

# Internationalization of Service SMEs: Perspectives from Canadian SMEs Internationalizing in Asia

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# **Internationalization of Service SMEs: Perspectives from Canadian SMEs**

## **Internationalizing in Asia**

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# **Internationalization of Service SMEs: Perspectives from Canadian SMEs**

## **Internationalizing in Asia**

### **Abstract**

This study investigates how service small and medium scale enterprises (SMEs) overcome challenges of internationalizing when expanding to more institutionally distant markets. The data is qualitative and collected through a forum on the internationalization of service SMEs. We examine high tech service SMEs from Alberta, Canada where most internationalization has occurred within NAFTA. We develop an understanding of how these firms need to consider the unique environments in institutionally distant economies to successfully enter Asian markets. Using industry and country experts, we develop a 4P (Potential, Proposition, Presence, and Policy) framework for service SME strategies to expand to China, India, and Korea. The paper contributes to the sparse literature on the internationalization of service SMEs into institutionally distant markets.

**Key Words:** Small and Medium Sized Enterprise (SME), Services, Internationalization, Institutional Distance, Asia, Canada

## **Introduction**

This study contributes to the literature on Small and Medium Sized Enterprise (SME) internationalization by examining how SMEs in the service sector overcome challenges of internationalizing to countries at greater institutional distances. Extant research has shown that there are a number of restrictions to trade in services in developing economies such as Brazil, Russia, India, China, and South Africa (Khatun, Banik, & Bhaumik, 2019) and particularly in Asia (Banik & Bhaumik, 2014). We examine the knowledge (Stoian, Dimitratos, & Plakoyiannaki, 2018) requirements for developed-country service SMEs to expand beyond their home region into Asian countries (Banik & Bhaumik, 2014; Luo, 1999). Specifically, we examine entry into China, India, and Korea, by Canadian high-tech service SMEs.

Service SMEs play an expanding role in international markets (George, Wiklund, & Zahra, 2005). However, the internationalization literature has focused more on the activities of manufacturing MNEs (Menzies & Orr, 2013; Singh, 2017). In addition, there is considerable debate among scholars about the applicability of international business (IB) theories for understanding the internationalization of services (Javalgi & Martin, 2007; Singh, 2017).

We address the above gap by examining the challenges that Canadian SMEs in the high-tech service sector face when internationalizing in Asian countries such as China, India, and Korea. This is a timely topic for Canadian SMEs as they face an environment of growing uncertainty in political and economic relations with the United States. Growing uncertainty over the future of NAFTA is driving Canadian SMEs to look for opportunities in geographically and institutionally more distant countries.

We make the following contributions. First, we add to the sparse research on the internationalization of service SMEs in the high technology sector by developing insights from the practical knowledge of regional experts. Second, we add to the theory examining the

internationalization of service SMEs, specifically through a process perspective. Third, we add to the discussions on policy to help inform governments wanting to facilitate internationalization of SMEs.

## **Review of Literature**

### *Internationalization of Service SMEs*

Several studies examine the factors associated with ‘why’ and ‘how’ SMEs internationalize (Hollenstein, 2005; Lamb, Sandberg, & Liesch, 2011). Findings from these studies indicate that SMEs differ in their business models from large firms in terms of scale of operations, processes, and managerial style (Child et al., 2017). Since SMEs have substantially fewer human and capital resources needed to internationalize (Brouthers & Nakos, 2004; Buckley, 1989), they tend to be at a disadvantage expanding into international markets (Reuber & Fischer, 1997).

While service SMEs are active in international markets, they face several distinct challenges from manufacturing firms. (Dunning & Kundu, 1995; Moreira, Maia, Sousa, & Meneses, 2013). The most commonly cited distinctions between services and goods are: (1) heterogeneity (variability), (2) inseparability (simultaneity of production and consumption), (3) perishability of the output, and (4) intangibility (Buckley, Pass, & Prescott, 1992; Goerzen & Makino, 2007). These distinctions matter to firms that are expanding to markets that are distant because it requires them to address the challenges of intimately engaging with a target market far from home (Clark, Rajaratnam, & Smith, 1996).

### *Distance and the Internationalization of SMEs*

Firms that internationalize must adjust to contrasting institutional arrangements in their operations (Dunning & Lundan, 2008; Peng, 2003). The greater the institutional distance between a firm’s home environment and foreign environment, the greater is the challenge to effectively adjust (Meyer, Estrin, Bhaumik, & Peng, 2009). This problem is exacerbated when

SMEs operate internationally, specifically where the “cultural norms, demographics, competitive dynamics, and other factors may contribute to difficult-to-understand and hard-to-manage variations in supply and demand patterns abroad” (Javalgi & Martin, 2007, p. 392). The concept of distance is therefore central to explain the variations in the strategies and performance of organizations operating across different countries (Tihanyi, Griffith, & Russell, 2005).

The lack of capital, human, and knowledge resources faced by SMEs make the challenge of entering institutionally distant markets distinct from large MNEs. A typical core competency of the MNE is the ability to create and transfer firm specific knowledge throughout its international network (Gupta & Govindarajan, 2000; Kogut, 2000; Kogut & Zander, 1992). This is not a competency that most SMEs have developed and thus a framework for service SME international expansion will necessarily be rooted in more fundamental considerations of the internationalization process.

## **Objectives**

While extant research has focused attention in the internationalization of manufacturing SMEs, our first research objective is to identify the challenges faced by service SMEs in internationalization of their ventures to institutionally distant countries. The second objective is to identify the mechanisms through which these SMEs can address these challenges and in doing so we aim to suggest a framework that will guide future academic research and also inform managerial practices in internationalization of service SMEs. In addressing the above objectives our research attempts to achieve the following. First, generate insights, using qualitative inputs, on internationalization of service SMEs from developed economies to developing economies. Second, using the above insights, to check the applicability of the current theories on internationalization in the context of service SME internationalization.

## **Rationale of the Study**

Our study is drawn on the premise that firms that internationalize face contrasting institutional conditions in their targeted host countries, and the greater the contrast the higher are challenges to internationalize (Meyer et al., 2003). In particular, internationalizing to developing countries has its own set of problems related to differences in cultural norms, demographics, and other influences that make it challenging to manage operations in these countries (Javalgi & Martin, 2007). Since this research is set to address ‘how’ SMEs address challenges of internationalization the methods used are qualitative and inductive. Adopting a constructivist theory approach, we add iterative insights from data analysis and academic literature to suggest a framework that can potentially drive future academic research and inform managerial practices in the internationalization of service SMEs. This study, we believe is important and timely, because most of extant research on internationalization has addressed the activities of manufacturing SMEs (Singh, 2017).

