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The Tension between SMEs' Growth and Sustainability in Emerging and Developed Countries' Internationalization: Towards a Conceptual Model

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Abstract: Economic growth is a priority in many developing countries in the drive to eradicate inequality and poverty, but elevated levels of economic growth are regarded as inimical to climate preservation and sustainability. The continuing depletion of natural resources and industrial pollution has led to increasing global pressure and government policies aimed at reducing climate deterioration. Advocates of 'strong sustainability' are concentrated in the economically developed world, while developing countries have a greater need for economic growth and advocate weaker forms of sustainability where economic development, the promotion of employment and eradication of poverty take precedence over climate preservation concerns. Extant internationalization literature does not provide an integrated model of *sustainable* internationalization. (i.e., the relative emphasis of human and natural capital in contextual and universal factors in the internationalization process of developing and developed countries). To address this underexplored research gap, a cross-sectional, non-probabilistic convenience sample of South African SMEs using a mixed methods approach, and a secondary data eclectic analysis of developed and developing countries' SME internationalization using a comparative multiple-case design, were adopted in this study. Findings indicate that both contextual and universal factors are prominent in developing and developed countries' internationalization. The findings also suggest that developing countries initially focus on unsustainable contextual factors and later move on to embracing sustainable universal factors in their internationalization. This paper provides a conceptual model to describe the relative importance of contextual vis-à-vis universal factors in the *sustainability* of SMEs' development as they pass through the various stages of internationalization over time.

Keywords: sustainable internationalization; SMEs; developed and developing countries; contextual and universal factors

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1. Introduction

Economic growth is a priority in many developing countries in the drive to eradicate inequality and poverty, but elevated levels of economic growth are regarded as inimical to climate preservation and sustainability [1,2]. Advocates of 'strong sustainability' tend to be concentrated in the economically developed world, while developing countries have a greater immediate need for economic growth and employment and lean towards a weaker form of sustainability where the development of the economy and eradication of poverty and inequality take precedence over purely climate preservation issues [3]. Thus, in the developed world, the internationalization process tends to be more sensitive to universal aspects of climate preservation in their business activities, such as reducing carbon emissions [4]. However, in countries in the developing world, such as South Africa, the emphasis tends to be on locally focused contextual aspects that emphasize local politico-legal and economic factors such as profit, employment and rapid economic growth [4–6]. Sustainable internationalization sensitive to environmental preservation needs to emphasize universal aspects of internationalization that strike a balance between contextual factors' emphasis on economic growth and profit (a human capital orientation) with universal factors' emphasis on that which is mutually sustainable and balances human with natural capital and is generally found in the developed world. However, there is evidence of a more strident emphasis on extreme natural capital preservation emerging in the developed world [7]. This means that contextual factors' emphasis on human capital (profits, employment and economic growth) in the initial phases of internationalization of developing countries has to be honed towards a more universally oriented sustainable human/natural capital balance that takes cognisance of both economic growth and environmental preservation in business activities [8]. However, extant internationalization literature does not provide a prescriptive and integrated model of *sustainable* internationalization. To the best of the authors' knowledge, no currently available study focuses on the *sustainability*, i.e., the emphasis of human and natural capital on contextual and universal factors in developing countries' internationalization process (defined as entering into foreign markets and developing international operations) [9]. Our contribution to this underexplored area of research is a conceptual model that integrates contextual and universal factors of developing countries' internationalization with sustainability (i.e., human capital and natural capital concerns), as displayed in Figure 1.

This study uses the South African example of SMEs' internationalization in a developing country as a backcloth to the broader comparative multiple-case secondary data analysis of developing and developed countries subsequently discussed later in this paper.

An SME in South Africa can be defined as an enterprise with one or more of the following: less than two hundred employees, less than ZAR 64 million (USD 4.2 million) in annual turnover, less than ZAR 10 million (USD 665,126) in capital, assets, and managerial involvement by the owners. The number of SMEs in South Africa rose by 3% from 2.18 million in 2008 to 2.25 million in 2015 BER [10]. In the first quarter of 2019, the growth rate for formal SMEs was 4.4% [11]. Most SMEs are concentrated in the trade (wholesale and retail) and hospitality sectors [11]. The World Bank [12] indicates that SMEs contribute up to 60% of employment and 40% of the gross domestic product (GDP) in emerging economies. In South Africa, the World Bank estimates [12] that SMEs provide employment for approximately 47% of the workforce, approximately 20% of South Africa's GDP, and pay approximately 6% of corporate tax. However, since 2015, South Africa's position in the World Bank Index on ease of doing business plummeted to a low rank of 136 out of 190 countries. This suggests that the internationalization process for South African companies in general but SMEs in particular is being hampered by contextual factors perpetrated by the institutional government.

In a recent study, Sadeghi et al. [13] suggested two factors were prominent in the internationalization process in emerging markets, namely universal factors that influence SME internationalization regardless of the firm's location and context-based factors. The study identified four universal and eight context-based factors in its analysis of two countries, Iran (a developing country) and Italy (a developed country). Sadeghi et al. [13] defined *contextual* institutional factors as those which are specific to a country, and *universal* factors as those which are common to countries that analytically comparable for internationalization. However, we believe that a generalized model of internationalization would need to consider the relative influence of contextual and universal factors on sustainability and expose their relative importance as they occur in developing and developed countries on a much wider scale. To do this, the current study takes Sadeghi et al.'s [13] analysis further by analysing universal and contextual factors in SME internationalization in developing and developed countries globally. This more general analysis aims to build a broad gradualist [14] time-phased heuristic of the sustainable internationalization process. Additionally, to achieve this purpose, primary empirical data from South African SMEs are used as exemplary of a developing country's internationalization process and analysed together with global examples obtained from secondary data multiple case sources of developing and developed countries describing the internationalization process.

2. Literature Review

The literature review is divided into two sections. The first section deals with contextual and universal factors in the internationalization of SMEs in emergent and developed countries. The second section focuses on a description and explanation of sustainability and discusses the importance and relationship of sustainability in the internationalization process and integrated trade.

