Business Relationships and Pathway to Internationalization of SMEs

Introduction

Successful international expansion is based on a firm's ability to exploit local advantages in foreign markets. However, a lack of strategic resources and the uncertainty and complexity of the process make international expansion a difficult goal (Fernández & Nieto, 2005). The choice of which international path to follow depends on a firm's external and endogenous environments. A firm's organizational capabilities and entrepreneurial orientation (EO) to foreign markets are internal factors affecting international pathway options. Before expansion, a firm must decide when to seek opportunities and how to obtain resources such as finances and knowledge. The literature on international entrepreneurship identifies various internationalization pathways for small and medium enterprises (SMEs). Stage models, for example, characterize internationalization as an incremental and linear trajectory in which firms progress from limited exploration of international markets through various stages of increasing commitment as they learn and gather resources (Johanson and Wiedersheim-Paul 1975; Johanson and Vahlne 1977, 1990). Other pathways to internationalization recognize firms that explore international markets rapidly after inception (*Born-global or international new ventures*); firms that exploit international activity after becoming leaders in the domestic market (*Born-Again-Global Firms*), and firms that have experienced episodes of internationalization and eventually, formally reach international markets.

Business relationships (BR) are strongly linked to the chosen internationalization pathway. For SMEs BR such as alliances and cooperative arrangements may offer an effective means (e.g. financial) of moving toward internationalization, which would otherwise be too costly to undertake alone (Zain, Mohamed & Siew Imm Ng, 2006). As previously noted, "networks help entrepreneurs identify international opportunities, establish credibility, and often lead to strategic alliances and other cooperative strategies" (McDougall & Oviatt, 2005). Long-term and stable alliances with customers or vendors in the domestic market provide information about business opportunities, foreign market characteristics and obstacles and problems involved in the process, resulting in decreased risk (Barney & Hansen, 1994; Gulati, 1999; Iyer, 2002). However, many factors play an important role in the interaction between BR and the chosen pathway to internationalization, such as firm and owner traits and EO constructs.

The exploratory nature of this work has led us to adopt the case study approach as our primary research method. The main objective of the study was to illustrate the correlation of BR and the internationalization pathway adopted by SMEs through case studies. The research did not attempt to measure or predict but rather show the dynamics of the phenomenon under study. In addition, the relationship between internationalization pathway chosen and business performance was explored. The following questions were posed: 1) How does a firm's EO influence the development of BR as a mode of entry into the international market? 2) How does the internationalization pathway affect business performance?

Literature Review

Internationalization describes the growth of a firm's operations into the international market (Cavusgil & Nevin, 1981; Johanson et al.,1977; Johanson et al., 1975). The level of internationalization does not necessarily steadily increase. In fact, internationalization is not always a forward-going process, as firms can de-internationalize by dropping a product (Calof & Beamish, 1995), by returning to exporting and thus withdrawing from direct foreign investment, or by reducing international activities (Benito and Welch 1997). Conversely, after a long period of domestic focus a firm may rapidly internationalize (Bell et al. 2001). There may be several episodes of internationalization that eventually emerge as a long-term situation (Jones and Coviello 2005). There are two main internationalization pathways. The first, the Stages Model is incremental (Johanson et al., 1975; Johanson et al., 1977); internationalization is considered a gradual-sequential process. The second is a rapid pathway occurring after only a few years of operations.

BR involve developing associations with economic stakeholders such as foreign intermediaries, customers, competitors, government, and business associations (Chetty & Campbell-Hunt, 2003). Johansson and Mattson (1988) refer to these relationships as business networks. Other authors refer to BR as a common type of external relationship that binds a group of independent organizations together resulting in commercially oriented inter-organizational connections. Gauhri, Lutz and Tesform (2003) argued that business networks or cooperative relationships allow SMEs to solve export-marketing problems and initiate foreign market activities. Many studies have found that companies use networks as a mechanism to gain access to foreign markets (Besser and Miller, 2005; Coviello and Munro, 1995; Ellis and Pecotich, 2001; Zain, et al., 2006). Through network relationships useful information and knowledge about foreign markets and opportunities become available (Jaw and Cheng, 2006). A prior study (Brodolica & Spraggon, 2008) explains that_through networks, SMEs are able to operate at an international level by sharing risk associated with the exploration of new markets and by reducing the isolation associated with being an SME (Brodolica et al., 2008).