## **Methodology**

### *Research Setting and Data Collection*

Our research methods are qualitative and inductive. Taking a constructivist theory approach, the study began with the researchers embedded in the phenomenon (Charmaz, 2014). Then, iterative insights were added from the data analysis and academic literature (Charmaz, 2014; Eisenhardt, 1989). We examine the experiences of Canadian SMEs based in Alberta, Canada.

### *Sample and Data Source*

The energy technology and services industry, located mainly in the Canadian province of Alberta, is one of the fastest growing sectors of the Canadian economy. Of the approximately 9,000 energy services firms in Alberta, the vast majority are SMEs in that they offer a substantive service component. These firms support the exploration, extraction, and movement

of crude oil and natural gas. Examples of such activities include drilling and platform equipment management; environmental solutions such as soil remediation; mobile buildings, and other construction related services; and equipment, services, and support for pipelines (Roberts, Kincaid, & Muralidharan, 2014).

#### *Data Collection: Phase One*

The researchers, in association with a large Canadian Asia focused foundation, hosted an energy technology services forum. This forum brought together a mix of energy services consultants, industry experts, country experts, leaders from the business community, and policymakers for panel discussion on how SME energy technology and services companies from Canada can tap market opportunities in Asia. In the forum, panelists and moderators participate in a structured and engaging dialogue on potential business opportunities in Asia.

Our approach roughly parallels an interview / focus group strategy (Daniels & Cannice, 2004; Denzin & Lincoln, 2005). The panelists were given a topic and guiding questions by the researchers. They then worked as a panel for six hours the day before the forum to refine and adjust the topic and questions based on their knowledge and experience. The following day for eight hours, in front of an audience of 100 attendees, the panelists discussed the topics that they had been preparing.

The first panel examined opportunities for Canadian technology and services SMEs in the energy services industry in Asia. The second panel examined the challenges and risks associated with entering and operating in Asian markets. The third panel considered how to create affordable solutions for Canadian firms entering Asia. In total, the forum consisted of 17 participants panelists. All discussions and presentations were transcribed and used as the basis of case reports and subsequent data analysis. Table 1 is a descriptive summary of all participants in the study including those in phase two.



-----Insert Table 1 About Here-----

The insights from the forum were analysed and a summary report was written by the authors of this study. The report was reviewed by the panelist to ensure that it accurately reflected their thoughts and opinions. This member checking provided the study with reliability. Member checking, or having the interviewees verify the veracity of reports, eliminates investigator bias (Erlandson, Harris, Skipper, & Allen, 1993).

#### *Data Collection: Phase Two*

A second set of interviews were conducted with SME executives who were operating in Asia. In this phase, executives were asked to share their experiences about entering into and succeeding in Asian markets. The firms were chosen specifically because they were recognized by the business community as success stories. The interviews used open-ended questions that were guided by the insights from phase one. The interviews were transcribed and used to develop case reports.

The second phase of the study had two advantages. First, it enhanced triangulation. Triangulation refers to using multiple sources of data, methods, and theory to explore the phenomenon of interest (Erlandson et al., 1993). Triangulation is an important method to convey the trustworthiness of the case study results. Second, it provided us with deeper insight into the ongoing challenges of SMEs entering Asia.

#### *Data Analysis Procedure*

The theoretical insights for our model were combined with our data through an iterative process (Eisenhardt & Graebner, 2007). We reviewed the case notes, reports, and transcripts to tag the participants' examples, stories, and facts with a code that reflected what they were expressing. We did this through constant comparison (Strauss & Corbin, 1990) and pattern matching logic (Yin, 2009). Codes were developed and refined as we repeatedly read the data (Yin, 2009).

The second step was to review the data that had been coded to look for patterns that would establish first-order constructs (Basu, Phelps, & Kotha, 2015; Locke, 2001; Stigliani & Ravasi, 2012). The first-order constructs were compared to the existing IB literature and refined using an iterative approach. As the first-order constructs were developed, we looked for patterns that would help us establish theoretically grounded second-order constructs. The first and second order constructs were rearranged and re-conceptualized through numerous iterations until we found that our model best represented our data and no better theoretical construction explained the data (Miles & Huberman, 1994).

For each first-order construct presented in our findings section, we provide representative quotes that illustrate and support these constructs. To assist readability, in the body text when referring to representative quotes, we indicate the figure and the representative quote by figure number and representative quote letter (*F<sub>n</sub>, Q<sub>a</sub>*).

## **Analysis and Findings**

Once we established our second-order constructs, we grouped them into conceptually similar sets of constructs. Our data analysis revealed four sets of second-order constructs. Three sets relate to the initiatives that Canadian service SMEs need to undertake when entering institutionally distant markets (potential, proposition, and presence), and one set relates to external supports (policy).

-----Insert Figure 1 About Here-----

### *Potential*

Potential includes accessing information and developing an understanding of the market. The key second-order constructs in this section are understanding the host country institutions, and understanding the host country market structure.

*Host country institutions*: Understanding risks associated with both formal and informal host country institutional differences is important when expanding to a more distant country (Eden & Miller, 2004). Key observations related to this are shown in Figure 2. The participants suggest that the small size and limited ability to internalize risks through staffing or other means compared to large MNEs (Christian, Julia, & Ruediger, 2011) requires SME managers to personally dedicate sufficient time to understanding the differences in host country institutions before entering the market.

-----Insert Figure 2 About Here-----

*Formal institutions* play a significant role in the host country business environments. Economically developed countries are more likely to possess good quality governance and regulatory institutions that provide the structure in which business transactions occur (Globerman & Shapiro, 2003). As such, managers need to carefully separate the opportunities from the risks that they will face when entering more distant countries. The managing partner of an Indian focused investment firm (P8) emphasized that SMEs need to balance what he calls the economic certainty of Asian markets with the regulatory uncertainty (see Figure 2, Representative Quote a: F2, Qa). Uncertainties in regulations due to changes in policies could hinder the sustainable operations of foreign entities (See F2, Qb). Therefore uncertainties in formal institutions, which are partly manifested in administrative distance (Ghemawat, 2001) may hinder internationalization to Asian economies.

Empirical studies have also found that *informal institutions*, through differences in the national culture of the host country, have a significant impact on the internationalization decision of firms (Chang & Rosenzweig, 2001). Kogut and Singh (1988) found that that differences in culture between home and host countries increased the level of risk in post-acquisition integration.