2.1. Contextual and Universal Factors in Emerging and Developed Countries' SMEs' Internationalization

Sadeghi et al. [13] distinguished between *universal factors* in internationalization as those that SMEs consider important regardless of where they are operating, and *contextual factors* as important aspects of the internationalization process in specific countries. Sadeghi et al. [13] also pointed out that the concepts of universal and contextual factors are popular in entrepreneurial theory. The two concepts correspond to institutional theory's heuristics of isomorphism and particularism [15] quite closely. However, as Sadeghi et al. [13] pointed out, many studies using an institutional approach to SME internationalization do not consider the specific institutional aspects of particular contexts that facilitate or impede this process—nor do they consider the changes in emphasis of contextual and universal factors over time as the internationalization process and institutional environment develop and mature.

It seems clear in the extant literature that the concepts of universal and context-bound factors are used very broadly and interchangeably to describe one situation or another, and the boundary of what is considered 'universal' is widened or narrowed according to a specific authors' focus [13]. For example, in Sadeghi et al.'s [13,16] study, the 'universal' focus is largely on comparing two countries: a developing country with an emerging market (Iran) and a developed one (Italy). Furthermore, the importance of institutional development over time in entrepreneurial internationalization in emerging markets is often overlooked with an overemphasis on cross-sectional analyses [16]. A general model of SME internationalization would be needed to broadly embrace the gradual process of internationalization of developing countries globally [14]. The key to developing such a model resides in considering the impact of contextual and universal factors in trade development over time by comparing developing and developed countries. Most institutional models dealing with phases of industrialization have looked at the process of industrialization without considering gradual changes in the context and universal factors that occur as a country develops and its trade matures [13,14].

Moreover, despite many different approaches to the internationalization of SMEs described in the literature, no single model is currently recognized and accepted [17]. This is largely because the economic environment in which SMEs internationalize is in a constant state of flux, meaning new criteria and conditions emerge that need to be considered in extant models. This dynamic aspect of internationalization noted by Daszkiewicz and Kristof [18] is integrated and developed in the model of sustainable internationalization subsequently discussed in this paper. However, a brief account of the main theories of internationalization is required before focusing on contextual and universal factors in sustainable internationalization.

Stage theories of internationalization comprise the earliest form of internationalization models [19].

Stage theories indicate that in the initial phase of development, companies only do business in the internal market and entry into exporting is done gradually and incrementally. The stages can be divided into pre-engagement, initial and advanced [16]. Pre-engagement is comprised of companies operating only in their domestic markets. The initial stage describes the tentative steps a company makes towards exporting and the advanced stage is achieved when foreign trade is reliably and consistently maintained [16]. The most celebrated stage model is that conceived by Johanson and Vahlne [19], the Uppsala internationalization model which, based upon a Swedish company's database, finds that Swedish firms often begin the internationalization process with ad hoc exporting and establish their operations in small steps. First they use intermediaries, represent focal companies abroad, and then they develop their operation into supplying manufactured goods to overcome trade barriers in existence at the time. They called this the *establishment chain* [19]. A central feature of their model was the concept of *psychic distance* which suggested that effective internationalization tended to occur most readily between countries with small psychic distances in terms of cultural, linguistic, and knowledge factors [19]. As Daszkiewicz and Kristof [18] put it: "...the model focuses on the gradual acquisition, integration, and use of knowledge about foreign markets and operations, and on the incremental commitments in foreign markets. In particular, attention was focused on the increasing involvement in the individual foreign country."

The eclectic model of industrialization focuses on a specific aspect of the industrialization process. Dunning [20] regards his approach as eclectic as the three main aspects of his eclectic paradigm were selected from several different theoretical approaches. Dunning [20] suggests that internationalization will occur when a company has: an *ownership advantage* not possessed by its competitors; the location attractiveness of the country/countries focused on for internationalization; and the company's ability to *internalize* its competitive advantage. This theory suggests that a firm's ability to universalize its competitive advantage in countries it trades with will determine whether its long-term internationalization is effective or not [20].

The third main theory of internationalization is the resource-based view (RBV) of the firm proposed by Barney [21] which in some aspects resembles stage theory. RBV theory suggests that a firm's valuable and rare resources give it a competitive advantage that can be extended for prolonged periods and for as long as it can insulate itself from resource imitation, transfer, or substitution. Generally speaking, empirical evidence has consistently supported the RVB model of internationalization [22]. Both Dunning [20] and Barney's [21] models focus on describing company criteria that need to be satisfied for successful internationalization.

What these models consistently show—implicitly if not explicitly—as for example, in the cases of the attribute-type RBV and eclectic models, is the dynamic nature of the internationalization process and the fact that it occurs over a period of time.

In their rigorous and thorough review of the internationalization literature, Castagna et al. [16] indicated that the process tends to occur in three separate sequential stages. The first stage is regarded as '*extension*'; the second phase consists of *penetration* into the international market; and the third, market *integration*. Having briefly outlined extant industrialization literature, it is now necessary to discuss the concept of 'sustainability' as it is defined and used in the current study in some detail.

2.2. Weak and Strong Sustainability and Its Meaning in the SME Internationalization Process

The literature on strong and weak sustainability suggests that the term "sustainability" is used in two different ways that can be attributed to diametrically different conceptual perspectives. One meaning of sustainability, usually regarded as the eco-centric or 'strong' view, refers to sustainability as the preservation of environmental natural capital, while the other, the anthropocentric or 'weak' view, refers to the development of economic capital in goods and services. As Ayres et al. [23] put it:

> "Much of the confusion in the discussion of strong sustainability arises from a failure to distinguish between the two assumptions dividing weak and strong sustainability. The first is the assumption of substitutability between natural and manufactured capital. The second is that economic well-being "covers" all other concerns. If the second assumption is accepted (as it sometimes is by advocates of strong sustainability) then the argument about substitutability boils down to a

> purely economic debate about elasticities of substitution, technological advancement and so on. If, on the other hand, substituting financial capital for natural resources is incompatible with maintaining a suitable physical environment for the human species, then strong sustainability implies that we must step outside the conventional market framework to establish the conditions for maintaining human happiness."

Thus, 'strong sustainability' is eco-centric in orientation and advocates that there is a non-negotiable element that aims to ensure that the natural environment remains suitable for the existence of human life and the maintenance of flora and fauna [21].

Weak sustainability can be defined as an overriding concern to increase manufactured capital despite the destruction of natural environmental resources that this might cause. An often-cited example of the implications of weak sustainability suffering from an anthropocentric focus on unbridled growth via economic capital is that of the catastrophic effects of a policy implemented on the small Pacific Island of Nauru [24].