A study by Coviello et al., (1995) describes how foreign market selection and entry initiatives emanate from opportunities created through network contacts rather than solely from managerial decisions. Ellis et al., (2001) explain that SMEs learn of foreign opportunities through existing associations. The study found three types of ties: business, social, and family. These results suggest that managers frequently learn of foreign opportunities through existing associations. Based on a comparative study of export behavior among entrepreneurial software firms in Finland, Ireland, and Norway, Bell (1995) concluded that networking was the best explanation of the internationalization process. McDougall et al. (1994) found that networks help firms to identify international business opportunities, and that the networks have more influence on the firm's country choices than did their physical distance from the country. Based on a multisite case study, Zain et al., (2006) found that Malaysian SMEs use network relationships to facilitate the internationalization process. Networks were found to trigger and motivate SMEs to internationalize, influence decisions on market-selection and mode of entry, gain initial credibility, access additional relationships, help in lowering costs and reducing risks and negative country-of-origin perceptions. Agndal and Chetty (2007) found that BR are more influential in SME internationalization strategy than social relationships, especially with regard to mode changes in foreign markets.

In a longitudinal study between 1986 and 1997 of 164 Japanese SMEs, Lu and Beamish (2001) found a positive relationship between business alliances and firm performance. BR, particularly alliances with partners in the foreign market constituted an effective strategy to overcome deficiencies (lack of resources and foreign market knowledge) upon entering into international markets.

Methodology

The current study uses a qualitative case studies approach. According to Yin (1989), the case study approach is appropriate in qualitative analyses as it allows a more complete understanding of the subject under investigation. Through case study the subject can be appreciated as a holistic entity, whose attributes can be understood in full through a simultaneous analysis of all aspects. In addition, qualitative analysis allows an abundance of information which quantitative analysis cannot express due to its restrictive nature.

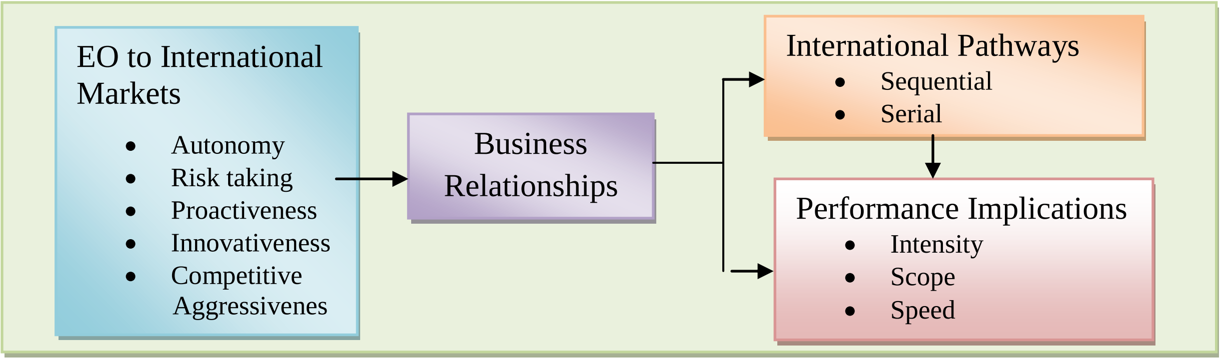
Businesses studied were family owned SMEs established in Puerto Rico with international operations. From 10 firms listed on the Caribbean Business Register (2010), Nine were contacted by e-mail, phone and fax. Seven executives from five firms were reached. After a data reduction process, four firms that best reflected the dynamics of our subject and also agreed to participate were chosen.