In addition, differences in national cultures act as a barrier to knowledge sharing in international teams, particularly when adaptation to change is necessary (Grote & Täube, 2007; Walsham, Robey, & Sahay, 2007). Knowledge transfer across cultures is confounded by ambiguity, interference from the sender's or receiver's own cultural background, and lack of equivalence (Holden & Von Kortzfleisch, 2004). Internal uncertainty arises through cultural distance and this encourages the internationalizing firm to search for a way to understand and deal with culturally distant agents (Anand & Delios, 1997; Shenkar, 2001). Representative quotes on informal host country institutions (F2, Qc) and (F2, Qd) support the above discussion. *Host Country Market:* Differences in market structure center around economic and demographic distance (Berry, Guillen, & Zhou, 2010). Canadian service SMEs who have been operating in the NAFTA environment will face radically different market structures, size, customers, and business gestation periods in most Asian markets. As illustrated in Figure 3, these conditions are not necessarily characterized as better or worse, but rather as fundamentally different.

-----Insert Figure 3 about here-----

*Market size* represents a rather counter-intuitive problem for service SMEs. The large and more centrally controlled economies of Asia, particularly China, can overwhelm service SMEs' capacity to deliver. Extant literature examining market size has established that market size influences entry mode decisions (Chung & Enderwick, 2001). The size of the markets in Asia are very large compared to what Canadian SMEs experience in their regional markets as observed by our participants in (F3, Qa) and (F3, Qb). For example, the President of an energy consulting firm (P2) pointed out that SIOPEC is drilling over 500 shale gas wells in one Province in China in one year. This alone dwarf the Alberta market.

The managing partner of a business investment firm (P4) explained that while deals can take time to close in Asia, once they do, the sheer size of the market can mean that SMEs are

dealing with orders larger than their entire home market yearly sales (see F3, Qc). Thus, the opportunity can overwhelm the capacity of a service SME to deliver. The CEO of an energy firm (P13) asserts in (F3, Qd) that SMEs cannot just “show up” in Asia and attempt to look for business deals. SMEs need to develop clarity on the opportunity and how they can position their service in the supply chain.

Compared to manufactured goods, customer needs can be significantly different for services in more distant markets. *Knowledge of the customer* needs and operations determines the adaptability of services in these markets. This is particularly important for SMEs as they may not have the internal resources to anticipate these differences. As the President of an environmental firm (P19) stressed in (F3, Qf), SMEs must invest in research before they bid for work. An industry development director (P10) recommended a focus on technology demonstration well in advance, to avoid introducing solutions that may not work for the context of the consumer (see F3, Qg).

The time required to understand distant markets can lead to increased *gestation periods*. Asian markets are characterized by patience and fortitude. Deals that can be concluded in relatively short periods in the North America can take several years to develop in Asia. The CEO of an India focus association (P12) stressed that gestation periods can take years before firms really make large profits (see F3, Qi). Hence it is recommended that service SMEs planning internationalization in Asia have the flexibility of time as suggested in (F3, Qj) and (F3, Qk).

### *Proposition*

One of the most important steps that SMEs need to follow when entering Asia is to gather and act on information needed to develop adequate value propositions for the target market. The key findings that we classify under proposition are: developing a clear strategic orientation; modifying product offerings to achieve differentiation; and, delivering service offerings at an

appropriate price (see Figure 4).

-----Insert Figure 4 about here-----

*Strategic Orientation:* The costs and risks due to institutional distances that a firm will incur when entering an Asian market will make failure nearly certain without the time and resources to ensure that the firm strategy is optimized for the context. SMEs entering the Asian market must incorporate a long-term orientation (Hofstede & Minkov, 2010; Mintu, 1992) into their strategy. A CEO of a National Industry Association (P5) argued that “the get in, get done, get out” typical mentality of Canadian SMEs firms may be a strength in the North American market, but may be a short-sighted strategy in Asian markets (see F4, Qb). A senior government representative (P20) lamented in (F4, Qa) that Canadian SMEs have a reputation for short-term commitments in Asia.

Another area of firm strategy that service SMEs need to examine when entering into more distant markets is the structure of their value chain. One way is through *outsourcing*. Given that there are substantial cost and technological differences in Asia, firms must be prepared to source inputs in Asia when they are better or cheaper (See: F4, Qd).

*Product Offering:* The second dimension of proposition is for service SMEs to understand the transferability of a product offering into a more distant market. Firms should consider how their value proposition can translate into Asia. The importance of the role of marketing and design capabilities has been established to be key factors that influence the launch of luxury goods in China (Bettiol, Chiarvesio, Di Maria, & Tabacco, 2016). The main dimensions for service SMEs in the high tech sector, as shown in Figure 5, of this are complements that build on core competency, differentiation, and pricing.

-----Insert Figure 5 About Here-----

The strategic imperative for service firm SMEs expanding to distant markets is to ensure that they focus on *complements* that build on their core competency and finding local solutions

for areas of weakness. A director of industry development (P10) suggests in (F5, Qb) that to be successful, SMEs need to be innovative and creative in their offerings to the market. By examining the supply chain operations in the host country, SMEs can look for opportunities that can be complemented by their offerings.

Canadian service SMEs will have no possibility of competing in Asia without a focus on *differentiation*. The President of a Canadian based energy consulting firm (P2) says he only encourages service SMEs to enter Asia when they have a niche product that is not competitively available in the market (see F5, Qd and Qe).

*Price sensitivity* is another important factor that needs to be considered by SMEs when introducing service offerings to Asia. Pricing of the service influences almost every aspect of the business. It will directly impact revenue, and thus affects margins. In Asia, pricing is very competitive, and customers are very sensitive to price as suggested by the CEO of an India focused association (P12) (see F5, Qg).

The President of an environmental company (P19) said it became clear to him when entering the Korea market that they would never be able to compete on price. If they tried they would fail to achieve required margins. Since they had a technology solution for which they could make a strong business case they were able to avoid price pressures. If the product is differentiated well in the market, customers are willing to pay a premium price as was observed in the Korean market by the CEO of an environmental engineering firm (P18) (See F5, Qi).

### *Presence*

After assessing potential and developing value propositions to enter Asia, service SMEs need to establish a local presence to realize their plans in these markets. The key findings here are that SMEs identify a strong partner in the region and to build strong relationships with the customers. Forming partnerships through trust has been established as a key mechanism in the international

entrepreneurial processes of SMEs (Schreier, Scherrer, Udomkit, & Farrar, 2019). We discuss our findings on the each of these second-order constructs as follows.