In 1900, one of the world's richest deposits of phosphate was found on the island of Nauru but after extensive mining for ninety years, the island is now desolate. Initially, the emphasis on natural resource exploitation above any other consideration reaped anthropocentric benefits for the islanders in the form of high per capita incomes. A trust fund from the income from phosphate sales was built for the islanders and accumulated a net worth of approximately USD 1 billion, Interest from the trust should have allowed a secure and sustainable income for all the island's inhabitants, but the Asian financial crisis wiped out the value of the fund and the islanders have been left with a desolate and biologically impoverished environment that may never fully recover. The experience of Nauru clearly indicates that a weak sustainability policy with an extreme anthropocentric focus is likely to create utter environmental devastation over time. What the Nauru example clearly indicates is that the substitution of natural resources for manufactured capital may constitute a 'one way' street. Once a natural resource has been ruthlessly exploited for manufactured capital, there may be no coming back [24].

Strong sustainability is defined by Brekke [25] as 'non-diminishing life opportunities' that " ... should be achieved by conserving the stock of human capital, technological capability, natural resources and environmental quality". Strong sustainability aims to ensure that viable amounts of natural, economic, and social capital should be maintained as natural resources are essential for economic capital production and human wellbeing and cannot be fully substituted. Additionally, strong sustainability can be justified in ethical-legal terms since nature has its own right to exist and prosper and that some flora and fauna are unique, since their loss is can be made irreversible through extinction. Extreme forms of strong sustainability maintain that all components of the natural environment must be preserved undiminished and uncontaminated by human and/or the production of economic capital [26]. This 'Deep Ecology' extreme view is untenable on the grounds that human life needs to utilize natural capital to survive, natural resources are themselves in a state of constant fluctuation through continuous evolution, and the rights of nature need to be considered and balanced with human rights [26]. Thus, a compromise in strong sustainability needs to be created that focuses on the use of natural resources to sustain human wellbeing including that which is needed for economic capital production within sustainably defined limits, and unique and irreplaceable biological assets [26].

In the SME internationalization process, sustainability can be seen as a movement from a 'weak' sustainability emphasising local contextual economic factors, or factors focused largely on short-term economic viability, to a 'strong' sustainability emphasis focused on universal factors shared by trading partners that include economic, social, and environmental concerns.

A good example of this is presented by the new US trade initiative to generate sustainable trade practices between the US and China that play 'by the rules of the road' as internationally defined [27]. In effect, this means that the SMEs of emerging countries should move away from a contextual 'my way' of internationalization to embrace an economic (weak sustainability) emphasis to a more universalized, and integrated (economically, socially, and environmentally) 'our way' of internationalization based on strong sustainability. Thus, since emerging markets such as South Africa need a sustainable and integrated trade that combines economic growth with the preservation of scarce natural resources to avoid irreversible environmental damage [12], investigations into South Africa's SMEs progress towards sustainable internationalization are vital. Such information will inform government and institutional policy decision makers to motivate for integrated, sustainable trade conditions in their country and help SMEs on their path towards strong sustainable internationalization.

3. Materials and Methods

3.1. Methods

A cross-sectional mixed-methods small sample survey of South African SMEs presented a developing country 'case study' as an example of internationalization in a comparative case study design that used eclectic secondary data examples of the internationalization process of both developing and developed countries The comparative multiple case analysis eclectically selected recent examples of contextual and universal factors in the internationalization process. The eclectic secondary data approach adopted in the current study is a comparative multiple *case* design rather than a comparative multiple *case study* design as such, although it closely corresponds to latter [28].

The mixed methods approach was defined by Cresswell and Pleno Clark [29]: " . . . as a methodology, it involves philosophical assumptions that guide the direction of the collection and analysis of data and the mixture of qualitative and quantitative data in a single study or series of studies. Its central premise is that the use of quantitative and qualitative approaches in combination provides a better understanding of research problems that either approach alone". In a study of graduate students' perceptions of the value of mixed methods approach in their research, McKim [30] found that mixed methods were viewed by students as providing a rigorous method with a newer history and with the capacity to provide a deeper meaning of the phenomenon being investigated. In an extensive review of the literature on international business, Hurmerinta-Peltomäki, and Nummela [31] found that most studies had adopted an approach wherein both qualitative data and quantitative data were quantitatively analysed. However, in their analysis, the authors [31] indicated the large potential for other mixes in the mixed methods approach in the discipline. In the current study, the quantitative and qualitative data were separately analysed in line with the most common approach adopted in international business. However, respondents were required to give subjective reasons for answering the quantitative scale as this was expected to provide a better and deeper understanding of the research problem [29].

The second part of the method adopted in the current study is an eclectic analysis of secondary data using a *comparative multiple case* design [32]. Despite the difference between a case study which can be defined as an in-depth study of a specific phenomenon [19] and a secondary data case, the definition of what a case study constitutes is problematic [32]. However, Thomas [33] provides a workable definition of a secondary data *case* rather than *case* study by defining it as an *analysis of systems studied with a comprehensive view by either one or several methods*. In multiple case study research, as in the current study, theoretical sampling is eclectically employed with each selected case on the basis of its theoretical relevance to a research problem. The most common sampling method is to employ replication logic wherein cases are selected according to their appropriate fit [34]. Case selection is directed at gathering theoretically relevant information rather than at obtaining representativeness. As in the current paper, multiple case design can be conducted by comparing multiple studies of cases of internationalization carried out by separate research teams [35]. Additionally, as Ghauri [36] pointed out, "case study method is not synonymous with qualitative research or methods. A case study may very well involve quantitative methods or even be entirely quantitative". Thus, different authors may use different types of method in their studies of specific cases, meaning that multiple case comparisons can involve different levels of qualitative depth in their analyses [36]. In the current study, different types of analyses were used in the selected cases, but each case was selected for its theoretical relevance to the research problem and its appropriate fit. Key evaluation questions (KEQs) [37] for the selection of the SME cases to be analysed include: is it a developing /developed country? What phase of internationalization is it in (extension, penetration, or integration)? What is the importance of contextual and universal factors in its specific phase of internationalization? Goodrick [38] pointed out that comparative case study analysis can be entirely based on secondary data analysis and does not depend on fieldwork or primary data collection. The 11 secondary data cases selected for use in the current study's analysis were mainly quantitative (63.6%) or qualitative (27.2%), with one study adopting a mixed methods approach (9%). These proportions reflect quite closely the methodologies adopted in the studies reported by Castagna et al. [13] where, out of a total of 128 quantitative, qualitative and mixed methods studies, 62.5% were quantitative, 30.4 were qualitative and 7.3% were mixed methods, suggesting that the secondary data selected in the current study are reasonably representative.

