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INTERNATIONALIZATION AND DIGITALIZATION OF MSMEs OR IS IT MSME DIGITALIZATION OF INTERNATIONALIZATION?

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Digitalization is playing an increasingly important role in the growth of small businesses and is leading to strategic, structural and cultural transformations. For MSMEs which decide to engage internationally, the use of digitalization presents new opportunities to succeed in foreign markets, based on a **new international value proposition**. Digitalization - as the combination and application of digital technologies within an organization, economy and society - is applicable for many fields and creates opportunities. It is represented in three related phenomena: digital artifacts, digital platforms and digital infrastructures.

For decades globalization was defined through trade in goods and services between countries. While the dynamics of these flows are currently moderate, globalization is not slowing down (Manyika et al., 2016). In contrast, huge data flows are constantly crossing borders and their volume has increased considerably. Consequently, globalization is evolving at the same pace as these exchanges of information and data across foreign markets. Digital infrastructures and platforms are mainly at the origin of these changes. They are creating new virtual market spaces and resizing all the business cross-border economies by reducing costs, shortening transactions and amplifying interactions. Because *digital* means shaping global user communities, these infrastructures are essential databases for companies and provide real opportunities with innovative ways to reach potential customers.

In terms of international business, MSMEs are now able to digitalize their internationalization process by integrating these technologies into the value chain and managing the massive amount of data. The 21st century globalization evolution is marked by intangible flows of data and information, greater participation by emerging economies and more knowledge-intensive flows. As digital infrastructure becomes equally important, and the role of small enterprises and individuals grows, there are more exchanges of free content and instant global access to information and services (Manyika et al., 2016).

In a modern digitalized world, it is difficult to accept costs or access to information as internationalization constraints. In general, digitalization impacts internationalization processes in terms of accessibility of resources, skills and competence acquisition, as well as learning and knowledge development in foreign markets. Other parameters, like location and entry mode choices or time and expansion rate, are influenced by the advent of digital technologies. In addition, there is the dematerialization of borders, the reduction of

psychological distances between countries, the cut of internationalization costs and promotion of democratic consumption. For an entrepreneur acting in international business, four fields of activities are at the center of interest (Nambisan 2017):

- - Distance and location,
- - costs, accessibility, resources/competences,
- - market knowledge, and
- - relational competences and partner networks.

The digitalization effects on **distance and location** is manifest by border dematerialization and the acceleration of internationalization operations. Not only can the company manage the international activities from a distance, integrate democratization of consumption, reduce the psychological distances, and multiply the targeted countries, but the activities are led by networks rather than countries.

This digital impact on the internationalization process offers several opportunities for defining a new value proposition, like partnerships with local companies via

platforms, sharing of production and distribution sites, licensing to local actors, and local and niche market development. At an international level, small firms need to maintain a specific advantage for differentiating them from local competition. To achieve this, they maximize their entry mode attractiveness by targeting niche market and innovative, high-quality products. Another way is collaboration with specific local distributors integrated in a large network. Nevertheless, digital firms mostly differ in foreign markets in generating value through the creation and coordination of a network of users via the use of platforms.

Although a platform is easily replicable from one country to another, it is more difficult to transfer the user bases. In this case, companies are forced to quickly reach a critical mass of users in order to establish themselves in foreign markets. They are confronted with **new internationalization obstacles** (liabilities of outsidership). The limited number of users does not encourage interaction and makes market entry harder. In this case, the **platform costs** exceed the expected profits and the expansion rate is slowed down. To counter this, companies need to succeed in getting potential users to adopt the platforms and, therefore, develop a large community of users (Brouthers et al., 2016). Actions can be considered to achieve this: for example, establishing partnerships with other local companies or licensing products or services to a local firm (Neubert, 2017).