*Partner identification:* The panelists discussed the importance of having a local partner and the quality/type of partners (see Figure 6). Local presence is indicative of the entry modes proposed by the FDI theory of internationalization (Jan Johanson & Vahlne, 1990). Local presence decreases the transaction costs associated with entering foreign markets through exporting or other arm's length approaches such as licensing and contracting.

-----Insert Figure 6 About Here-----

The challenges of institutional distance make it impractical to conduct business without leaving Canada. This means establishing a local office and putting boots on the ground. As mentioned by the President of a Canadian energy company in (F6, Qc), there are challenges in managing from a distance in terms the efforted required to establish local relationships.

Over and above the benefits of proximity to customers, presence is a mechanism to establish credibility in Asia. This was expressed by the President of a Canadian energy consulting firm (P2) operating in China in (F6, Qa) and by the CEO of an environmental firm operating in Korea (P18) in (F6, Qb). SMEs in Canada's energy services industry have specialties that are harnessed by Canada's innovative institutions, which are generally not well connected to Asia. Our panelists have therefore stressed the importance of the *quality and type of partners* that are selected to represent the SME in Asia (see F6, Qg).

One way for SMEs to establish a local presence is to find an appropriate local partner who can provide access to and intelligence on the local market. The importance of partnering was confirmed by a director of sales and marketing (P21) in (F6, Qe) and (F6, Qf).

Partners can also be identified in regional firms. These firms may enjoy more favorable access to the market and factors of production in their home country (Dunning, 1980; Nachum,



2003). As geographic distance increases so do the travel time costs and the adverse effects that frequent long-distance travel has on managers' ability to assimilate new knowledge from a new market.

Another solution is to find an international partner. SMEs do not always have to find an Asian partner. There are opportunities to enter Asia with a large foreign firm that is already operating in Asia. If an SME has services that are in demand in Asia and not being offered by one of the larger firms, developing a contract relationship with that firm can be a relatively easier and safer way to enter into the Asian market.

*Relationship Building:* A critical success component is to invest the effort needed to establish a relationship in Asia. With limited managerial resources and attention, one of the most difficult but crucial tasks for service SMEs looking to enter the Asian market, is relationship building (See Figure 7). Customers in Asia, as expressed by the participants, value relationships over short-term profits. The CEO of an environmental firm (P18) who has spent over a decade building his Asian presence stressed that "transactions come after a relationship has been established (see F7, Qa).

-----Insert Figure 7 about here-----

The key findings here emphasize a *focus on relationships* as opposed to mere transactions for success in these markets. Canadian SMEs need to change the way they view business transactions when operating in Asia. An international lawyer (P4) argues that while in North America we often see successful transactions leading to a good relationship, it is the opposite in Asia (F7, Qb). Relationships lead to transactions. A focus on relationships leads to *trust building* (Bstieler & Hemmert, 2010), which is very essential in a local partner (Li, 2003). A director of sales and marketing (P21) believes that the trust he has built with his Korean partner has led to a sense of mutual interest. As such, he does not fear that his partner will look to cut him out of the

business (F7, Qd). The President of an Asia focused foundation (P12) argues that in India, the institutional weakness can make contract enforcement nearly impossible. However, with trust, a number of conflicts that SMEs may face can be dealt without involving the courts (F7, Qc).

### *Policy*

One observation from the panel discussions is that Canadian SMEs have been cautious about internationalizing their operations to Asia (especially to China and India). The task seems overwhelming for SMEs. Studies show a positive relationship for internationalization between internal firm-related factors (such as the perceived challenges that firms have in addressing distant developing markets) and the assistance that is available from external institutions such as the government (Shamsuddoha, Ali, & Ndubisi, 2009).

*Home country support* : Czinkota (1994: 96) suggests that internationalization assistance programs should be tailored to organizational characteristics and capabilities of the firm. The government and other external agencies' assistance helps SMEs develop their organizational capabilities and competencies to needed address challenges and risks in distant markets and to exploit international opportunities. Francis and Collins-Dodd (2004) provided empirical support to argue that a greater use of export assistance was found to contribute to a firm's ability to obtain international market knowledge. This enhanced internationalization capabilities and competencies of Canadian SMEs during the early stages of export operations. These findings speak to information access and resource availability for internationalization (see Figure 8).

-----Insert Figure 8 About Here-----

SMEs going to Asia can find support in terms of *information* on the markets from government departments (F8, Qa) and trade commissioners at the embassies (F8, Qb). The CEO of an environmental firm (P18) argued that in some energy services subsectors, such as clean technology, the Canadian government and non-governmental organizations could assist SMEs in

creating partnerships with Asian companies in order to develop and demonstrate Canadian technologies in Asia.

SMEs in the Canadian energy services industry have access to many affordable programs that provide *resources* to help them prepare for market entry. One such agency is the Export Development Canada (EDC), which provides training and development and financial support. Government support may also be available for development of appropriate technology for the various international contexts as suggested by the President of a Canadian environmental company operating in Korea. (F8, Qc) and (F8, Qd) are examples of direct financial resources that are provided to firms by government or quasi-government organizations.

### **Discussion and Conclusion**

This study examines the internationalization of knowledge-based Canadian SMEs in the energy and environmental technology services industry. In the case of intangibility of the service, since customers do not possess the knowledge to assess the quality of advice provided by the service provider, they tend to evaluate based on brand reputation, country of origin, and relational skills of the service provider (Dahringer, 1991). This is supported by our findings that Canadian SMEs need to develop their value propositions through product offerings that build on their core competencies. Moreover, these offerings must be appropriately differentiated and offer the value-based pricing needed to suit the Asian markets.

From a theoretical perspective, three general research perspectives have been identified in the literature that explain internationalization (Jan Johanson & Vahlne, 1990): (1) FDI Theory; (2) Stage Models of Internationalization; and, (3) Network Theory. From the FDI perspective, firms choose the organizational forms that reduces transactional costs. The Stage Theory, which is one of the most commonly used, suggests that firms begin internationalization with low risk opportunities, such as exporting to similar (or “psychically close”) markets. Then, over time and

through experience, firms increase their commitment to more “psychically distant” markets (J. Johanson & Vahlne, 1977). The Network perspective argues that internationalization occurs because of interaction and development of a multitude of relationships both formal and informal (Jan Johanson & Mattsson, 1987; Jan Johanson & Vahlne, 1992).

While the FDI perspective suggest that firms internationalize in a manner to maximize control and internalize firm specific assets, the findings in this paper do not directly address this concern of cost. In fact, in most ways the expansion of Canadian SMEs to Asia will lead to more complex organizations that will be inherently costlier. Regarding the stage theory of internationalization, our findings acknowledge initiatives that firms need to take to overcome psychic distance in Asian markets. However, the context here does not describe a gradual move to more distant markets based on firm competencies. Rather, these Canadian SMEs are looking to expand beyond NAFTA because of an externality (the potential loss of the US market under “America First” economic and political policy). Thus, rather than a stage it is more of a leap.