Secondary data and mixed methods primary South African data were included in the multiple case comparison in the current study to add value to the analysis by providing a rich source of qualitative data in the comparative analysis of selected secondary data sources. These combined methods were used in the development of the model indicated in Figure 1.

Secondary data analysis is closely related to analytical eclecticism, as found by Sil and Katzenstein [39]. Analytical eclecticism uses empirical secondary data sources to verify the 'trustworthiness' of specific hypotheses or conjectures, but not in the formal sense of falsification indicated by Popper [40] which is only possible through the use of primary data. Secondary data analysis is necessarily eclectic since it focuses on specific aspects of a wide tableau of data of which only a portion has relevance in the analysis and building of exploratory models. It is also qualitative and interpretative as it focuses on garnering support for the trustworthiness of particular models: Sil and Katzenstien wrote that *"While research traditions generate quite varied research products-ranging from formal models and causal inferences to historical narratives and ethnographies-we follow Abbott (2004) in viewing all these as covering causal stories based on particular 'explanatory programs"* [39].

According to Sil and Katzenstein [39], the advantage of using secondary data analytical eclecticism is that " ... the investigation of differently formulated analytical problems within contending research traditions frequently cover insights for the purpose of solving substantive problems. The challenge is to compare and selectively integrate these insights so that they can be more practically useful in relation to substantive problems. Given their expanded scope, the kinds of problems addressed by eclectic scholars are more likely to have concrete implications for the messy substantive problems facing policymakers and ordinary social and political actors". Dunning's [41] eclectic approach provides the basic methodological tool in the current paper for extracting relevant secondary data supporting the contextual and universal factors' model of the internationalization process. Brouthers et al. [42] indicated that Dunning's [41] approach is both descriptive and normative and used it to describe modes of Dutch and German firms' entry into central and eastern Europe and predict based on their eclectic analysis which entry modes are most likely to perform best. The eclectic secondary data analytical approach used in the current study also aimed to generate a descriptive and normative model from descriptions of empirical data of the internationalization process and uses this analysis to present an appropriate approach for developing countries. The prescriptive approach aims to promote integrated sustainable trade through a process of de-emphasizing contextual differences and constraints (other than those that have a direct bearing on competitive advantage) and building common universal features with emergent trading partners.

3.2. Materials

The sample (n = 318) of Johannesburg and Pretoria-based SMEs was non-randomly selected from the population of South African registered SMEs (n = ±5000). A Qualtrics mixed methods questionnaire was sent out to potential sample respondents in December 2021 with a follow-up in January 2022 because of the poor initial response to the questionnaire. To enhance a quick turnaround of responses, potential respondents were given a two week a cut-off date for the completion of the questionnaire for both the initial and follow-up data collection periods. The non-random sample was selected from an SME population that incorporated fifty different industries with the top five represented industries being: manufacturing (n = 66, 20.75%); wholesale and retail (n = 63, 18.24%); business services (n = 41, 10.06%), sale, maintenance and repair of motor vehicles (n = 33, 7.23%); and the construction and transport and storage industries (n = 65, 4.72%)—collectively equal to a fifth. The number of responses obtained during the cut-off period was from SMEs distributed throughout the industrial heart of the country. However, the precise location, ownership, size, and function of the SME responses remained undisclosed to present further assurance of the anonymity of the survey's protocol to prospective respondents. The 33 responses obtained during the cut-off time period constituted a 10% response rate of the selected sample with Gauteng Province, which provided the source of the study's sample accounting for approximately 34% of SMMEs in South Africa as a whole. The small sample of responses is within the minimum parameters suggested by Cohen et al. [43], and Kwam and Vidakovic, [44] for quantitative relational research. The small sample obtained is also considered acceptable for qualitative grounded research [45]. The sample's limitations in size and representativeness are compensated by the mixed methods approach which, as Clark [29] pointed out, provides a better understanding of research problems than either the quantitative or the qualitative approaches alone. The quantitative data were analysed using basic descriptive statistics and no suggestion regarding their generalisability was made. The findings of the mixed methods study were compared to recent South African SME secondary data and generally corroborate these data and underscore their validity. The mixed methods approach was adopted to make the online survey less time consuming for entrepreneurs to complete while still obtaining a measure of subjective input.

The quantitative part of the Qualtrics survey consisted of ten-point semantic differential items ranging from 1 = "not at all" to 10 = "a large extent". The items selected for the quantitative 10-point scale were largely selected from Sadeghi et al.'s [13] study and included politico-legal, socio-cultural, and economic dimensions. Open-ended qualitative items asked respondents to present in a few lines their thoughts and perceptions of the listed factors in the 10-points scale that influenced and acted as barriers to their internationalization process.

4. Results

The results are divided into two sections. The first section deals with the mixed methods online survey of South African SMEs using Qualtrics. The second section deals with secondary data analysis that comparing the extent and importance of contextual vis-à-vis universal factors in inter-country comparisons of the occurrences of an internationalization process over time with specific reference to a recent study by Sadeghi et al. [13].

4.1. Primary Data Results and Analysis

Thirty-three different SME companies in the Johannesburg and Pretoria areas responded to the online questionnaire, among which there were thirty-one useable responses. These new primary data collected using a mixed methods approach present useful updated insights into the internationalization of South African SMEs and provide a locally based example of the internationalization process in an emerging economy. The results of this mixed methods South African study are compared with other recent cases of emerging and developed countries' internationalization using secondary data analyses to provide more substantive global data to build the exploratory model described in the paper. Insights from the SMEs were bolstered by the qualitative data and formed an additional source of information of the internationalization process in a developing country. Forty-two percent of respondents (13 SMEs) stated that they were currently involved in international trade, while 58 percent of respondents (18 SMEs) were not involved in international trade at the time of the survey.