Official industry reports and previously published studies in peer-reviewed journals were used as sources of primary and secondary data. The main form of data collection however, was personal interviews with predominantly managing directors, chief executive officers, export managers and marketing managers. The triangulation of data technique was used to obtain diversified and reliable information and to better understand the subject under analysis. Triangulation of information was obtained by comparing information between interviewees, as well as between documents. Transcripts of interviews and documentary evidence provided by the companies were combined to produce detailed case histories of each firm. Data analysis included pattern matching and explanation building as proposed by Yin (1989). In addition to presenting a research model, a qualitative scale was developed using constructs of EO linked to BR to describe the relationships between BR, international pathways and international business performance.

Research Model

Our research model attempts to explain linkages between BR and the selected pattern of international expansion. As mentioned previously, many prior studies demonstrate how companies use networks as a mechanism to access foreign markets (Miller & Besses, 2004, Coviello et al., 1995, Ellis et al., 2001; Zain et al., 2006). The development of BR in turn, relies on commitment and personal traits of the entrepreneur. The EO of a firm helps in understanding how BR are strongly linked to a firm's international pathway (Figure 1).

Figure 1
Research Model



EO is here defined as the extent to which a firm is willing to accept risk and be competitively aggressive, leading to "the processes, practices, and decision-making activities that lead to new entry" (Lumpkin & Dess, 1996). BR are defined as a firm's relationships with customers, suppliers, competitors, government, distributors, bankers, families, friends, and other stakeholders that enable innovative competitiveness, differentiated goods and services, and internationalization (Zain et al., 2006; Gulati, 1999; Miller et al., 2004, 2010; Coviello et al.,1995; Ellis et al., 2001). International pathway (IP) refers to the timing of entry, geographic range and intensity of international commitment. Based on a study by Zucchella and Palamara (2007) we explored effects of BR in serial and sequential approaches to IPs and subsequent performance implications.

Company owners must possess a strong EO towards the international market in order to establish and sustain BR that play a role in the internationalization pattern adopted by the SME. Prior studies have found that the development of BR (particularly, with distributors, agents and wholesalers or government agencies) can accelerate international expansion. The current study found that the pathway to internationalization relies on the type of BR developed by the SME, and is strongly influenced by the entrepreneurial commitment of the owner towards international activities.

The basic construct of EO can be categorized by *autonomy*, *innovativeness*, *risk-taking*, *proactiveness*, and *competitive aggressiveness* (Lumpkin et al., 1996). *Autonomy* refers to the independent action of an individual or a team in bringing forth an idea or a vision and carrying it through to completion. In general, autonomy means the ability and will to be self-directed in the pursuit of opportunities. In an organizational context, autonomy refers to action taken free of organizational constraints (Lumpkin et al., 1996). *Innovativeness* is a firm's attitude toward new ideas in which entrepreneurs translate opportunities into marketable concepts and thus produce change (Kuratko & Hodgetts, 2004). Creativity, EO and commitment bring good ideas through the development stages of the innovation diffusion process (Kuratko et al., 2004; Kotler, Keller and Kevin, 2006). *Risk-taking* refers to doing everything possible to bring odds into favor while avoiding unnecessary risks and includes convincing organizational members and partners to share inherent financial and business risks (Kuratko et al., 2004). *Proactiveness* is seizing market opportunities (Antoncic and Hisrich, 2003) through aggressive interaction with surroundings (Lumpkin et al., 2001). *Competitive aggressiveness* is a response to threats or a propensity to challenge competitors (Antoncic et al., 2003).

Case Studies

CASE A: Software Publishing Company

Case A was established in 1999, formally began operations in 2000 and provides educational products and services to public and private sectors in Puerto Rico, with universities and grade schools as their main clients. Educational software and consulting in virtual publishing is the core of this SME. Prior to establishing the company, the owner worked for over 20 years at multinational firms including Bell Laboratories and Lucent Technologies and was therefore interested in developing an international company covering the Latin American market. The owner of the company was educated at a top business school (Carnegie and Wharton) and had diverse experiences as an electrical engineer, director of R&D at Bell Laboratories and CEO of a Mexican subsidiary of Lucent Technology providing him with multiple contacts. In addition, the founder was recognized internationally for his performance in the field of management and product marketing in the US and Latin American markets.