Our findings show maximum reference to network theory, in terms of the focus on relationship as opposed to contracts, and that relationship building is the key mechanism to build sustainable business models in Asia. In this study, we find elements of all the above three perspectives. From a theoretical perspective, while there is indirect support to the wholistic or integrated understanding of managerial processes in the internationalization of service SMEs to Asia (Coviello & Martin, 1999; Etemad, 2004), our findings tend to lean more towards network theory for building sustainable business models in Asia.

### **Managerial Implications**

From a managerial perspective, we suggest that the 4 P framework i.e. Potential, Proposition, Presence, and Policy, can inform key initiatives that managers of service SMEs can take to address challenges that they may face when internationalizing to institutionally distant countries.

Service SMEs need to evaluate the *potential* before deciding to enter the market. They need to understand the host country institutions, both formal and informal, and the market structure in terms of size and the nature of the value chain. They also need to understand how customers make decisions and at what level decisions are made. One key finding is that, since developing business relationships in Asia is time consuming, SMEs will need to be patient.

In terms of potential SMEs need to develop value *propositions* relevant to the Asian market. They need to be long-term oriented in their approach to Asian markets. They need to build off their core competencies such as brand and country of origin reputations to offer niche service proposals to Asian markets. Such offerings need to add value to what is available in these markets. Pricing is also another concern in these markets as Asian customers are very price sensitive.

Finally, to realize their plans in Asia, service SMEs need to invest in a local *presence*. To enter they need to have local partners who know how business is done and can communicate well about the SMEs' offerings to customers. In all transactions, the focus of these SMEs needs to be on relationship as opposed to contacts. Relationship building mechanisms for both partners and customers is therefore the key to success of the service SMEs in Asia.

SMEs also need *policy* support from the home country government, and quasi-government organizations. Many SMEs are not able to or are not willing to internationalize because of a lack of knowledge of opportunity and limited resources to address distant markets. Policies need to be developed that facilitate export (service export) promotion to can help SMEs overcome challenges of internationalization to institutionally distant markets. Extant research suggests that such internationalization promotion programs enhance competence of SMEs and also facilitates the internationalization activities of such firms (Francis & Collins-Dodd, 2004).

We believe that our framework can inform managerial initiatives and help future research

in teasing out specific measures and mechanisms that service SMEs can adopt to overcome challenges of institutional distance when entering Asian markets.

### **Limitations and Future Research**

As mentioned earlier, research on internationalization of service SMEs is limited. While our research attempts to address this gap through a qualitative study using an inductive approach for analysis, we wish to present some limitations and hence areas of future research as follows. The first is in regard to the generalizability of our findings. Our findings focus mainly on entry into Asian markets by developed country service high tech SMEs. Future research may follow up our study using empirical data to test the success such SMEs using firm performance data on internationalization. Second, future research can also examine other contexts such as internationalization of service SMEs to Latin American, East European, and African countries (Ulrich, Hollensen, & Boyd, 2014; Iammarino & Pitelis, 2000). Third, the internationalization challenges faced by service SMEs from developing economies to other developing economies and even to developed economies can be areas of future research (Ahmed, Rifat, Nisha, Manirujjaman, & Shrensky, 2016; Gonzalez-Perez, Vasquez-Melo, & Rios-Molina, 2015; Muralidharan, Wei, & Liu, 2016). Fourth, while the present research has examined the challenges of Canadian SMEs in internationalization to China, India, and Korea, internationalization to these countries may require different entry modes. Future, research may examine the role of entry modes in addressing the challenges of internationalization by service SMEs (Huang, Han, Roche, & Cassidy, 2011). Fifth, the challenges could differ based on the nature of industry in which the service SME is operating in. While our study examines the context of high technology energy sector (oil and gas sector), future research may examine other service industries such as banking, software, hotels etc. (Khatun, Banik, & Bhaumik, 2019). Finally, while we have suggested the role of policy in the home country that influence formal

institutional support for service SME internationalization future research may examine the role of informal institutions of the home country in the internationalization processes of service SMEs (Muralidharan & Pathak, 2017).