The first item in the questionnaire concerned business factors that influenced the SME internationalization process. Priority aspects of the *factors that influenced* the business reasons of South African SME entrepreneurs for internationalization can be ranked by multiplying the arithmetic mean score of respondents' perceptions of the extent to which a specific item listed in the questionnaire influenced their internationalization (with 1 = ″not at all′ and 10 = ″to a large extent″) with the number of respondents who endorsed that item. The results are indicated in Table 1.

Table 1. Factors perceived by South African SMEs' as influencing internationalization.

Rank	Factors that Influenced SME Internationalization	Mean × No of Responses	Type
1	Opportunities for business growth	85.03 (7.73 × 11)	Economic
2	Potential demand	72.99 (8.11 × 9)	Economic
3	Profit	63.99 (7.11 × 9)	Economic
4	Business expansion	62.01 (6.89 × 9)	Economic
5	Less restrictive labour laws	44.00 (5.50 × 8)	Politico-Legal
6	Language and cultural affinity	40.0 (5.0 × 8)	Socio-Cultural
7	Sophisticated infrastructure	9.04 (4.88 × 8)	Politico-Legal
8	Overseas government incentives	31.04 (3.88 × 8)	Politico-Legal
9	Low tax opportunities	31.04 (3.75 × 8)	Politico-Legal

The top five ranked items listed in Table 1 are opportunities for business growth; potential demand for company product/service; profit; business expansion; and less restrictive labour laws, all of which score >5 at the midpoint of the scale, and are clearly the most important reasons for the internationalization of South African SMEs. Table 1 also categorizes the type of factor influencing SME internationalization using Sadeghi et al.'s [13] three categories (economic, politico-legal, and socio-cultural). The most highly ranked factors are contextual, i.e., economic and politico legal.

Factors in the qualitative analysis that influenced business reasons for internationalization mentioned by the respondents were: "Available funding"; "The drive of my team to tap on to the international market"; "Sustainable demand"; " Business environment and law regulations"; "Ethical aspects"; "Level playing field in terms of competition"; "Security of ownership"; and "Optimization of technology in terms of the 4th industrial revolution". These factors are contextual and appear to be largely economic and focused on human capital development.

The perceived potential barriers to international investment mentioned by the respondents are indicated in Table 2 below.

Interestingly, all seven ranked barriers obtained AMs > 5. However, the lack of knowledge of the international market, and the labour and company law and red tape in setting up foreign businesses were clearly considered the most serious barriers to internationalization. Further qualitative responses to barriers were: ″Political instability"; "Understanding the local content of an investment"; and "Stringent Reserve Bank and South African Revenue Service (SARS) requirements." The most highly ranked factors barriers to internationalization appear to be contextual, i.e., *local* socio-cultural, politico-legal and economic constraints to internationalization.

Table 2. Factors perceived by South African SMEs as barriers to internationalization.

Rank	Barriers to SME Internationalization	Mean × No of Responses	Type
1	Lack of knowledge of the international market (e.g., language, culture, the way business is conducted in the foreign location	108.96 (6.81 × 16)	Socio-cultural
2	Legislative (e.g., labour law, company law and red tape)	106.08 (6.63 × 16)	Politico-Legal
3	Financial requirements	104 (6.50 × 16)	Economic
4	Tax requirements	98.08 (6.13 × 16)	Economic
5	Administrative requirements of setting up a business abroad	94.08 (5.88 × 16)	Politico-Legal
6	Cultural and language barriers	91.04 (5.69 × 16)	Socio-cultural
7	Lack of business expertise	84 (5.52 × 16)	Economic

Qualitative responses to the question relevant to those SMEs that had not yet internationalized: "Do you see yourself expanding into the international market in the future?" are listed below and categorized using Sedeghi et al.'s [13] internationalization factor categories.

> "We are planning to appoint several distributors once our products have been registered with the applicable regulatory authorities." (Politico-legal).

> "We will expand further into the international market. This will be facilitated by 4IR". (Fourth Industrial revolution/digitalization). (Economic).

> "Despite the opportunities, I may not go into international markets because of the growing anti-South African sentiments." (Socio-cultural).

> "Yes, the business will expand further in the future, currently we are first aiming to focus on getting a foothold in the SA market." (Economic).

> "Yes, I see my business expanding to international markets in the future because of the internet and the role it plays in the rate of globalization. Because of the internet things are easier to discover, purchase and ship." (Economic).

> "Yes, understanding local market requirements and what is required to customize/localize." (Sociocultural).

> "No, red tape, political instabilities, lack of support from authorities, and racial discrimination." (Politico-legal).

Qualitative responses to the question, "If you see your business expanding into the international market, which countries will you expand into?" were:

> "Nigeria. Ghana, United Kingdom, and USA." (Socio-cultural).

> "African countries because I believe the role of the African Continental Free Trade Area (AfFTA) is going to play is immense and with time will allow small players(SMEs) to partake in the wealth of Africa and gradually that of the world." (Politico-legal, socio-legal, economic).

> "UK and/or USA-size market, disposable income APAC region-growth market and low concentration/competition." (Economic).

> "Southern Africa, SA is well resourced and exposed to the latest technologies and financially stable. Well placed to innovation and technology compared to the rest of the continent." (Economic, politico-legal).

> "United Arab Emirates. A lot of business investments are created there because most business investments are based there." (Economic).

> "Australia—I would like to immigrate there." (Socio-cultural).

"We are concentrating on exporting into several African countries—e.g., Nigeria & Kenya." (Socio-cultural).

"African counties that have thriving customers in our business sectors." (Socio-cultural, economic).

"European (incl.UK) due to sophistication of industries. "Dignified business conditions." (Economic, politico-legal).

"Nigeria, Kenya and Ghana because they believe in the quality of South African goods and services." (Socio-cultural, economic).

Interestingly, although the majority of SMEs in the sample had not yet internationalized, most qualitative responses indicate an urge to do so in the future, particularly into Africa, the UK and the USA, with some outlier SME motivation to internationalize into Australia and the United Arab Emirates. The qualitative responses also indicate that most were either economic or socio-culturally oriented, suggesting that contextual and human capital aspects dominate in South African SME internationalization. This finding confirms earlier South African studies conducted by Sraha [46] and Zuko and Reddy [47].

