production in several Latin American countries, and also promotes and manages natural gas transportation and distribution networks in the region. It accounted for 2.3 % of Techint's revenue in 2007. The last company is Humanitas, a holding company for a number of high complexity, research-intensive health care institutions in Italy, managed through a patient-oriented approach and relying on state-of-the-art integrated information technology systems. It accounted for 2.2 % of Techint's revenue in 2007 (Techint, 2008).

Appendix B: Additional information about ProPymes

In order to achieve its goals, ProPymes provides support in four areas. The first area is related to the public policy and institutional environment. The objective is to promote better cooperation between private and public sectors, especially in aspects relevant to SMEs. Activities in this area range from defense of the domestic market against predatory competition, mostly against Brazilian and Chinese competitors, to actions to bolster knowledge transfer and innovation. As a first step, ProPymes' actions were focused on improving the support that its members receive from public institutions such as Instituto Nacional de Tecnología Agropecuaria (INTA), Asociación de Industriales Metalúrgicos de la República Argentina (ADIMRA) and Fundación ExportAr, among others. Sometimes adequate instruments existed but the lack of information and communication between firms and institutions was the main obstacle. ProPymes also promoted the creation of competitiveness forums following the example of the National Competitiveness Council of Ireland. In 2003, the Programa de Foros de Competitividad was created as part of the Secretaría de Industria, Comercio y de la Pequeña Empresa. Its goals are to create public policies to enhance competitiveness and international expansion of SMEs. In addition, to foster the cooperation with the public sector, in 2004 ProPymes asked Booz-Allen & Hamilton to research which industrial and export oriented policies have been implemented in other countries to promote the international activities of SMEs. Given the importance of the MERCOSUR to the Argentinean economy, Bernardo Kosacoff, the Director of ECLAC in Argentina, was asked to conduct a study to analyze the impact of the MERCOSUR on the Argentinean productive sectors. Kosacoff (2004) argues that although until 1998, MERCOSUR had been a positive force for Argentinean exports (including a major component of manufacturing, and greater involvement of intra-flows), it was not a widespread phenomenon. The main reasons for that were the structural differences between the different members of the block and a lack of coordination regarding foreign investments policies. Not only Brazil, being the largest market and the most cost efficient location, has received the largest proportion of FDI but MNEs have also reallocated their production facilities from Argentina to Brazil. Since 1998, the exports of the industrial sectors have been decreasing mainly because multinational companies have been relocating their production facilities in Brazil. Trade with Brazil in terms of industrial goods has been negative for Argentina in almost all industrial sectors; this trend has increased steadily in the past five years. The author suggests that a main problem of MERCOSUR is the lack of macroeconomic coordination and lack of regulatory framework to solve commercial disputes and structural asymmetries. The perception of ProPymes's members is that MERCOSUR has indeed amplified existing asymmetries, which have negative impacts on their businesses (for more information see Chapter 3). The case of Brazil is especially important given its economic size and historical protectionist policies regarding its powerful industrial sectors. Furthermore, the absence of macroeconomic policy coordination and mechanisms to solve commercial disputes (dumping, non-tariff barriers, etc) between members of MERCOSUR add further difficulties for them to compete even within MERCOSUR.

The next area involves all aspects related to manufacturing and managerial processes that affect SMEs' competitiveness. Basically, ProPymes offers support to implement "best practices" (ISO 9000), to improve technological processes, and programs to enhance the quality of human resources through a partnership with local universities. In order to have a clear diagnosis of what needs to be improved in each firm, ProPymes joined forces with Instituto Tecnológico de Buenos Aires (ITBA) to provide a diagnosis of the logistic, managerial and technological levels of its members. Members of ITBA who work with the firm not only evaluate the overall performance of the firm but also provide solutions when problems are found. In addition, ProPymes has a partnership with the Instituto Nacional de Tecnología Industrial (INTI) and Centro de Investigación Industrial (CINI) to further develop its members' technological capabilities. In order to improve the human resource potential of its members, ProPymes has designed an internship program that allows students from first class Argentinean universities to work 6 months for a ProPymes member. The selection process and recommendations of the most suitable candidates are done by the human resources department of Techint. At the same time, ProPymes offers several training programs in distribution, logistics, management, industrial, and research and development in partnership with the Instituto Argentino de la Empresa (IAE), INTI, Centro Metropolitano de Diseño de la Ciudad de Buenos Aires (CMD) and in Techint.