From a cost, and resources/competences perspective, the effects of digital technologies are seen in the dematerialization and digital platforms for distribution and production channels. By reducing operating costs and improving exchanges with all ecosystem stakeholders - including customers, partners, suppliers and distributors - digital infrastructures play an increasingly important role (Reuber and Fischer, 2011, 2014; Nambisan, 2017). Resource allocation in several markets, saving time on transactions and optimization of decision-making processes are additional effects of digitalization related to the foreign operation.

The MSMEs have new opportunities for defining a new value proposition, like alternative revenues through digital platforms and infrastructure, and sharing skills and capacities between companies. Furthermore, the use of open innovation and co-creation with partners and customers, and investment in qualified human capital are chances to create an international value proposition. Thus, MSMEs have to open their process and develop more collaboration modes of operation.

Market knowledge with deployment of user communities, data collection and new sources of accessible information underline the market-based view approach of an MSME. The effects of digital artifacts, platforms and infrastructures allow large information databases, exchange and processing of large amounts of data, online discussions with the user community, fast and efficient adaptation to markets, and less asymmetry of cross-border information.



The opportunities are in regular market experiments for product and service adaptations, in the analysis of market attractiveness and better targeted marketing and prospecting activities, plus data collection and use of predictive algorithms for modeling and interpreting these data.

Relational competences and partner network activity enhances collective internationalization, local partners` networks and direct interactions with consumers. Digitalization leads to larger market scope, fast interactions between partners, consumers integrated into the ecosystem, faster internationalizing speed, and better access to network skills and knowledge. MSMEs are required to multiply user communities in several countries and also to make sustained use of social networks and mass media deployed there (Brouthers et al.,2016).

Opportunities for defining a new value proposition through digital use could be in data and skills sharing between actors, personalized customer experiences, the solicitation of opinion leaders and change agent, and online reputation through the use of multiple social networks and local mass media. Collaboration with opinion leaders and change agents in foreign markets is a possible solution. These actors are powerful levers all around the world in social media. They can help a company become known quickly and build its online reputation, resulting in an acceleration of the internationalization speed of small firms. Because it generally improves communication and interaction, digitalization presents new opportunities in terms of skills sharing, open innovation and partnership between companies (Coviello et al., 2017).

Therefore, internationalization becomes a collective activity. It is no longer a bilateral relationship between buyer and seller. Exchanges extend multilaterally between all actors across networks. Small firms are particularly known to simultaneously develop their export and innovation capacities. In this way, they specially benefit from these multilateral exchanges by mastering the acquisition of specific knowledge and deploying their relational skills.

Managerial implications

The impact of fundamental **uncertainty** and the need to take into account non- linearity and interdependencies in the internationalization process, increase the complexity for the entrepreneur and have a direct impact on the entrepreneurial competences needed. Entrepreneurs and managers are, therefore, widely encouraged to integrate all their organizational capacities and skills to strategically position themselves and achieve their digital transformation. Complexity has increased through the dynamic of the international environment: integration of consumers in the development processes; MSMEs

are threatening large ones by sharing their skills via large groups of entrepreneurs; virtual markets, global data flows; partner networks are largely dominating trade negotiations between nations; seller and buyer meet directly, regardless of distance or time zones.



The decision-making process is also supported by *machine learning*. With better forecasts, entrepreneurs and managers are able to anticipate changing consumer behavior and better adapt their offer. This situation allows entrepreneurs to improve the efficiency of decision-making processes and the quality of strategic choices over the long term. Although these algorithms do not eliminate uncertainties in foreign markets, they ease important management aspects, such as knowledge development (general and experimental), resource allocation and speed of internationalization.

From a **financial point of view**, digitalization has a positive impact and supports companies to manage the risks associated with potential additional costs from their operations abroad (liabilities of foreignness). Technology advances dematerialized communication and distribution channels allow companies to specifically decrease production and transaction costs allocated to foreign markets (Coviello et al. 2017, Brouthers et al. 2016).