The Puerto Rican government offers attractive incentives to entrepreneurs interested in establishing and operating start-up businesses in the fields of education technology and research, development and innovation. In addition, advances in information technology and virtual systems pushed the Puerto Rican education system to seek opportunities to reduce the virtual education gap between domestic education institutions and North American institutions.

Founder Profile

The owner of Case A grew up in “el cacerio”, a low-income sector of Puerto Rico with little literacy. Due to his background and the conviction that access to education is a vital factor in individual success, the founder of Case A developed a strong commitment to his business. Through the virtual educational resources network, the founder saw the opportunity to educate disadvantaged children throughout Latin America. The owner realized that initiating the company in Puerto Rico would have the advantage of receiving federal funds from the US, he then could develop innovative initiatives and sell them to developing countries in Latin America. The company was launched through strategic alliances with the public sector (Department of Education), and later branched out to the private sector through universities, colleges, and other educational institutions. Today, Case A sells products and services to academic institutions.

Case A pursued a market-oriented strategy based on customer needs and purchased bargaining power. The main competitive strategy was based on a niche market and product/service differentiation. The reasons for entry into foreign markets were to: increase opportunities, increase market, differentiate product, and fulfill firm objectives.

BR and International Pathways

The BR between Case A and the Department of Education lead to the firm's first client in the local market; while the BR with the private sector (universities) lead to foreign market clients. Through personal visits to foreign markets, Case A signed contracts with regional markets (Central America and Caribbean) after less than two years of operation. Case A's first foreign market was the US in 2001, followed by Panama (2003), Dominican Republic (2006), Chile (2008), and El Salvador, Honduras and Guatemala (2011). While strategic alliances with distributors were used to penetrate the last three markets, direct export was used as the entry strategy for the other foreign markets. Case A demonstrates a high intensity path to internationalization; entering the foreign market only three years after inception.

The foreign market makes up 20% of Case A's total sales volume with a 10% annual increase. Panama is the largest foreign customer with 80% of total international sales volume followed by Dominican Republic and Chile (10%), while the remainder is shared by El Salvador, Honduras and Guatemala. Previous contacts developed by the owner with managers and government officials of Latin American countries positively influenced access to foreign markets. For example, the success with Panama was strongly linked to the previous success of the owner as CEO of Lucent Technologies in Mexico.

CASE B: Water Heater Manufacturing Company

Case B was established in 1955 to supply a growing market during the Puerto Rican industrialization period. The owner saw an opportunity to develop a business where there was no competition and invested five thousand dollars to establish the necessary equipment and facilities for the manufacturing of water heaters for commercial and mass customers. For more than 10 years Case B was at the forefront of the business with only four employees; today the company has 15 full time employees and $3.7 million in assets. In contrast to Case A, Case B demonstrates a low intensity internationalization pathway. In 2004, after 49 years of local operations, the grandson of the owner/founder penetrated foreign markets through the e-commerce demand coming form of a U.S. market. Case B now has three (3) distribution centers in the US.

Case B used product differentiation and niche market strategies to develop and expand its local market. The company therefore focused on competitive pricing and differentiation strategies concurrently to reach out to foreign markets. Today a combination an efficient supply chain management logistics and distribution system with EDI technology, and fast after-sale service makes Case B a competitive international firm.

While the company did not enter the foreign market for many years after initiation, once entry was made, internationalization grew quickly, not only in the American market but also in regional zones (Caribbean, U.S, and Canada) and also in Hawaii and Australia. The fast expansion of the market was the result of intensive use of e-commerce and an efficient logistics and distribution system. In 2011, the company's international activities are as follows: US (65%), Canada (15%), Caribbean islands (15%), and others (5%). The company maintains distribution centers and salesrepresentatives in foreign markets. The Company's domestic annual rate of growth is 10% while the foreign growth rate is 105% in 2011.