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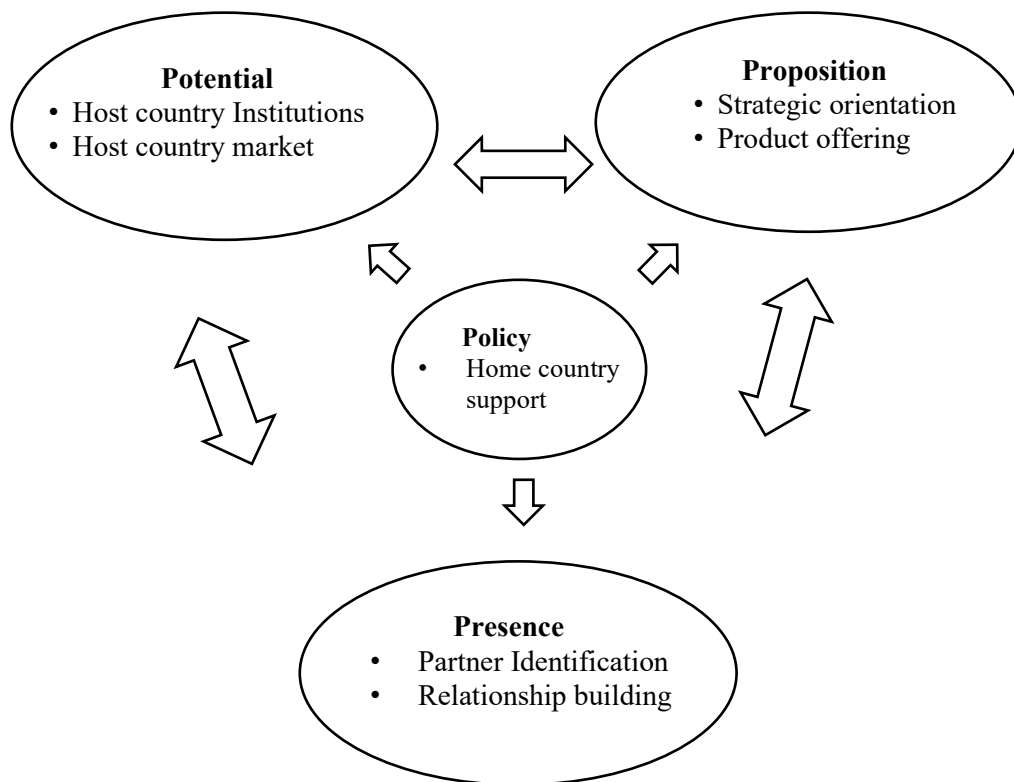
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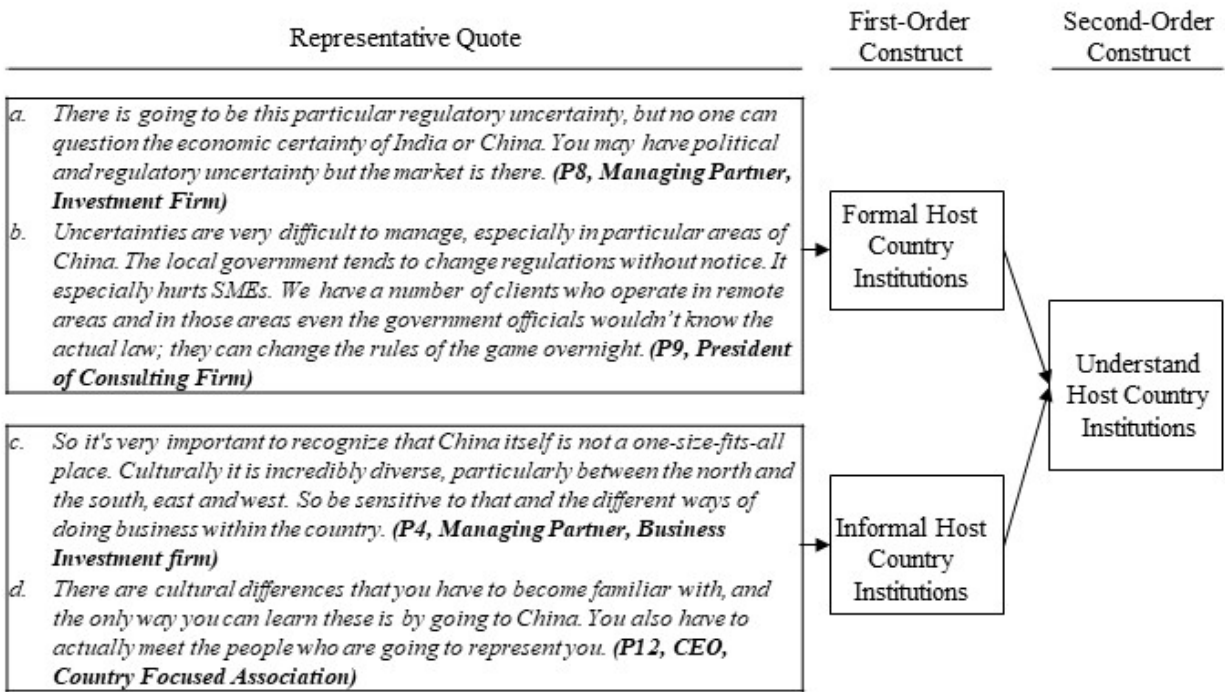
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**Table 1: Descriptive summary of the participants**

#	Job Title	Organization Type	Country of Focus	Role
1	Regional Manager of Asia	Government	Asia Region	Moderator Panel 1
2	President	Energy Consulting Firm	China	Panel 1
3	Executive Director	Country Focused Association	China	Panel 1
4	Managing Partner	Business Investment Firm	Not specific	Panel 1
5	President and CEO	National Industry Association	Not specific	Panel 1
6	Professor	University (Business Law)	Not specific	Moderator Panel 2
7	Managing Partner	International Law Firm	China	Panel 2
8	Managing Partner	Investment Firm	India	Panel 2
9	President and CEO	Consulting Firm	China	Panel 2
10	Director of Industry Development	Government	Not specific	Moderator Panel 3
11	CEO	Not for Profit Corporation	Not specific	Panel 3
12	President and CEO	Country Focused Association	India	Panel 3
13	CEO	Energy Firm	China	Panel 3
14	Dean, School of Business	University	Not specific	Speaker
15	President and CEO	Asia Focused Foundation	Asia	Speaker
16	COO	Chinese Energy Firm	China	Keynote
17	Minister	Provincial Government	Not specific	Keynote
18	CEO	Environmental Firm (SME)	Korea & Asia Region	Post Conference Interview
19	President	Environmental Firm (SME)	Korea & Asia Region	Post Conference Interview
20	Senior Asia Rep	Government	Asia Region	Post Conference Interview
21	Director, Sales and Marketing	Engineering Firm	Asia Region	Post Conference Interview