The ability to anticipate also supports firms in investing in **qualified human capital**. Physical assets are replaced by human skills solicited mainly at a distance. As observed through research, the results mainly suggest companies should integrate the implementation of digital infrastructures directly into their internationalization process. With digital technologies, firms can benefit from greater efficiency in foreign markets. It also allows them to regularly review the adequacy of their offers and ensure a faster mediation between local realities and strategic objectives. Finally, thanks to a broader analysis and better market knowledge, firms are more reactive and efficient in their decision-making processes over the long term.

Lean-start-up principles and the use of digital tools allows companies to conduct market experiments faster and in more countries. Impacted by this combination, companies are performing better in their internationalization process, and can frequently introduce advanced versions of their products and services (Brouthers et al., 2016). Furthermore, companies can benefit from the direct contact with consumers and directly test their offers. To improve their position abroad, they are required to use feedback and comments shared on community user platforms or social networks. This sharing of ideas is fundamental for market adaptation and allows companies to anticipate their marketing efforts.

Consequently, export barriers toward small firms are mainly internal barriers in terms of human resources, international market knowledge and experience, resource allocation, productivity, technological capacity, and production, logistics and finance (Paul et al., 2017). They affect the configuration and coordination of the entire value chain. International trade is like a large ecosystem of entrepreneurs seeking independent opportunities (Reuber et al., 2018). In the near future, entrepreneurs who aim to expand abroad will no longer care about country borders, suppliers or customer locations. They will focus only on their own value proposition which will make the difference on foreign markets.

Accordingly, entrepreneurs and managers will benefit from the use of digital tools in several ways if they can rapidly master and integrate them into their internationalization process. The faster a company understands the benefits of the use of digital infrastructures, the faster it can improve its decision-making processes and accelerate its internationalization speed (Neubert, 2018). In these circumstances, to establish the adequate support of MSMEs, future research should collect quantitative and qualitative global data to empirically study the effects of digitalization on internationalization processes. Such data would be valuable for a better understanding of how digital infrastructures will

influence internationalization models and strategy, and have a positive effect on international expansion.

There are five essential factors for an MSME to define the international scalability of its business model. On one hand, there is a B2C-oriented business model to reach critical mass combined with user engagement and a collaborative approach. Also needed are a moderate amount of local offline dependence and an intensive human resources relationship with staff with local knowledge and networks (Aagaard, 2018). As a consequence of the local offline dependence and HR intensiveness, time-to-market is critical, as are recognition, evaluation and utilization of the international opportunity by the entrepreneur and their team.

Research Implications

Furthermore, scientific research interested in internationalization models should pay particular attention to **emerging countries**, where a multitude of niche markets are flourishing. In view of the above, research into international entrepreneurship has, therefore, many unexplored avenues of study regarding the digital context. Thus, we have to increase our competences in supporting MSMEs on this challenging journey and find new scalable business models with a strong impact on job creation, company-based competences and societal values (Clegg, 2019).

Stage model theories emphasize that the internationalizing speed of a small company strongly depends on its capacity to acquire new knowledge on foreign markets (Vahlne and Johanson, 2017). One of the most significant changes related to the acceleration of online exchanges is the ability to capture and disseminate a considerable amount of information. As it is now possible to directly interact with customers, companies are able to personalize their services and offers. In this way, digitalization provides new fundamental experiential knowledge to companies. To access and succeed on new global markets, companies also need to expand their general knowledge (whether cultural, behavioral or commercial).

Digital use in internationalization has particularly advantaged Born Globals, which are more comfortable with digital use. Consequently, mainly technological aspects are often associated with these firms (Knight and Cavusgil, 2005). Thanks to their reactivity to innovations, they are able to quickly achieve their international objectives. However, the concept of Born Globals could soon be outdated because digital technologies call into question the “international” dimension of international trade (Manyika et al. 2016). In fact, instantaneous access to foreign markets is a reality. Thus, it is important to study digitalization`s role in recognizing and exploiting Born Global opportunities.



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