Looking more closely at the current study's data of South African SMEs' internationalization as a local example of this process in a developing country, it is clear that the initial drive largely rests on contextual factors that largely focus on localized 'my way' aspects of immediate, anthropocentric economic viability such as opportunities for growth [48], potential demand for goods/service in the foreign locality, profit and business expansion, and local contextual factors that impede the process. Few if any universal sustainable 'our way' factors that aim to balance economic growth with environmental preservation in the internationalization process are evident. It is also clear that the current study's South African SME data suggest a gradual rather than quick internationalization process [49].

4.2. Secondary Data Results and Analysis

There are substantial amounts of literature dealing with the subject of SME's internationalization and the secondary data sources consulted were eclectically sourced to highlight the potential coherence of the proposed contextual–universal time-phased internationalization model.

Although both developing and developed countries can go through the same internationalization stages of extension, penetration, and integration, studies have shown that the kinds of factors that influence internationalization tend to be qualitatively different. For example, developed countries tend to be more influenced in the internationalization process by universal factors in the various phases of trade development and since many are already operating in strong sustainable eco-centric environments [2,3,26], this is what might be expected. Some of these universal factors are indicated as technological innovation, globalized outlook, international business skills and knowledge of diverse cultures, and languages and methods of doing business in different environments [13]. On the other hand, developing countries are often constrained in their internationalization attempts by weakly sustainable contextual factors such as country-specific parochial institutions, poor human capital resources, lack of international business knowledge, and a poor grasp of international languages and cultures [13]. This difference in the influence of contextual and universal factors between developing and developed countries is broadly supported by the literature [16]. Generally speaking, extant literature on the internationalization process in developed and developing countries indicates that contextual factors influence developing countries' internationalization attempts through the phases of extension, penetration, and integration more than developed countries, which tend to be more universally oriented in all phases and more successful earlier on in their internationalization start-up attempts [13,16].

Zuko and Reddy [47] presented useful insights into the internationalization of South African SMEs. Zuko and Reddy [47] pointed out that South African SMEs not only have to contend with internationalization problems faced by developing countries in general [50], but also are faced by other external and internal, contextual institutional problems. In their analysis of a randomly selected sample of 106 respondents of emerging South African SME exporters, Zuko and Reddy [47] showed a strong association between SME commitment to internationalize and export capacity, which provided the motivation to overcome existing contextual constraints.

The eclectic secondary data analysis of contextual and universal factors influencing internationalization in developing and developed countries has further indicated the main critical success factors in SME internationalization. The eclectic secondary data were obtained from Castagna et al.'s [16] comprehensive review of SMEs' internationalization process. Castagna et al. [16] conducted a structured review of the internationalization process of SMEs to investigate the 'barriers and enablers' of this process and to identify research gaps in the extant literature.

They collected data from two separate databases of peer-reviewed articles which were extracted from Scopus and the Web of Science. After selection, 161 papers dealing with SMEs' internationalization process were subjected to descriptive and content analyses [16].

The current paper proceeded with the eclectic secondary analysis by following Castagna et al.'s [16] approach which is in line with the stages model outlined in Johanson and Vahlne [51] and Johanson and Vahlne [19]. The findings are described in terms of the three main phases characterizing the process of internationalization. The eclectic secondary data analysis follows Sadeghi et al.'s [13] approach and compares critical success factors of internationalization in terms of their contextual (weak sustainability, human capital emphasis) and universal (strong sustainability, balanced natural/human capital emphasis) orientations.

4.3. Factors in the Internationalization of Developed and Developing Countries in the Extension Phase

4.3.1. Developing Countries

As regards *developing* countries in the *extension* phase of internationalization, García-Cabrera et al. [52] showed how SMEs' management perceptions influenced the decision to expand their business operations into the international domain. Data from 296 Brazilian SMEs were analysed and the using multiple linear regression analysis and the findings of the study indicated that the perceptions of institutional factors such as *legal regulations and tax protocols* affected the SME internationalization expansions in this country. The mixed methods survey of South African SMEs reported earlier in the current paper also indicated how *contextual, 'my way' weak sustainability factors*, legal regulations, tax structures, and cultural norms tend to constrain internationalization in the initial extension phase of developing countries.

4.3.2. Developed Countries

Critical success factors in the *extension* first phase in the *developed* country of Slovenia are described by Ruzzier et al. [53]. Ruzzier et al. [53] who analysed 165 responses from Slovenian internationalizing firms using structural equation modelling. They found that *business skills, international orientation, organizational perception, and management skills* were critical success factors in SMEs' internationalization in that country.

Analysing the datasets of 51 Portuguese SMEs, Felicio et al. [54] found that *individual management's global mindset and the company's global mindset* affected SMEs' internationalization success.

In general terms, it appears that factors that have a bearing on the successful internationalization of developed countries in the *extension phase* are therefore psychic and relate to a globalized mindset and international orientation which can be regarded as *universal, 'our way' strong sustainability* aspects of successful internationalization.

4.4. Factors in the Internationalization of Developed and Developing Countries in the 'Penetration' Phase

4.4.1. Developing Countries

Internationalization factors in the *penetration* phase in *developing countries* were sometimes universally oriented, suggesting a shift from emphasising the importance of 'my way' contextual factors to a more 'our way' universal factors orientation, as they pass from the extension to the penetration phase. For example, Miocevic et al.'s [55] study of a sample of 121 Croatian SMEs found that a firm's *global mindset and international experience* affected their successful international penetration. Additionally, in a study of SMEs in Chile, Felzensztein et al. [56] found that the universal factors of international networks were important factors in the successful penetration of foreign markets. In a study of eight SME cases, Langseth et al. [57] identified four factors that influenced the early internationalization process of the *penetration* phase, including *knowledge of foreign markets and networks*, which again emphasizes the 'our way' orientation in the universal factors' orientation found in integrated, strong sustainability-sensitive internationalization.

4.4.2. Developed Countries

The internationalization of *developed countries* in the *penetration* phase also seems to be affected by universal rather than contextual criteria. For example, in a study of 2657 Italian manufacturing SME firms, D'Angelo et al. [58] found that the universal *strong sustainability orientation* global criterion of successful *product innovation* positively influenced successful Italian SMEs' international penetration.