**Figure 1: 4P framework of SME internationalization to institutionally distant markets**



**Figure 2: Potential - Understand Host Country Institutions**

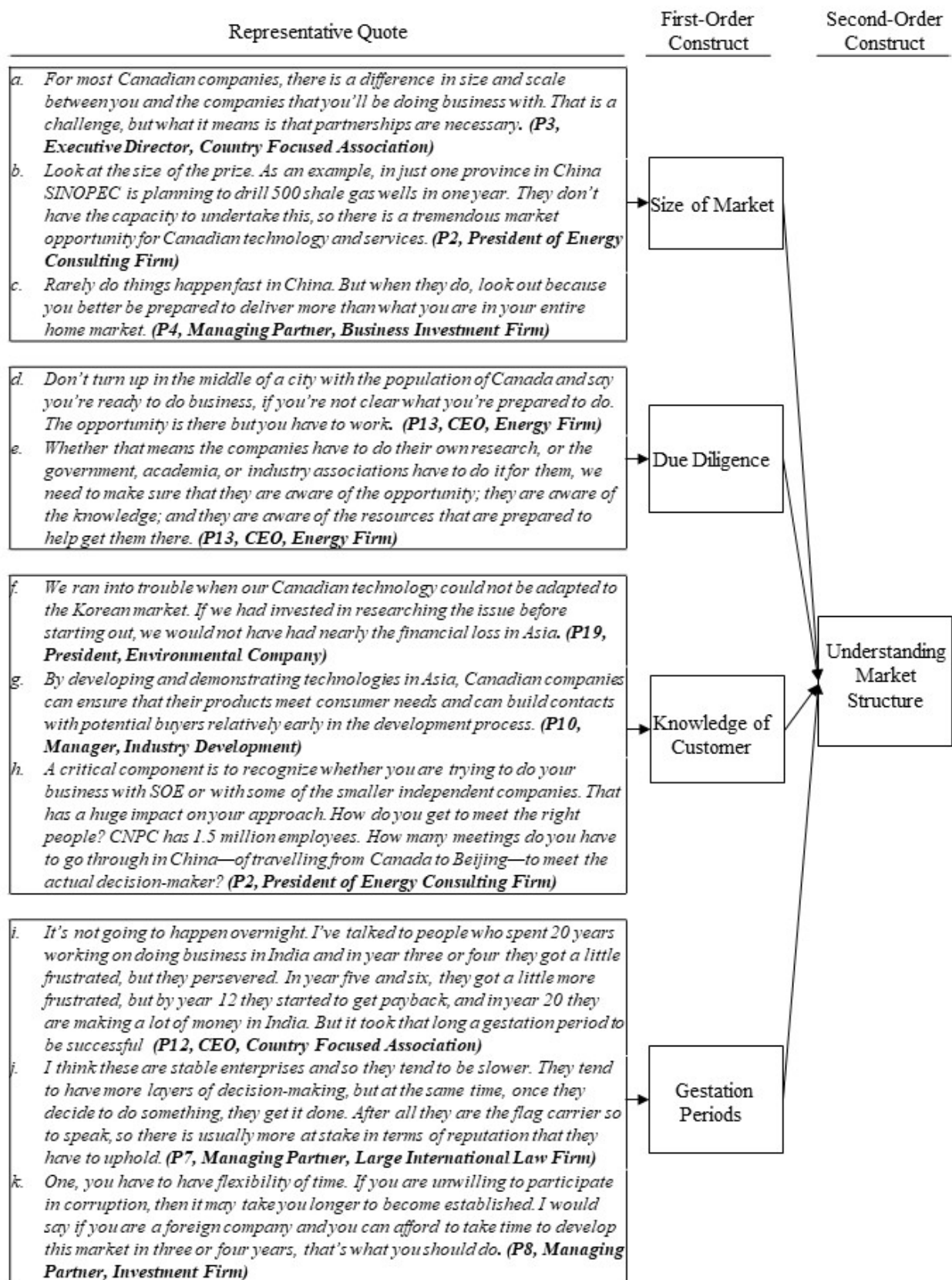
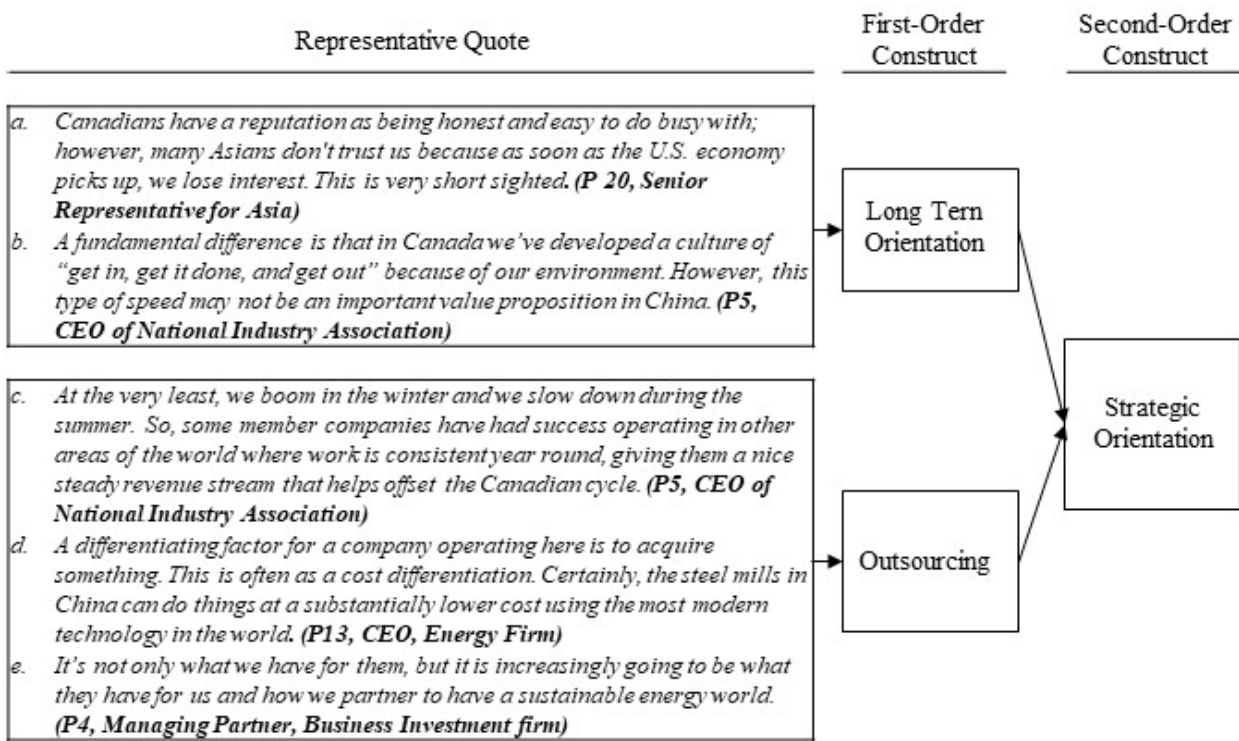
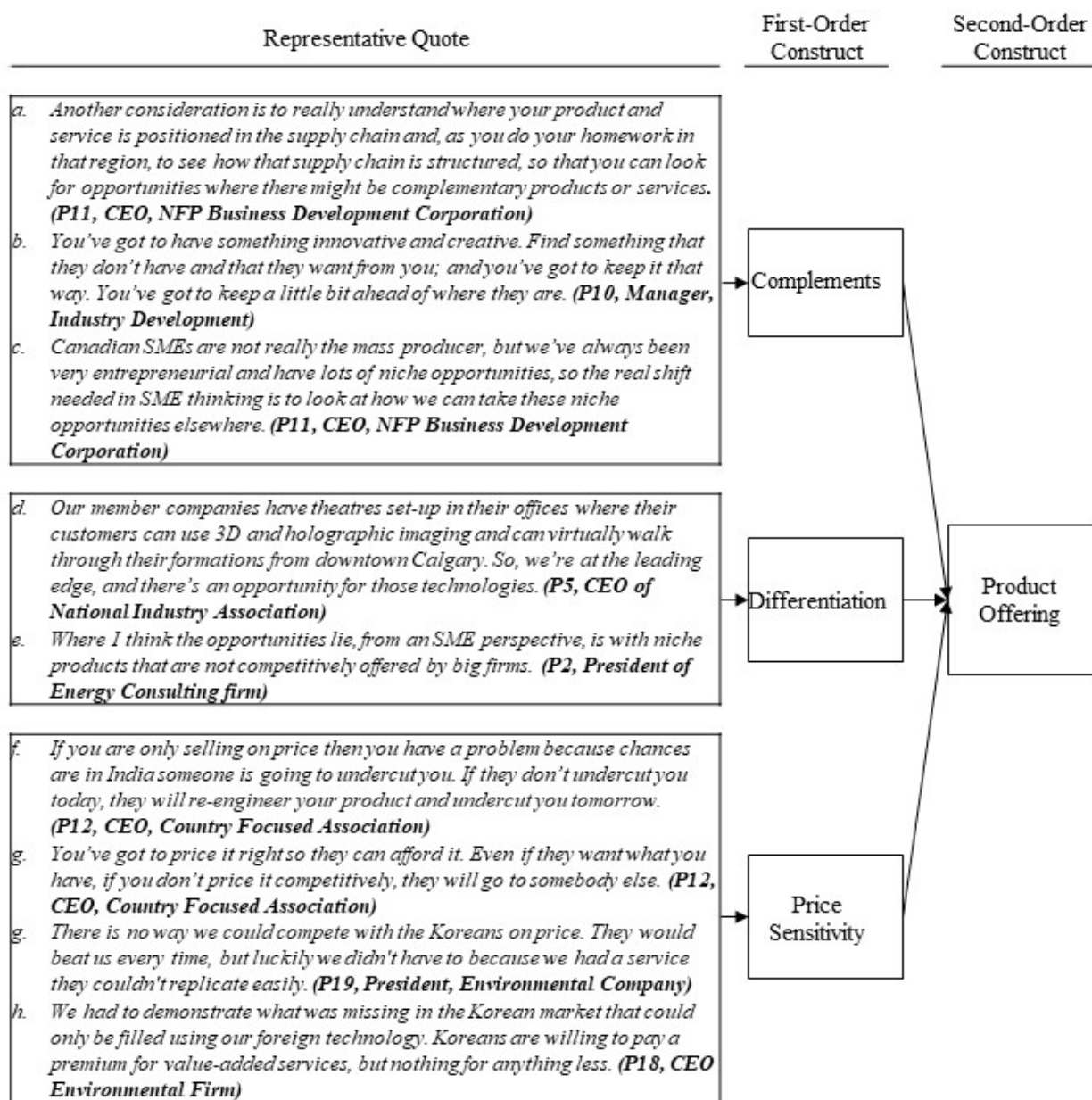