Finance is another area that ProPymes emphasizes in its program. Given the size and characteristics of the financial market in Argentina, ProPymes' main objective in this area is to ensure that the SMEs have access to financial capital in order to invest in new technology, development of new products, knowledge transfer, human resources training, or any other investment that can lead to an increase in competitiveness and better access to foreign markets. To achieve this objective, in 2004, Siderar – one of the main companies of the Techint Group – founded a mutual guarantee society (SGR) called CAES. A SGR is a private corporation whose mandate is to guarantee loans extended to its equity holders (participant partners or SMEs with annual sales below 86.4 million pesos or about 27.9 million dollars, and protector partners). A risk fund is created by one or more public or private organizations denominated Protectors Partners. The main restrictions on guarantees are that a participant partner cannot receive guarantees totaling more than 5 % of the total guarantee fund, and the SGR cannot guarantee more than 20 % of loans provided by a single creditor. SGR also provides technical assistance to its SME members for setting up business plans and filling out loan applications. In the case of CAES, 49 % of the social capital belongs to Siderar and 51 % to SMEs. The risk fund in 2003 was approximately US$ 2 million (Booz, Allen and Hamilton, 2005). As a result of the creation of CAES, SMEs have access to more competitive interest rates and longer maturities. In 2004 and 2005, ProPymes also created "Programa de apoyo a las Inversiones." This program consists of loans with a 0 % interest rate and a maximum of US$ 300,000 to invest in new technology, working capital and to update existing equipment and technologies. In addition, ProPymes has several agreements with banks (e.g., Banco de la Provincia de Buenos Aires), the Argentinean stock market (Bolsa de Comercio de Buenos Aires), and provincial agencies to facilitate its members' access to credit.

The last area where ProPymes plays an active role supporting its members is related to commercial activities, especially international business. ProPymes has commissioned several studies about foreign markets to explore new commercial opportunities for its SMEs. Techint offers 31 offices around the world, staffed with personnel who have vast international experience in order to facilitate the international expansion of SMEs. In addition, Techint and the Foreign Minister of Argentina – trough Programa de Desarrollo de Comercio Exterior (PDCE) – offer a specialized, free of charge analysis of almost any foreign market, its trends and main characteristics. Techint also encourages local SMEs to supply Techint's subsidiaries in Mexico, Brazil, Canada and Italy (Booz, Allen and Hamilton, 2005) as a relatively risk-free way to gain international experience.

Appendix C: Correlation tables

Hypothesis 1(A)

	1	2	3	4	5	6	7
Age (1)	1.00						
GraduatEDU (2)	0.154	1.00					
HighQual P (3)	-0.171	-0.126	1.00				
InternationalStand (4)	0.190	0.183	0.163	1.00			
EnvInstability (5)	0.326	0.245	0.127	0.303	1.00		
TypesofSup (6)	0.099	0.049	-0.128	0.013	0.026	1.00	
IntBenchStd (7)	0.305	0.252	0.168	0.160	0.134	0.174	1.00

Hypothesis 1(B)

	1	2	3	4	5	6	7
Age (1)	1.00						
CentralizeDecision (2)	-0.181	1.00					
MeetingEM (3)	0.172	0.028	1.00				
ExchangeM (4)	0.183	-0.219	0.293	1.00			
CoopCustSup (5)	-0.162	0.041	-0.142	-0.111	1.00		
NetworkAc (6)	-0.139	0.047	-0.167	-0.027	0.372	1.00	
IntBenchStd (7)	0.268	-0.119	0.471	-0.179	0.340	-0.063	1.00

Hypothesis 2(A)

	1	2	3	4	5	6	7
Age (1)	1.00						
ChangeInvTech (2)	0.025	1.00					
ChangeHR (3)	-0.045	0.065	1.00				
FirmInitia (4)	0.061	0.037	0.117	1.00			
MeetingEm (5)	-0.132	0.024	0.131	-0.053	1.00		
CentralizeDecision (6)	0.089	0.165	0.237	0.178	0.351	1.00	
IntBenchStd (7)	-0.144	-0.14	-0.125	-0.091	0.193	0.208	1.00

