

The SMEs' Paradox - Negotiating the Interaction between Innovation and Internationalization

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Abstract :

Innovation and internationalization are two strategies that play a key role in enhancing the competitiveness of SMEs in the global economy. This is mainly true for small businesses. It is vital noting that these two elements are quite similar. However, innovation turned out to be crucial for the internationalization of enterprises. The innovation and internationalization of SMEs have a complex interaction between them. This interaction sparked a keen debate in the academic community and among business specialists. Many studies showed that innovation is a key element in the internationalization of SMEs, while others found that internationalization is a great accelerator of innovation. This article tries to identify these two aspects while giving solid evidence for each argument.

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1. Introduction

Innovation and internationalization are generally seen as essential levers of economic growth. They both represent key indicators of competitiveness whether at the level of companies or nations (Chtourou, 2005; Walid et al, 2016). In this regard, in 2008, Le Roy and Torrès clearly highlighted the importance of innovation and internationalization of SMEs to increase their competitiveness on a global scale. It is highly important to understand that these two concepts are closely related.

It is widely admitted that innovation is at the heart of the process of internationalization of companies, whether it is about innovation in terms of products, processes or even commercial and organizational approaches. It should be noted that in the case of small and medium-sized enterprises (SMEs), innovation is often considered a determining factor in export success, as has been explicitly highlighted by several researchers such as Conus (1993), Nassimbeni (2001) and Saridaki (2019). The results of their work clearly demonstrate that SMEs that focus on innovation are better positioned and have more chance of penetrating foreign markets. Indeed, innovation gives SMEs a definite competitive advantage by developing unique products or services and meeting the specific needs of international markets. These companies are often seen as pioneers that are capable of quickly adapting to global trends and attracting the attention of foreign consumers. On the other hand, several studies have suggested that the very act of internationalizing can in fact catalyze and stimulate innovation within SMEs. It should be noted that, by confronting new and varied business and cultural environments, companies find themselves forced to develop new ideas and rethink their conventional approaches. In addition, internationalization can equally enhance the collaboration with foreign partners, thereby generating fruitful and profitable exchanges of expertise and knowledge. Nevertheless, the relationship between innovation and internationalization of SMEs is far from unambiguous. Indeed, it can vary depending on the sector of activity, size of the company, culture of innovation and the resources that are available. In some cases, innovation may be a prerequisite for successful international expansion, while in other situations internationalization may be the driver of innovation.

However, whatever perspective is considered, it is essential to note that SMEs face significant challenges when seeking to establish synergy between innovation and internationalization. Limited resources, financial risks, and the need to maintain a balance between these two strategies, are all obstacles that SMEs are expected to overcome.

2. Definition of innovation

Innovation is defined by the OECD as "*All actions undertaken on the scientific, technological, organizational, financial and commercial levels, with the objective of creating or improving innovative products or technological processes, thus opening the path to innovation*" (Oslo Manual, 2005, p54).

It should be noted that the intention to engage in innovation generally arises after having accumulated some experience, in particular a good understanding of customer needs. It is

widely acknowledged that innovation can be highly beneficial by boosting the economy of the country and promoting the development of businesses, for example by guaranteeing sales, preserving their competitiveness, improving productivity, conquering new markets and motivating employees. However, it is sometimes difficult to succeed in this area due to the high number of potential failures. Two main categories of innovations can thus be identified. The first one is the disruptive (radical) innovation, and the second is the incremental (continuous) innovation. These two types of innovations vary depending on the degree of novelty or antiquity. To classify them, a matrix based on two axes is then used. The first axis is linked to the technology underlying innovation, while the second is associated with consumer behavior. This would lead to distinguishing two types of innovations, namely technological innovation and behavioral innovation (Kotler et al, 2015).

Furthermore, *incremental innovation*, also known as continuous innovation or product improvement, according to the definition of Loilier and Tellier (2013), is characterized by a progressive improvement in performance, whether in terms of services or costs, of an already existing offer, without requiring any new skills or know-how. This type of innovation is based on the same conditions of use and relies on the current state of technology. This type of innovation aims to make minor modifications with a view to improving a product or service already in place, by progressively optimizing its performance and by continuously increasing its utilization. The changes made ought to be introduced gradually. Although this type of innovation is considered as the simplest, most common, and least risky form, many new products on the market are associated with it, even if the style, performance, or marketing of these products may give customers the impression that they are radical innovations.