4.5. Factors in the Internationalization of Developed and Developing Countries in the 'Integration' Phase

Developing and Developed Countries

Castagna et al. [16] reviewed forty papers that dealt with the factors influencing the *integration* phase of the internationalization process. Many of the *developed and developing* countries reviewed in the *integration* phase of internationalization were found to emphasize universal rather than contextual factors as influential in their integration into foreign markets. For example, Onkelinx et al. [59], who studied the data on Belgium's manufacturing SMEs which had successfully integrated internationalization into foreign markets during the period 1998–2005, found an inverted U association between the *quality of human capital* and export success. In an exploratory survey of Italian SMEs, Veglio et al. [60] found that *product innovation* had a positive impact on the firm's internationalization process in the *integration* phase. Thus, strong sustainability factors integrating both economic capital production through product innovation and social capital through human capital quality were evident in developed countries' SMEs during the integration phase of their internationalization.

Bonfim et al. [61] found that, in the integration phase of internationalization in developing countries, managements' *perceptions of economic human and environmental risks* in Brazilian ore SMEs were an important factor in their trade integration into foreign markets. The study therefore emphasized the importance of universal, strong sustainability-sensitive factors in this final phase of the internationalization process.

Sadeghi et al.'s [13] study focused on comparing the internationalization process of SMEs in Iran, a developing country, with that of SMEs in Italy, a developed country. Sadeghi et al. [13] considered three sets of institutional factors in their analysis of Iranian and Italian SMEs internationalizing entrepreneurship in space and time, namely politico-legal, socio-cultural, and economic. In their analysis comparing the two countries, they found that politico-legal universal factors (i.e., shared by both countries) in the form of sanctions and embargoes were faced by both countries, and that economic universal factors included competitive pressure, the nature of international demand, and skilled/young labour.

The universal factors of these two countries seemed to emphasize that the 'rules of the road' aspects of internationalization including sanctions and embargoes, competitive pressure, and the supply of skilled labour needed to be determined for integrated and balanced economic and social capital sustainable trade.

Context-based internationalization determinants were largely confined to the developing country—Iran—and included politico-legal factors, namely governmental barriers for domestic support and customs duty; as well as economic factors, arising from general domestic economic factors such as quality, market share, exclusivity of product, raw materials availability, and exchange rate fluctuations. These aspects indicate a weak sustainability focus on an economic capital and local politico-legal 'my way' SMEs' orientation.

5. Discussion

Although the categorization of the phases of development used by Castagna et al. [16] is arbitrary, their extensive review of the literature indicates a tendency of *developing countries* to shift their emphasis on critically influential factors in their extension, penetration, and integration internationalized processes, from contextual 'my way' towards more universal 'our way' criteria. There also appeared to be a clear indication of a shift from mainly 'my way' economic contextual (weak sustainability) considerations of the internationalization of developing countries' SMEs in the penetration phase to a more universal 'our way' strong sustainability emphasising economic social and environmental in the integration phase.

Sadeghi et al. [13] pointed out that, in the internationalization process, "universal determinants are considered important factors regardless of the place where SMEs operate while context-based determinants are considered factors that are important only in particular contexts. Numerous studies that examine the institutional perspectives of SME globalization fail to address the specific institutional characteristics of different contexts" [13]. However, it is precisely these factors which embrace regulations, norms, beliefs, and practices that vary across places and cultures that can aid or obstruct the development of SMEs in the international arena [13]. Additionally, evidence in the extant literature seems to suggest that often it is the contextual aspects of developing countries that act as constraints or impediments to sustainable SME internationalization [13]. In South Africa, for example, the generally held distrust or even hate of "foreigners" (including those from other parts of Africa) have been evidenced numerous times by incidents of xenophobic violence. The Human Rights Watch world report [62] stated that: "South Africa continued to be plagued by widespread incidents of xenophobic harassment and attacks against foreigners by mobs during 2020". The attacks and harassment were also committed by government and law enforcement officials. Non-nationals have also been verbally and physically harassed by South Africans for being foreign and not using local languages in their daily interactions [62]. The findings of this study clearly showed that such norms and beliefs are compounded by a lack of knowledge of foreign cultures and languages, and a general lack of international experience and global business skills and undeveloped and unskilled human capital. These factors are clearly inimical to sustainable integrated trade practices and constrain South African SMEs' internationalization attempts.

Interestingly, and in line with the model developed in the current paper, Sadeghi et al.'s [13] study clearly showed that the influence of contextual factors in internationalization in Iran (the developing country) outnumber those of Italy by a factor of 3 to 1. This is the case across all three factors (socio-cultural, politico-legal, and economic) considered in their analysis.

Not all universal factors are necessarily advantageous to internationalization just as not all contextual factors are necessarily inimical to that process [13]. However, the tentative model developed in the current paper suggests based on analysis that developing countries should move away from or find solutions to the contextual constraints that seriously undermine their internationalization. They should be encouraged to build universal factors such as globalized knowledge of business skills, cultures and languages that break down business inefficiencies, and psychic distance and are beneficial to an 'our way' sustainable internationalization process.

To recap, the paper used a mixed method (open-ended questions and closed-ended questionnaire) to examine the contextual and universal factors influencing South African SMEs' internationalization process. Secondary literature data is then used to compare the results between developed and developing countries in a more general, globalized context. Largely confirmatory insights were obtained from the quantitative, qualitative, and eclectic secondary data analyses. The emphasis (importance) of priorities for internationalization made by South African SME respondents clearly shows a focus on the *extension* internationalization process. A contextual emphasis on the extension phase of South African SMEs' internationalization is evident in their focus on economic 'my way' weak sustainability factors such as opportunities for business growth and expansion. Attractive contextual institutional structures such as less restrictive labour laws and low tax opportunities were also perceived as important in South African SMEs' internationalization. The findings appear to corroborate Castagna et al.'s [16] internationalization process model's first phase of *extension* and also suggest the primacy of contextual factors over universal factors in this early phase of industrialization. The emphasis on contextual factors in the first phase of South African SMEs' internationalization also underlines the need to move away from parochial cultural views and restrictive labour laws impeding successful internationalization [63].

Figure 1 gives a diagrammatic representation of the model of internationalization tentatively derived from the foregoing data and analysis. The model outlines the relative importance of contextual vis-à-vis universal factors for sustainable SME internationalization.