Hypothesis 2(B)

	1	2	3	4	5	6	7	
CoopCustSup (1)	1.00							
NetworkAct (2)	0.373	1.00						
FormalPlan (3)	0.125	-0.039	1.00					
Sales2006 (4)	0.221	0.072	0.239	1.00				
Changeexp (5)	0.010	0.097	0.427	0.116	1.00			
IBassocia (6)	0.079	0.114	0.071	0.310	0.093	1.00		
ExchangM (7)	-0.102	-0.020	0.276	0.174	-0.026	0.072	1.00	
IntBenchStd (8)	-0.101	0.040	0.183	0.272	0.080	0.270	0.362	1.00

Hypothesis 3(A)

	1	2	3	4	5	6	7	
Sales2006 (1)	1.00							
CompetitorsResources (2)	0.019	1.00						
CommuD (3)	-0.10	-0.073	1.00					
InfoInt (4)	0.014	-0.187	0.031	1.00				
CoopCustSup (5)	0.108	0.143	-0.15	0.230	1.00			
CustomerSatis (6)	0.026	0.069	0.005	0.144	-0.36	1.00		
OneProduct (7)	-0.05	-0.073	0.075	-0.061	-0.13	0.160	1.00	
NetInvset (8)	0.103	0.081	0.025	0.2395	-0.01	0.026	-0.07	1.

Hypothesis 3(B) OLS

	1	2	3	4	5	6	7
Age (1)	1.00						
NetInvset (2)	-0.148	1.00					
GraduatEDU (3)	-0.067	0.093	1.00				
EconomicInst (4)	0.104	0.281	0.099	1.00			
InfoCust (5)	0.202	-0.094	0.072	-0.114	1.00		
ChangeProd (6)	0.108	-0.106	0.068	-0.075	0.212	1.00	
SharingInf (7)	0.070	0.345	0.122	0.100	-0.272	0-0.057	1.00

Hypothesis 3(B) Logit

	1	2	3	4	5	6	7
ExportBin (1)	1.00						
Age (2)	-0.090	1.00					
GraduatEDU (3)	-0.124	0.097	1.00				
EconomicInst (4)	-0.206	0.357	0.131	1.00			
InfoCust (5)	0.294	-0.143	0.013	-0.195	1.00		
ChangeProd (6)	0.037	-0.112	-0.002	-0.121	0.208	1.00	
SharingInf (7)	-0.165	0.323	0.168	0.118	-0.281	-0.067	1.00

Hypothesis 4

	1	2	3	4	5	6	7	8
NetInvset (1)	1.00							
Sales2006 (2)	0.021	1.00						
Exchangem (3)	0.092	0.189	1.00					
DecisionCu (4)	0.046	0.210	-0.035	1.00				
Intensity (5)	0.0575	-0.174	0.004	-0.323	1.00			
Internatio (6)	-0.015	0.350	0.153	0.177	-0.0467	1.00		
NationalB (7)	0.045	0.280	0.133	0.003	-0.286	0.240	1.00	
ChangeInvM (8)	-0.012	0.040	0.343	0.240	0.003	0.311	0.223	1.00

Hypothesis 5

	1	2	3	4	5	6	7	8
Age (1)	1.00							
NetInvset (2)	0.100	1.00						
NumberEmpl (3)	0.158	-0.017	1.00					
GovTraining (4)	0.095	-0.004	-0.011	1.00				
InternationalEx (5)	-0.157	-0.028	0.016	-0.032	1.00			
ChangeHR (6)	0.200	-0.094	0.110	0.121	0.221	1.00		
ProductsIM (7)	-0.004	0.017	0.057	0.068	0.238	0.310	1.00	
ChangeInvTech (8)	0.029	-0.186	0.113	0.023	0.178	0.312	0.205	1.00