Technological Innovation - This type of innovation involves the association of a new technology with an existing need. This is done with a view of better meeting this need or anticipating the future desires of consumers while avoiding disrupting their purchasing habits. More precisely, technological innovation consists of developing and marketing a product offering superior performance in order to provide consumers with objectively new or improved services.

Behavioral Innovation - This type of innovation is about taking an existing technology and presenting it with a new operating mode, with the aim of encouraging users to adopt new behaviors by offering them additional benefits.

Radical Innovation – According to Kotler's definition, it is also known as disruptive innovation. These innovations are distinguished by the disruption they may cause both technologically and in terms of use. They give rise to new product categories, modify competitive dynamics, and often lead to arefurbishment of economic models.

From a global perspective, innovation can be classified into four distinct categories:

- Product innovation.
- Process innovation.
- Marketing innovation.

- Organizational innovation.

3. *Internationalization of SMEs*

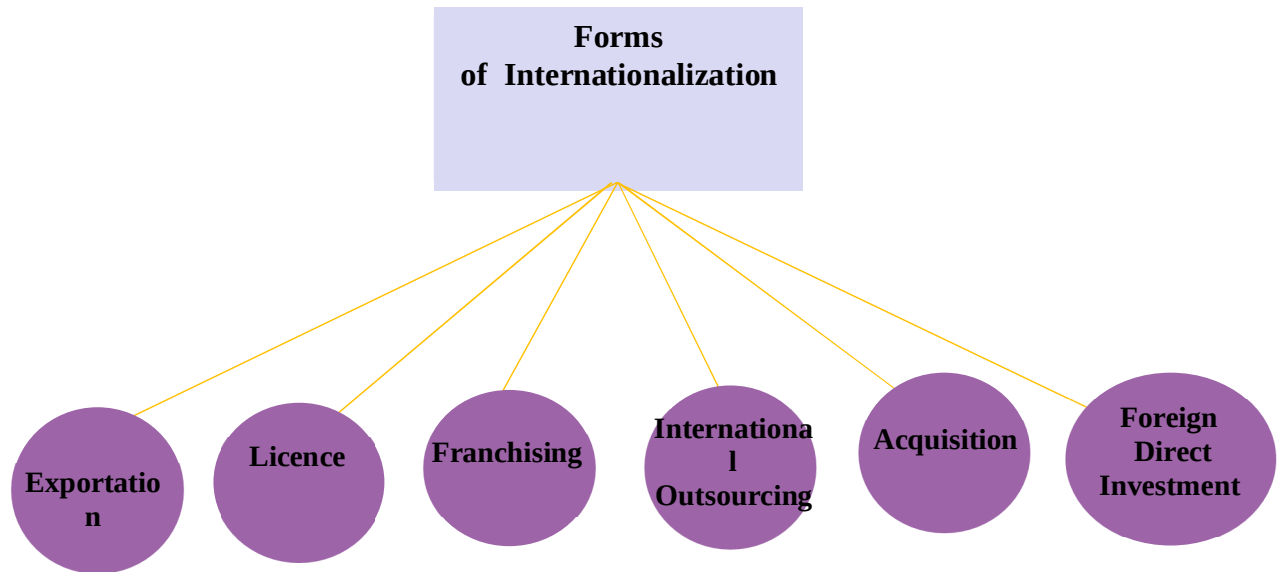
Companies can opt for different internationalization approaches, depending on their objectives, resources, and global strategy. It has been revealed that these internationalization strategies offer companies various means that allow penetrating foreign markets, exploring new opportunities, and strengthening their competitiveness on a global scale. It should also be noted that small and medium-sized enterprises (SMEs) increasingly tend to choose exporting as a growth strategy.

The two most commonly used methods include licensing and franchising. In this case, companies may grant licenses or franchises to foreign partners to use their brand, technologies and management methods. This would certainly allow the company to expand into international markets while leveraging the resources and skills of its partners.

Another approach to internationalization is Foreign Direct Investment (FDI). In this case, companies establish a direct physical presence abroad by opening subsidiaries, branches or production facilities, which enables them to penetrate deeper into foreign markets and exercise direct control over their international operations. These approaches help companies to undertake direct control of their overseas operations and take advantage of local advantages. Furthermore, international acquisitions or mergers provide companies with the opportunity to internationalize by purchasing or merging with foreign companies, which should help them quickly enter international markets by capitalizing on resources, on skills, and on the established presence of the target company as well.