Case C: Handmade Jewelry Manufacturer

Case C formally began as a home-based business in 2005, when the owners (two young women) invested five thousand dollars to acquire basic raw materials (precious stones, silver and gold chains, etc.), and tools for the manufacturing of homemade jewelry. Contrary to Case A and Case B, the owner of Case C explored overseas opportunities from the company inception, demonstrating a strong entrepreneurial commitment and no risk aversion. The owner traveled to New York and sold her collection of 10 original jewelry pieces to a clothing boutique on Fifth Avenue. A month later, the jewelry was displayed on the cover of the European edition of the fashion magazine ELLE, worn by the pop artist Beyoncé. The company has since experienced accelerated international growth. Ricky Martin, Mick Jagger, Jennifer López, Marc Anthony, Roselyn Sanchez, Cameron Díaz, Eva Longoria, Johnny Depp, Tommy Lee, Elle McPherson, and Gisel Bundchen, among other celebrities are customers. In 2007, Case C was included in the Top 20 best international designers.

The core value of this micro-firm lies in the "uniqueness" of each piece of jewelry, meaning that there are no replications, each piece is distinct The idea behind the 'uniqueness" of the product is to make customers feel special and different. The company has 16 product lines. Today, all jewelry produced by Case C remains handcrafted. The final product remains "unique" in terms of design, color, form and materials. The "uniqueness" makes the product attractive to customers and thus pieces are costly. The company strategy is not based on price but on product distinction (Porter, 1985). The company's niche market comprises sophisticated medium-high, and high-class customers.

In 2009, Case C was moved to its current commercial facility in Puerto Rico. Case C has one distribution center in the US, wholesalers in England and retailers in France, Australia, Japan, Russia, Canada, and Mexico. Case C uses a disintermediation strategy whereby most sales from the US and Mexico are purchase on the company's website. Today, the company includes four full time employees and 50 self-employed or subcontract workers.

Founder's profile

The founder of Case C had previous experience in the fashion and mass media industry. When she formally decided to establish the micro-firm, she came with vast experience, contacts and knowledge in fashion, publishing and mass media industries. She studied in fashion merchandising in the US, and then fashion-designing in Barcelona, Spain. She started in the business environment at 16 years of age (under parents supervision), as a shoe sale representative while pursuing college studies in the US. At the age of 17, she moved to New York to work as a booker for top-modeling agencies. At the age of 19 she moved to Puerto Rico and opened her first store. She performed three entrepreneurial activities in parallel: owner and managing director of "Decalogue", a by-appointment-only clothing boutique; free-lance fashion stylist for celebrities, and editor of Caras magazine.

Decalogue and her duties as freelance fashion stylist gave this entrepreneur the experience to acquire in-depth knowledge about the fashion industry: textiles, designers, manufacturers and distributors and access to promotional events such as trade shows. In 2004, under the initiative of her closest friend, who had been taking jewelry and women's accessory designing courses, she entered the handmade jewelry industry. The industry was of particular interest to the owner due to her experiences in the fashion industry and the creative aspects related to her work as a fashion stylist.

BR and International Pathways

Interestingly, it was not the BR of Case C (contacts from the fashion designer industry) that first led to the company's initial sales and eventual reputation but instead, it was an international fashion magazine and association of the jewelry with a celebrity. A combination of these events accelerated the company's recognition throughout the show business and fashion media. In addition, the personal contact with and access to a well know and well-located retailer on Fifth Avenue in New York City was beneficial in initiating the business.

The company was primarily propelled into the foreign market by opportunity, followed by increasing foreign demand. Social relationships and BR were responsible for the company's domestic development, while personal travel and trade shows aided in foreign market development. In addition, the company's owner possesses strong entrepreneurial traits and commitment: high-risk behavior, aggressiveness, creativity and constant innovations. These traits explain the high intensity internationalization pathway of Case C. Today the US remains the dominant foreign market for the company with 85% of total sales, the remainder shared by Europe, Canada, Russia, Japan, and Mexico.

Since initiation sales increase between 5 and 10% annually. However, the international recession in 2010 negatively impacted the company, reducing the annual increase to 5%. In the last five years the company's sales portfolio has been equally divided between the international and local markets. In 2011 however, 70% of total sales come from foreign markets. The economic crisis has negatively affected local consumer confidence. The international manager of Case C explained, "The elegant and sophisticated woman, our end consumer, now prioritizes her consumer necessities; women today in Puerto Rico think rationally –not emotionally- about what they want to buy".