Hypothesis 6

	1	2	3	4	5	6	7	8
Age (1)	1.00							
FormalPlan (2)	0.027	1.00						
ChangeHR (3)	0.195	0.182	1.00					
GovTraining (4)	0.174	-0.053	0.019	1.00				
ChangeManager (5)	0.058	0.310	0.451	0.042	1.00			
CentralizeDec (7)	-0.084	-0.081	-0.038	0.116	-0.081	1.00		
TrainingInvest (8)	0.200	0.184	0.588	0.118	0.221	0.002	1.00	
IntBenchStd (8)	0.241	0.212	0.409	-0.078	0.151	0.097	0.260	1.00

Hypothesis 7

	1	2	3	4	5	6	7	8
Age (1)	1.00							
NetInvset (2)	-0.093	1.00						
IBassocia (3)	0.055	0.038	1.00					
MarketingInv (4)	-0.158	-0.065	0.255	1.00				
GovTraining (5)	0.075	-0.046	0.266	0.170	1.00			
ChangeInvTech (6)	-0.006	-0.178	0.029	0.175	-0.020	1.00		
Growthopp (7)	-0.045	-0.133	0.277	0.142	0.054	0.094	1.00	
GovPromotExp (8)	-0.117	-0.064	0.321	0.318	0.271	-0.068	0.126	1.00

Hypothesis 8

	1	2	3	4	5	6	7	8
Age (1)	1.00							
ChangeHR (2)	0.217	1.00						
TechnoCust (3)	-0.123	0.068	1.00					
AdmIMPROV (4)	0.050	0.220	0.079	1.00				
FinacialImp (5)	-0.104	-0.139	0.035	-0.039	1.00			
ExpansionAB (6)	0.064	0.322	0.059	0.0145	-0.140	1.00		
TypesofSup (7)	0.216	-0.037	-0.063	-0.315	0.179	-0.193	1.00	
NetInvset (8)	-0.173	-0.109	0.060	0.081	0.242	-0.043	-0.208	1.00

Appendix D: Spanish questionnaire

McGill DESAUTELS
FACULTY OF MANAGEMENT · FACULTÉ DE GESTION

Titulo del Proyecto: PEQUEÑAS Y MEDIANAS EMPRESAS EN ECONOMÍAS EMERGENTES

Supervisor: Dr. Omar Toulan
Investigador: Christian Keen Henon, candidato a Ph.D

Coordenadas: TEL: 1-514-398-4000 ext. 00854 Fax #: 1-514-398-3876

Email: christian.keen@mcgill.ca

NOMBRE DE LA EMPRESA: ______________________________________

SU NOMBRE: ____

PUESTO: ____

DIRECCIÓN: ____

TEL. /FAX: ____

EMAIL: ____

FECHA:

____

I. Descripción General de la Empresa

1.1 La empresa fue fundada en ________

1.2 La empresa es manejada por:

Socios fundadores _______ Segunda generación _______ Tercera generación _______

Profesionales sin vinculación familiar con los socios fundadores _______

1.3 Las ventas en 2006 fueron de U$S _________________

1.4 ¿Qué porcentaje de sus ingresos en 2006 fue generado por ventas al exterior? ___ %

1.5 ¿Cuantos empleados trabajan en la empresa? __________

1.6 ¿Cuántos gerentes tienen los siguientes niveles de formación académica? Indicar el nivel más alto solamente

a) Secundario __________ b) Carrera técnica __________

c) Carrera Universitaria __________ d) Post-grado __________

1.7 ¿Cuantos de sus gerentes han estudiado en el extranjero? __________

1.8 ¿Cuantos de sus gerentes han trabajado en el extranjero? __________

II. Entorno Competitivo

2.1 ¿Como ha cambiado el nivel de competencia de empresas extranjeras de hoy comparado con el 2002 en lo que se refiere a importaciones o a empresas multinacionales radicadas en el MERCOSUR?

____ Mas competencia ____ La misma ____ Menos competencia

2.2 ¿De donde son sus principales competidores (país de origen)?

2002	2006
____________________________	______________________
____________________________	______________________

2.3 ¿Tiene usted algún tipo de acuerdo con otras empresas/programas además de ProPymes?

Sí _____ No _____

III. Relaciones con los Clientes

3.1 ¿Qué porcentaje de las ventas hoy en Argentina corresponde a ventas realizadas a empresas extranjeras? %

3.2 ¿Desde que ingreso a ProPymes, ha cambiado la localización de sus principales clientes?