Furthermore, international outsourcing, also known as *global internationalization*, implies that companies entrust part of their activities to a Foreign Service provider. In this case, the ordering company assigns specific tasks, processes, or services to a foreign supplier, called an international subcontractor.

The different internationalization approaches offer companies fairly flexible alternatives which assist them in expanding and strengthening their presence abroad in order to better take advantage of the opportunities offered on the international markets. Each of these approaches has particular advantages and challenges. The choice of the most appropriate method would depend on the characteristics of the company, its resources and its international marketing objectives. As indicated in Figure 1, among these different approaches, exporting is generally considered as the most prevalent and accessible method for companies wishing to internationalize.

Figure .1. Forms of Internationalization

Source :Azouani Nacer, Bouyahiaoui Nasser et Douar Brahim. (2014). P174-175.

4. Innovation and export - The challenges of an ambiguous relationship

Innovation and export are the two essential cornerstones of economic competitiveness in an increasingly interconnected world. As innovation enhances the companies' ability to create cutting-edge and innovative products and services, exporting allows them to expand their geographic reach and capture new markets. Furthermore, it is widely acknowledged that the dynamics of this relationship are quite complex, as companies must navigate a global competitive landscape while maintaining a constant flow of innovations. Faced with this confusion, two theories, namely self-selection and learning-by-exporting, ought to coexist.

The first theory, namely self-selection, has been validated by Monreal-Pérez (2012), and Love and Roper (2002). It is based on the idea that innovation facilitates the companies' access to global markets. Indeed, innovation gives a company a competitive advantage, which results in increased performance and enhanced resources of the company. This overall improvement strengthens the competitiveness of the company on the international scale, thus promoting its ability to internationalize more easily.

The second theory, i.e. learning-by-exporting, has been supported by Golovko and Valentini (2014), Kafourous et al (2008), Salomon and Shaver (2005). It is based on the idea that exporting helps to stimulate innovation within companies. Moreover, when a company operates in a foreign market, it acquires new knowledge and experience. These new elements encourage companies to adapt and innovate in order to improve their performance both in the new market and in the original domestic market.

4.1. Self-selection

Several studies on self-selection argue that innovation has a positive impact on exports (Lachenmaier & WoBmann, 2006; Enjorlas, 2016; Enjorlas et al, 2016a). This theory is

viewed as a necessary element for exporting, as illustrated in Figure 2. However, a study conducted by Roper and Love (2002) who mainly focused on the influence of innovation on international performance in German and English companies suggested that the impact of innovation on exports varies depending on the context of the company, including its country of origin, its size and its sector of activity.

Figure .2. Rendering of Self -Select Theory

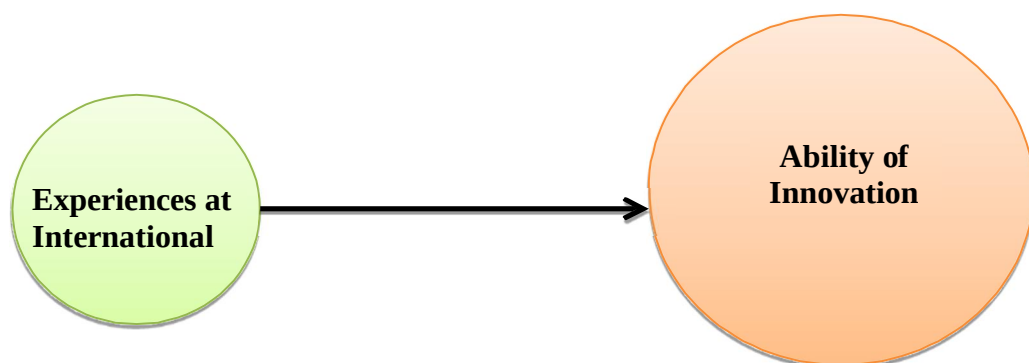


Source: Enjorlas .M, Camargo.M et Schmitt .C. (2016a).P4.