While Case C applied a niche and product differentiation strategy in the domestic and international markets, a price/differentiation strategy was also applied in the international market according the product line and collection. The marketing strategy for Case C remains a combination of *word-of-mouth* and *referrals* with press releases and interviews in newspapers and international fashion magazines including ELLE, Vogue, Cosmopolitan, Caras, People, Lucky Magazine, O Magazine, and Women World Daily (WWD Magazine).

Case D: Agribusiness

Case D suffered through internationalization and export management errors before successfully reaching foreign markets through the export of exotic fruits such as high quality mangoes, plantains, and avocados. Case D is a family-owned SME. While the company began operations in 1989, it wasn't until 1991 that the company had 1,000 acres in the process of development. In 1996, the company formally began a planned internationalization pathway through fruit export.

Case D began cultivating and selling exotic fruits to subsidize a horse-raising hobby. However, the owner soon realized that the development and the expansion of his company would satisfy a large international niche market for exotic gourmet fruits. The owner established a strong presence in the local food market and cruise ship industry with a line of packaged plantains, and subsequently began a mango business. According to the owners, Case D is the largest family-owned mango producer in Puerto Rico and Latin America with over 2,000 acres of orchards; packaging over 25 million pounds of mangos. Today, Case D produces more than 18 million pounds of fruit annually, with 93% of production exported to international markets. Approximately 55% of the company's crop is exported to England, 20% to the US, about 18% exported to the US Virgin Islands and Caribbean and 7% distributed between Spain, the Netherlands, and Germany. Case D contributes 15% of Europe's total mango market.

Early on, Case D was capable of competing with world-class fruit exporters from Mexico, Peru, Brazil, Ivory Coast and South Africa. However, with production costs in these countries substantially lower than in Puerto Rico, the company began concentrating in Europe and mainland US, where there was a high demand for its products and potential for growth. Case D successfully overcame high production costs to become competitive in foreign markets. Since inception this family business showed a strong EO. Through previous international experiences the owner recognized the opportunity to reach foreign markets through providing a high-end differentiated product to a nontraditional, niche gourmet market. Internationalization for an agribusiness, such as Case D requires costly international regulatory standards in sanitary and environmental practices, certificate of origin, and other quality control licenses. Case D obtained European food-quality certifications, such as Global Gap (EurepGAP—European Good Agricultural Practices), the international certification for European standards of quality, and from SUSTA (counterpart for USDA), from which company receives incentives for production and thus was able to penetrate the European market and have a competitive advantage over other fruit-exporting countries that were not compliant with quality requisites for certification.

While costly, the combination of high tech and labor has allowed Case D to focus on niche markets. Immediately after establishment, Case D acquired a large plantation of tropical fruit orchards throughout several towns in Puerto Rico. Immediately after foundation the company consolidated operations in terms of field size, product selection, planting, facilities improvement and sales/exports.

Founder's profile

The President of Case D is a licensed civil engineer who started his career in 1968 by establishing two construction companies to supply local markets in Puerto Rico. At the age of 44 he suffered a heart attack and left the construction business. He started a home garden as a hobby and gave crops to friends and relatives. During this period (1980s), he saw the opportunity to enter the agricultural business as his grandfather who had a coffee plantation in Cuba 40 years prior. He recognized that the land in the south of the island was conducive to farming. Case D started operations in 1989 with just 100 acres of land in Santa Isabel, Puerto Rico, producing only mangoes for the local market. The partners (Gustabo, Venancio and Veny) soon realized that the local demand for mangoes was small due to the abundance of mango trees in the area. Seven years after establishment, Case D began exporting to foreign markets, after expanding to a 1000-acre operation and diversifying with avocados and bananas. By 2001, the firm had acquired several investments and had become the largest tropical fruit farm in Puerto Rico while mangoes still made up 60% of the firm’s total sales.