	Disminuyo			Sin cambio			Aumento
b) Argentina	1	2	3	4	5	6	7
c) América Latina	1	2	3	4	5	6	7
d) Norte América	1	2	3	4	5	6	7
e) Europa	1	2	3	4	5	6	7
f) Asia	1	2	3	4	5	6	7

3.3 En la empresa, las actividades relacionas con los mercados internacionales son llevadas a cabo por:

	Nunca			A veces			Siempre
a) Gerente funcional	1	2	3	4	5	6	7
b) Especialista externo	1	2	3	4	5	6	7
c) Gerente general	1	2	3	4	5	6	7

3.4 El principal proveedor de la empresa es:

_____ Es una empresa extranjera

_____ Es una empresa nacional que le vende principalmente a empresas extranjeras o al mercado exterior

_____ Es una empresa nacional que le vende principalmente a empresas locales

IV. Tecnología

4.1 ¿Que tipo de tecnología utiliza para su principal línea de productos?

	Nunca			A veces			Siempre
a) Nacional	1	2	3	4	5	6	7
b) Extranjera	1	2	3	4	5	6	7

4.2 ¿Señale cual o cuales de los siguientes motivos le motiva a innovar tecnológicamente?

	Nunca			A veces			Siempre
a) Mantenerse a la par con la competencia	1	2	3	4	5	6	7
b) Consejos de los proveedores	1	2	3	4	5	6	7
c) Consejos de un cliente	1	2	3	4	5	6	7
d) Iniciativa propia	1	2	3	4	5	6	7

V. <u>Comparaciones con la Competencia y Estrategia Empresarial</u>

5.1 ¿Cual es su experiencia cuando hace negocios con clientes y proveedores?

	Nunca			A veces			Siempre
a) Trabajan con estándares internacionales	1	2	3	4	5	6	7
b) Compartir información e ideas	1	2	3	4	5	6	7

5.2 ¿Hace comparaciones (benchmarking) con la competencia?

	Nunca			A veces			Siempre
a) Internacional	1	2	3	4	5	6	7
b) Nacional	1	2	3	4	5	6	7

5.3 ¿Cómo caracterizaría usted el medio en el la empresa que compite?

	Disminuyo			Sin cambio			Aumento
a) Oportunidades de crecimiento	1	2	3	4	5	6	7
b) Requerimientos de tecnología para satisfacer a clientes	1	2	3	4	5	6	7
c) Competidores con mayores recursos financieros, técnicos y de distribución	1	2	3	4	5	6	7
d) Adversidad debido a inestabilidad jurídicos y regulatorios	1	2	3	4	5	6	7

5.4 En cuales de los siguientes rubros la empresa invierte sus recursos:

	Nunca			A veces			Siempre
a) Programas para facilitar cooperación con proveedores y clientes	1	2	3	4	5	6	7
b) Obtención de información sobre con clientes y Competidores	1	2	3	4	5	6	7
c) Obtención de información sobre economía, política y regulaciones internacionales	1	2	3	4	5	6	7
d) Actividades con asociaciones industriales	1	2	3	4	5	6	7

5.5 ¿Cómo caracterizaría la toma de decisión su empresa?

	Nunca			A veces			Siempre
a) Centralización de las decisiones	1	2	3	4	5	6	7
b) Nos reunimos con los clientes y proveedores	1	2	3	4	5	6	7
c) Tiempo dedicado a intercambio entre gerentes	1	2	3	4	5	6	7

5.6 Su empresa lleva sistemáticamente

	Nunca			A veces			Siempre
a) Registros oficial de las reuniones gerenciales	1	2	3	4	5	6	7
b) Revisiones para optimizar la estructura administrativa	1	2	3	4	5	6	7
c) Reuniones de capacitación entre gerentes	1	2	3	4	5	6	7

VI. Estrategia Internacional

6.1 ¿Que aspectos influyen más a la hora de exportar?

	Nada			Poco			Mucho
a) Tipo de cambio	1	2	3	4	5	6	7
b) Ventaja en precios de materias primas	1	2	3	4	5	6	7
c) El tener un producto de alta calidad	1	2	3	4	5	6	7

6.2 ¿Qué tipo de planificación hace usted relacionado con las exportaciones?