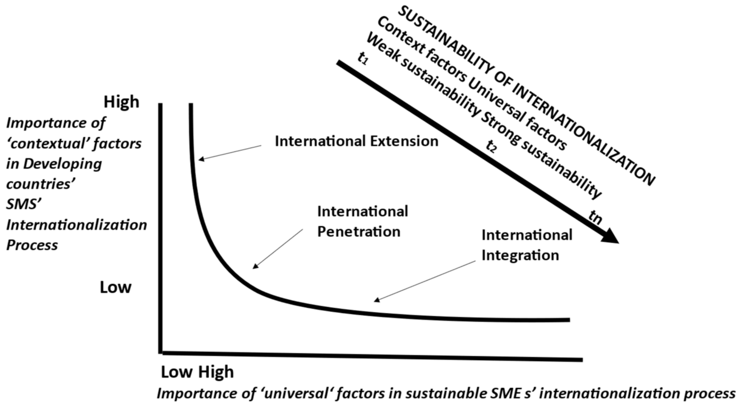

Figure 1. A heuristic model of the relative importance of contextual vis-à-vis universal factors in the sustainability of SMEs' internationalization process over time.

The tentative model displayed in Figure 1 suggests indeterminate time phases (t1, t2, and tn) in each stage of internationalization as the firm moves through the three stages of the internationalization process: extension, penetration, and integration [13]—corresponding to a gradual movement from weak to strong sustainability [3,8,26]. The model also suggests in the downward sloping curve in the diagram that the internationalization process moves towards an integration phase of strong sustainability [3,26] and integrated trade [13]. Figure 1 also suggests that contextual factors (other than those that may provide a competitive advantage to a specific country and are compatible with principles of strong sustainability) diminish in importance and universal factors become increasingly influential in the successful outcome of sustainable internationalization [3,8,13,26]. The empirical primary data obtained from the mixed methods survey of South African SMEs lend support to the model and show that contextual factors are more influential than universal ones in the extension phase of internationalization and tend to be focused on human capital growth.

The broader secondary data analysis of the internationalization process of developed and developing countries [16] also lends tentative support to the trustworthiness of the model. The analysis shows, for example, that as developing countries internationalize into foreign markets and trade becomes integrated, the influence of universal factors that invoke an 'our way' focus that includes social and natural capital is conjoined with a movement away from the 'my way' focus on economic and local politico-legal concerns [16]. The secondary data eclectic analysis also shows qualitative differences in the prominence of contextual factors in developing countries that persist through the phases of the internationalization process compared to those of developed countries [16]. The secondary data suggest that this tendency of contextual factors' [13] must be rapidly changed to embrace universal, sustainable, and integrated terms of trade [27]. In general, both the South African mixed methods survey and the eclectic secondary data multiple case analysis suggest that the contextual–universal approach used by Sadeghi et al. [13]—in which universal factors are defined as common 'rules of the road' [27]—should be expanded to embrace a wider spectrum of countries in the analysis of the process of *sustainable* internationalization.

6. Conclusions

Stage models have tended to be purely descriptive, describing the stages that the internationalization process undergoes in the development of integrated trade between countries. However, developing countries such as South Africa—where SMEs play a pivotal and growing role [10–12]—require more prescriptive models of the internationalization process that may allow prescriptive steps to ensure, as far as possible, that the internationalization process ends in *sustainable* success. The contextual–universal time-phased model developed in this paper suggests that SMEs in developing countries should try to generate universal features in their trade environment that promote an 'our way' focus and emphasize strong sustainability aspects. The effort of SMEs in developing countries to internationalize as quickly as possible often means the economic perspective 'crowds out' social and environmental factors that are crucial to strongly sustainable and integrated international trade. This suggests that the firm should try to develop its internationalization capabilities by the wilful and systematic choice of the firm's management to consciously and systematically universalize its capabilities and move away from contextual and unsustainable constraints to internationalization, as argued by Grant [63] and Teece [64]. In South Africa, these include restrictive labour laws, undeveloped human capital, and a lack of knowledge of international languages and cultures and norms and beliefs that increase psychic distances with potential foreign markets.

The limitations of this study include the small sample of South African SMEs used in the mixed methods survey and the eclectic comparative multiple case approach used in the secondary data analysis. Although the eclectic secondary data methodological approach is useful in situations such as that confronted by researchers in attempting to find conceptual explanatory threads in the large and extraordinarily complex 'messy' process of SME internationalization, it nevertheless remains impressionistic and open to different interpretations [36,39]. Additionally, the eclectic multiple-case comparative secondary data are vulnerable in terms of the reliability and validity of the data and analysis of the original studies themselves [36]. Furthermore, although the secondary data cases reported in the current study each constitute a detailed and comprehensive study in their own right, they were only reported in the outline for the purpose of highlighting the KEQs pertinent to building the model [37,38].

The practical implications of the tentative model suggest that contextual factors are less important (except those providing a sustainable competitive advantage) in generating integrated and environmentally sound sustainable SME internationalization. The results also show that sustainable SMEs' internationalization in developing countries requires universalized business skills such as a workable knowledge and understanding of foreign cultures and languages of countries with which they trade (to minimize the effects of psychic distance) and the development of skills and knowledge of trade law and export administration and sustainable business practices. SMEs in developing countries should also aim to remove local institutional factors such as financial red tape, labour and export law inimical to trade development and sustainable internationalization through political lobbying and pressure on the government. As the Economist [65] puts it, internationalization " ... needs to respect the use of trade tools to help deliver geopolitical security environmental and human rights goals. However, it should also recognize the risks of asking trade to do too much." This is especially true for developing countries in which SMEs need to internationalize, which primarily serves to augment economic growth and alleviate poverty in the initial phase. Developing countries' SMEs investment in foreign trade therefore should aim first at human capital goals that maximize profits and minimize unemployment and only later move towards integrated trade that focuses on universal factors that characterize sustainable internationalization and which balance purely economic goals with social and environmental objectives.

Considering the insights obtained in the study from local primary and general secondary data sources, future research should focus on testing the exploratory model of sustainable SME internationalization in emerging countries using the same or a similar methodological approach. Such research will enhance the development of the theoretical and conceptual tools of the internationalization process that help unravel its complexity and offer a knowledge base and prescriptive steps for its successful and *sustainable* implementation.

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