BR and International Pathways

Similar to Case C, the BR of Case D originated from the owner’s previous business experiences. However for Case D the experiences were in a non-related field (construction). The owner’s experiences in construction helped him to develop basic knowledge about conducting a business in Puerto Rico, including identify opportunities and dealing with risk. Shortly after starting his agribusiness, he began to implement an expansion plan to become a leader in the domestic market. The firm’s success relies on BR. Case D has strong ties with distributors and an integrative logistics operation. In addition to personal and business networks the owners have developed excellent relationships with international regulatory agencies.

The firm successfully made connections with overseas contacts particularly in European countries, through participation in trade shows sponsored by the Puerto Rico Export & Trade Company. In Europe, the firm sells through prominent distributors and retailers such as TESCO, Salisbury, Summer Field, SWORLD, Mark & Spencer, and El Corte Inglés in Spain. Case D offers customized mango products of different sizes, maturity and varieties according to country tastes. Alliances with recognized distributors have consolidated their exports.

Discussion

Entrepreneurial Orientation (EO) and Business Relationships (BR)

Autonomy, *risk-taking*, *proactiveness* and *innovativeness* are demonstrated by Case A. The entrepreneur of Case A left a secure, top management job to relocate to Puerto Rico and invest in a new venture in an underdeveloped and unfamiliar market, strongly demonstrating risk-taking behavior. Proactiveness is demonstrated by Case A’s understanding of the technological and interactive learning tools needed in the education sector in Puerto Rico and Latin. To his benefit, there were no competitors providing the same type of product and services, and additionally, education in Puerto Rico was in need of restructuring due to a high rate of student drop-out, and low rate of graduates. Case A therefore recognized the potential growth of his new venture and that his company could become a pioneer in the education sector. Case A’s BR prior to the firm’s establishment (clients, distributors, friends, etc.) helped to quickly acquire a customer base. These prior BR also helped to increase firm partners at the local and international level and to access US funds to develop innovative ideas and learning tools. *Proactiveness* and *risk-taking* are also demonstrated by the owner personally traveling to directly contact potential clients in foreign markets, allowing rapid internationalization of his firm.

The founder of Case B demonstrated *autonomy*, *risk-taking*, *innovativeness* and *competitive aggressiveness* when starting international activities. The entrepreneur took a risk by investing in a website and modern distribution centers in the US to expand operations overseas in a highly competitive sector. *Competitive aggressiveness* is demonstrated not only in the EDI and logistics systems but also in international post-sale services (guarantees, personal technical support). The entrepreneur demonstrated *autonomy*, by legitimizing his leadership role through approval from the Board of Directors (composed of family members). Low cost and a differentiation strategy allowed Case B to be innovative and aggressive in the competitive foreign markets. BR and referrals propelled Case B toward internationalization. Business networks with Hispanic and Latino company owners helped to rapidly increase foreign market sales.

The owner of Case C has demonstrated strong entrepreneurial traits and commitment since establishment. High *risk-taking behavior*, *proactiveness, competitive aggressiveness* and innovativeness explain the intensity of the industrialization pathway, penetrating more than three countries during the first five years of operation. Previous BR with members of the fashion industry and mass media allowed Case C to accelerate this new venture overseas. *Proactiveness* and *innovativeness* are observed in the unique, handmade nature of her jewelry and the high demand of products in the absence of human resources and a supply chain management to satisfy increasing demand. A high level of *risk-taking* is revealed in her personal visit to a small, high-end fashion boutique to sell her products. Internationally outsourced employees allow greater access to foreign markets.

Since the inception of the agribusiness, Case D has shown *innovativeness* in the modernization of business operations (processing and packaging crops, quality control, etc.) and high-risk investments in the latest technology and in obtaining high international sanitary regulations in a little-known sector. While growing crops started as a hobby, the owner of Case D rapidly recognized agriculture as a business. The owner of Case D realized the key to success was through internationalization of his firm to a specialized niche market of gourmet products. Strong *autonomy* and *risk-taking* helped the owner to easily integrate partners into the new venture and to develop local and international business networks. Case D demonstrated *competitive aggressiveness* by becoming internationally certified, obtaining high standards of quality control while also supplying a differentiated product. BR with institutions and public organizations was essential to becoming *competitively aggressive*.