	Nunca			A veces			Siempre
a) Plan formal de exportación	1	2	3	4	5	6	7
b) Exportación por fluctuaciones de la demanda interna local	1	2	3	4	5	6	7
d) Respuestas a pedidos concretos	1	2	3	4	5	6	7

6.3 ¿Recolecta información sobre sus principales mercados?

	Nunca			A veces			Siempre
a) Consultores especializados	1	2	3	4	5	6	7
b) Proveedores	1	2	3	4	5	6	7
c) Asociaciones industriales / Cámaras de comercio	1	2	3	4	5	6	7

6.4 ¿Cómo apoya el gobierno el comercio internacional?

	Negativo			Neutro			Positivo
a) Subsidios	1	2	3	4	5	6	7
b) Formación / capacitación	1	2	3	4	5	6	7
c) Promoción de las exportaciones	1	2	3	4	5	6	7
d) Financiación	1	2	3	4	5	6	7

Recibe algún tipo de ayuda Sí_____ No _____

VII. Conclusión

7.1 ¿En cuales de los siguientes aspectos ha cambiado la estrategia de la empresa después de ingresar a ProPymes?

	Nada			Poco			Mucho
a) Cambio en los posibles clientes	1	2	3	4	5	6	7
b) Cambio en la oferta de productos	1	2	3	4	5	6	7
c) Cambio en las exportaciones	1	2	3	4	5	6	7
d) Cambio en las capacidades de recursos humanos	1	2	3	4	5	6	7
e) Cambio en la profesionalización de la gerencia extranjera(s)	1	2	3	4	5	6	7
f) Inversión en tecnología	1	2	3	4	5	6	7
g) Inversión en marketing y distribución	1	2	3	4	5	6	7

Otros: ____

MUCHAS GRACIAS!

Appendix E: English questionnaire

FACULTY OF MANAGEMENT · FACULTÉ DE GESTION

Title of Project: Internationalization of Small- and Medium-sized Enterprises from Argentina

Supervisor: Dr. Omar Toulan
Researcher: Christian Keen Henon, Ph.D Candidate

Coordinates: TEL: 1-514-398-4000 ext. 00854 Fax #: 1-514-398-3876

Email: christian.keen@mcgill.ca

NAME OF THE COMPANY: ____

YOUR NAME: ____

POSITION: ____

EMAIL: ____

DATE: ________________________________

II. General Description of the Company

1.1 The company was founded in ________

1.2 The company is managed by:

Founders _______ Second generation_______ Third generation _______

Professionals without family ties with the founding partners _______

1.3 Sales in 2006 were U$S _________________

1.4 What percentage of your income in 2006 was generated by foreign sales?
______%

1.5 How many employees does your company have? __________

1.6 How many managers have the following levels of academic qualifications? Check the highest level only

a) High-school __________ b) Technical degree __________

c) Undergraduate degree __________ d) Graduate degree __________

1.7 How many of your managers have studied abroad? __________

1.8 How many of your managers have worked abroad? __________

II. Competitive Environment

2.1 Has the level of competition from foreign firms or import from MERCOSUR changed today compared to 2002?

_______ More competition _______ Same _______Less competition

2.2 Where are your main competitors located? (country of origin)

2002	2006
________________________	________________________
________________________	________________________

2.3 Does your firm have any others types of agreement with other companies / programs besides ProPymes?

Sí _____ No _____

IV. Customer Relationship

3.1 What percentage of your domestic sales today is to foreign companies in Argentina? %

3.2 Has the geographic location of your main customers changed since your firm joined ProPymes?

	Decrease			No change		Increase	
b) Argentina	1	2	3	4	5	6	7
c) Latin America	1	2	3	4	5	6	7
d) North America	1	2	3	4	5	6	7
e) Europe	1	2	3	4	5	6	7
f) Asia	1	2	3	4	5	6	7

3.3 In your company, the activities related to international markets are carried out by:

	Never			Sometimes		Always	
a) Functional Manager	1	2	3	4	5	6	7
b) External Expert	1	2	3	4	5	6	7
c) CEO	1	2	3	4	5	6	7