4.2. Learning-by-exporting

On the other hand, it is important to mention that the idea underlying this theory is that exporting can promote innovation within a company. It is also noteworthy that penetrating a foreign market offers the company an important source of information and knowledge. This new knowledge encourages the company to adapt and, therefore, to adopt innovations in order to increase its performance in this new market. Indeed, Lileeva and Trefler (2010) strongly support this theory by demonstrating that expansion into new foreign markets promotes innovation, particularly in product domains. The results reported by these researchers come from a study they conducted among several manufacturing companies in Canada, as shown in Figure 3.

Figure .3. Illustrative of the Learning by Exporting Theory



Source : Enjorlas .M , Camargo. M. et Schmitt .C. (2016a).P5.

Similarly, (Kafouroset al 2008; Enjorlas, 2016; Enjorlas et al , 2016b) highlighted the impact of exporting on a company's capacity to innovate, particularly with regard to the return on innovation investment, specifically when the company's international activities reach a certain level, i.e. the level of internationalization.

Consequently, it can be asserted that exporting has a positive influence on aspects such as patent filing or product innovation, as was illustrated by the study previously carried out by

Salomon and Shaver (2005) on Spanish manufacturing companies. This research also highlighted the fact that it is highly important to take into account the temporality and the type of innovation (product innovation or process innovation).

5. Innovation and export-interdependence for international success

The previous literature review emphasizes the crucial importance of studying the relationship between innovation and export in the economic context, because this relationship helps shed light on key aspects such as high competitiveness in international markets, adaptation to global technological trends, maximization of competitive advantages, and creation of added value for companies operating worldwide (Enjorlas et al, 2016a).

These aspects take on particular significance in the contemporary economic landscape where businesses face dynamic challenges and evolving opportunities requiring a deep understanding of the complex links between innovation and export strategies. The relationship between innovation and export are based on two distinct theories, each based on a causal relationship. The first is self-selection, which suggests that innovation has a positive impact on export activities, while the second, i.e. learning-by-exporting, suggests that exporting has a positive effect on innovation.

However, it is important to note that the results vary considerably from one study to another, depending on many factors that are specific to each company. Such factors are the sector and size of activity of the company, temporality, cultural distance from foreign markets, and the type of innovation. This diversity of results makes the creation of a strong consensus between innovation and export more complicated. As stated by Kiendrebeogo (2020), this amounts to breaking down logical absurdities and preferring circularity. In this regard, a circular approach is recommended with a view to transforming the coexistence between the self-selection theory and the learning-by-exporting theory into a virtuous process between innovation and export.

To illustrate this idea, Monreal-Perez (2012) examined the relationship between innovation and exporting in Spanish manufacturing companies by simultaneously testing both hypotheses, namely self-selection and learning-by-exporting. The results obtained demonstrated that exporting companies are more engaged in research as they look forward to developing innovation activities and investing more in research and development (R&D). In addition, these companies generate and accumulate a greater number of product innovations. To add to this, the size of the company was found to be directly correlated with both exporting and innovation. The study confirmed the positive impact of innovation on exporting, although the learning-by-exporting hypothesis was not validated. In short, it was found that many small and medium-sized enterprises (SMEs) are increasingly opting for exporting as a growth strategy.

6. Conclusion

The interrelation between innovation and internationalization of small and medium-sized enterprises (SMEs) represents a complex and ambiguous issue. It is essential to recognize that these two concepts are closely linked, and that their symbiosis can significantly contribute to improving the competitiveness of SMEs on the global stage. Additionally, innovation, whether focused on products, processes or business strategies, offers SMEs the opportunity to stand out in international markets, adapt their products or services to local needs, and increase their competitive advantage.

However, this relationship is not without its challenges. Indeed, SMEs may face financial constraints and limited resources to invest heavily in research and development, which may hinder their ability to innovate. In addition, although internationalization offers various interesting opportunities, it can nevertheless involve risks and uncertainties, particularly with regard to understanding target markets.

In this regard, governments, business support organizations, and academic institutions can play a crucial role in overcoming these challenges, by offering an enabling environment for innovation and internationalization of SMEs. This may include financial incentives, training programs, business networks, and partnerships with research institutions. Finally, it is important to emphasize that the relationship between innovation and internationalization of SMEs is a delicate balance to maintain. This relationship, when managed thoughtfully and strategically, can provide SMEs with the opportunity to thrive in global markets, contribute to economic growth, and drive innovation on a national scale. SMEs that succeed in evolving and progressing in this ambiguous relationship are often well positioned to meet the challenges of the current globalized economy and can also impose their full potential on the international scene.

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