BR, International Pathways and Performance Implications

Figure 2 depicts the main characteristics of internationalization pathways. We used export and international performance as indicators of success as described in previous studies (McDougall et al., 1994 and Oviatt and McDougall, 2005). The variables included domestic and export shares (precocity); export rate ratio (speed) and geographic coverage (scope). In addition, a serial approach (broad, global and high rate of internationalization from inception) versus a sequential approach (narrow scope, slow internationalization from regional to physically close foreign markets) was factored into the model.

Figure 2
Implications of internationalization pathways on SME performance

Case A entered foreign markets via the serial approach (export activities present since inception), encouraged by prior business and social relationships. However, two years into the business, the performance implications of these relationships were modest, with only 20% of total sales from overseas, a narrow geographic scope (three countries in five years) and low export ratio.

			Performance Implications		
			International Operations Intensity (High/low)	**Geographic Scope (Narrow/wide)**	**Timing (Speed) High/low**
International Approach	**Serial Approach**	Case A	Low	Narrow	Low
		Case B			
		Case C	High	Wide	High
		Case D	High	Wide	High
	Sequential Approach	Case A			
		Case B	Low	Wide	High
		Case C			
		Case D			

BR influenced the development of Case B's domestic market, positioning the company as a leader in local markets for 56 years. Disintermediation strategies encouraged considerable export performance. The integration of Internet and electronic telecommunications benefited access to overseas opportunities, promoting international activity reaching a wide scope and high export ratio. Case B is a family-owned business with a strong hierarchical organization, hindering leadership change. It was not until the third generation (49 years after inception) was in control of the company that technology and foreign markets were considered, thus leading to a sequential approach. However, soon after internationalization, the geographic scope of Case B was rapidly developed such that the foreign annual growth rate reached 105% while the domestic annual growth rate was 10%.

Previously established BR strengthened the entrepreneurial commitment of the owner of Case C. Her education and international experiences, along with the ability to speak several languages allowed Case C to perform well in foreign markets. The risk taken by the owner in choosing to sell "door-to-door" to reach overseas markets, is an uncommon strategy. However, the owner's personal traits and in-depth knowledge of the fashion industry made this an effective strategy. The *proactiveness* of Case C is demonstrated in the lack of risk aversion, and understanding the opportunity to develop a particular niche market in the fashion industry. The rapid internationalization after company inception reveals a serial approach, and lead to a wide scope (more than five countries in the first five years of operation), and a high intensity (foreign markets reach 70% of total sales) of internationalization.

As observed in Cases A and C, preexisting business and management experiences as well as BR opened opportunities to foreign markets for Case D since inception. As with Case A and C, Case D applied a "door-to-door" marketing strategy to explore the international market and acquire necessary knowledge about regulations, quality control standards, incentives and international packaging, logistics and distribution systems. As with Case C, Case D experienced a rapid internationalization pathway using a serial approach, revealed through a wide geographic scope (more than 10 countries in the first years of internationalization), with high intensity and speed (foreign markets make up 93% of total sales).

Conclusions

The current case studies reveal that the development of BR depends on the entrepreneurial traits of company owners and may explain the internationalization pathway chosen. In all cases, a combination of various constructs of EO affected BR. However, the internationalization pathways adopted did not necessary determine the same internationalization intensity, scope, or speed. Internationalization from inception does not always represent a high level of intensity and speed or a wide range of scope. The product and services as well as sector in which the SME evolves are all factors contributing to the process, and explain the different levels of business performance in the same international pathway adopted by the firm. In addition, firms that internationalize after becoming leaders in domestic markets can effectively present a high level of intensity and speed and a wide geographic scope in an increasing and constant manner. The variables particular to each firm along with the micro and macro environment affect the expansion process and ultimately affect intensity, scope and speed of internationalization. Both EO and BR are elements that determine the best pathway to international markets.

The framework in which this study was developed allows us to better understand the behavior of SMEs in their evolution towards exploration of international markets. SMEs must consider certain variables in their selection of international pathway. An understanding of these variables will allow researchers, practitioners and policy makers to aid SMEs with their international performance.

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