3.4 Your principal supplier is:

_____ A foreign company

_____ A local company that sells mostly to foreign companies or to foreign markets

_____ A local company that sells mostly to others local firms

IV. Technology

4.1 What type of technology does your firm use?

	Never			Sometimes		Always	
a) Domestic	1	2	3	4	5	6	7
b) Foreign	1	2	3	4	5	6	7

4.2 Which of the following reasons motivate your company to incorporate new technology?

	Never		Sometimes				Always
a) Keep up with competitors	1	2	3	4	5	6	7
b) Advice from supplier	1	2	3	4	5	6	7
c) Advice from customer	1	2	3	4	5	6	7
d) Own initiative	1	2	3	4	5	6	7

VII. <u>Benchmark with the Competitors and Business Strategy</u>

5.2 What is your experience when doing business with customers and suppliers?

	Never		Sometimes				Always
a) Follow international standards	1	2	3	4	5	6	7
b) Share information and ideas	1	2	3	4	5	6	7

5.2 Does your company use benchmarking?

	Never		Sometimes				Always
a) International	1	2	3	4	5	6	7
b) Domestic	1	2	3	4	5	6	7

5.3 How would you characterized the environment where your company is competing?

	Decrease			No change			Increase
a) Domestic opportunities to grow	1	2	3	4	5	6	7
b) Technological requirements to meet customers' needs	1	2	3	4	5	6	7
c) Competitors with more financial, technological and marketing resources	1	2	3	4	5	6	7
d) Adversity due to regulatory and legal instability	1	2	3	4	5	6	7

5.4 In which of the following areas have your company invested:

	Never		Sometimes			Always	
a) Programs to facilitate cooperation with suppliers and customers	1	2	3	4	5	6	7
b) Obtaining information on clients and competitors	1	2	3	4	5	6	7
c) Obtaining information regarding economics, politics and international regulations	1	2	3	4	5	6	7
d) Network activities with industry associations	1	2	3	4	5	6	7

5.5 How would you characterize the decision making process in the company?

	Never		Sometimes			Always	
a) Centralized	1	2	3	4	5	6	7
b) We meet with clients and suppliers	1	2	3	4	5	6	7
c) Managers meet to exchange ideas	1	2	3	4	5	6	7

5.6 Does your company systematically engage in the following?

	Never		Sometimes			Always	
a) Official records of management meetings	1	2	3	4	5	6	7
b) Revisions to optimize the administrative structure	1	2	3	4	5	6	7
c) Training session for managers	1	2	3	4	5	6	7

VIII. International Strategy

6.1 Which of the following characteristics influence your export activity ?

	None			Little			A lot
a) Exchange rate	1	2	3	4	5	6	7
b) Raw material cost advantage	1	2	3	4	5	6	7
c) High quality product	1	2	3	4	5	6	7

6.2 What kind of planning does your company do related to export activities?

	Never			Sometimes			Always
a) Detailed export plan	1	2	3	4	5	6	7
b) Exports vary according to domestic demand	1	2	3	4	5	6	7
d) Depends on specific foreign orders	1	2	3	4	5	6	7

6.3 How does your company collect information about international markets?

	Never			Sometimes			Always
a) Specialized consultants	1	2	3	4	5	6	7
b) Suppliers	1	2	3	4	5	6	7
c) Industrial Associations / Chambers of commerce	1	2	3	4	5	6	7

6.4 How does the government support international business?

	Negative			Neutral			Positive
a) Subsidies	1	2	3	4	5	6	7
b) Training	1	2	3	4	5	6	7
c) Export promotion	1	2	3	4	5	6	7
d) Financial incentives	1	2	3	4	5	6	7

Have you recive govermental help _____ Yes _____ No

VII Conclusion

7.1 In which of the following areas has your company strategy changed since joining ProPymes ?

	Nothing			Little			A lot
a) Change in potential customers	1	2	3	4	5	6	7
b) Change in product offerings	1	2	3	4	5	6	7
c) Change in exports	1	2	3	4	5	6	7
d) Change in human resource capability	1	2	3	4	5	6	7
e) Professionalization of in foreign activities (s)	1	2	3	4	5	6	7
f) Investment in technology	1	2	3	4	5	6	7
g) Investment in marketing & distribution	1	2	3	4	5	6	7

Other areas: ____

____

Thank You