Figure 3: Potential - Understanding Market Structure





**Figure 4: Proposition - Strategic Orientation**



**Figure 5: Proposition - Product Offering**

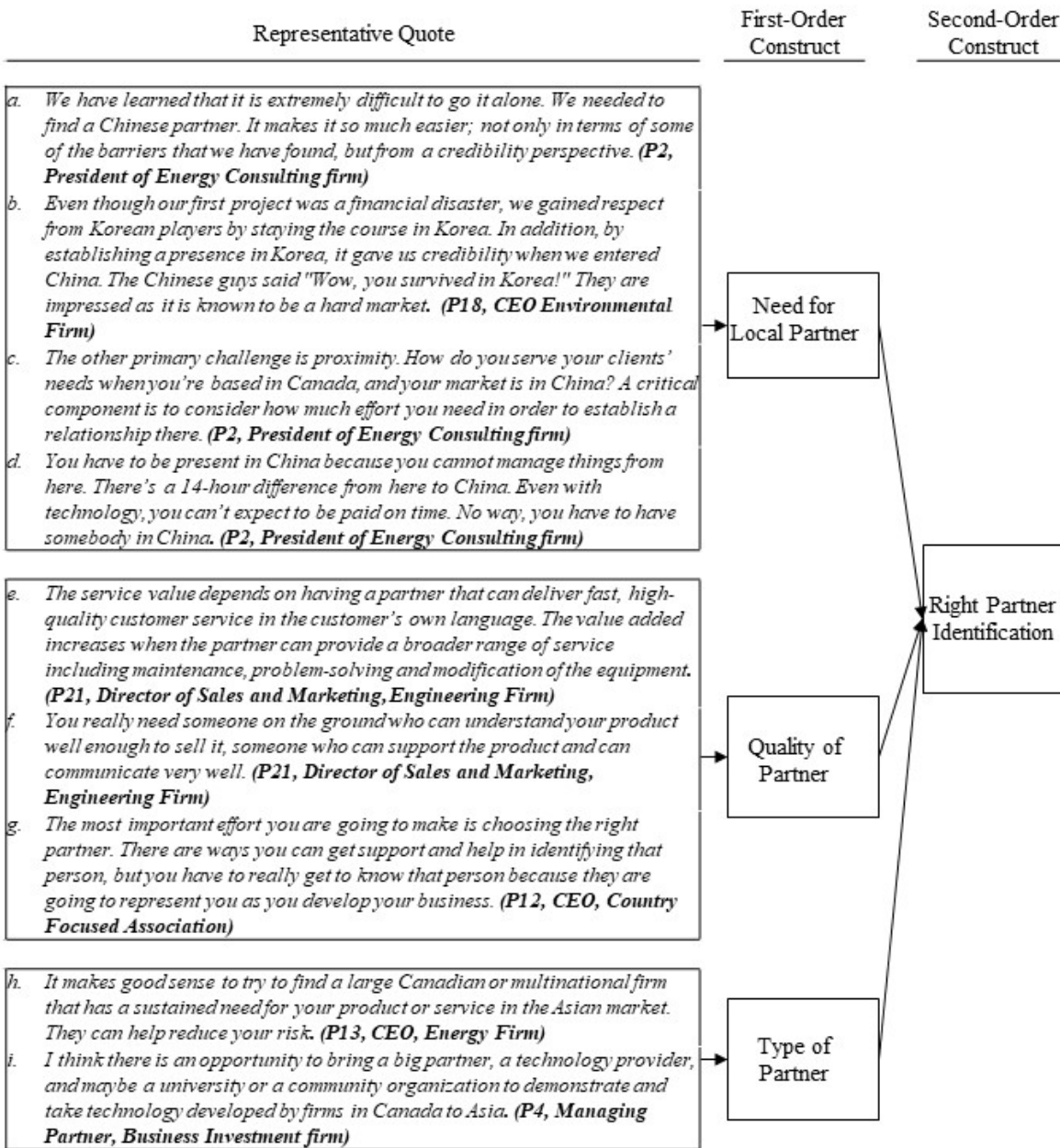


Figure 6: Presence - Partner Identification

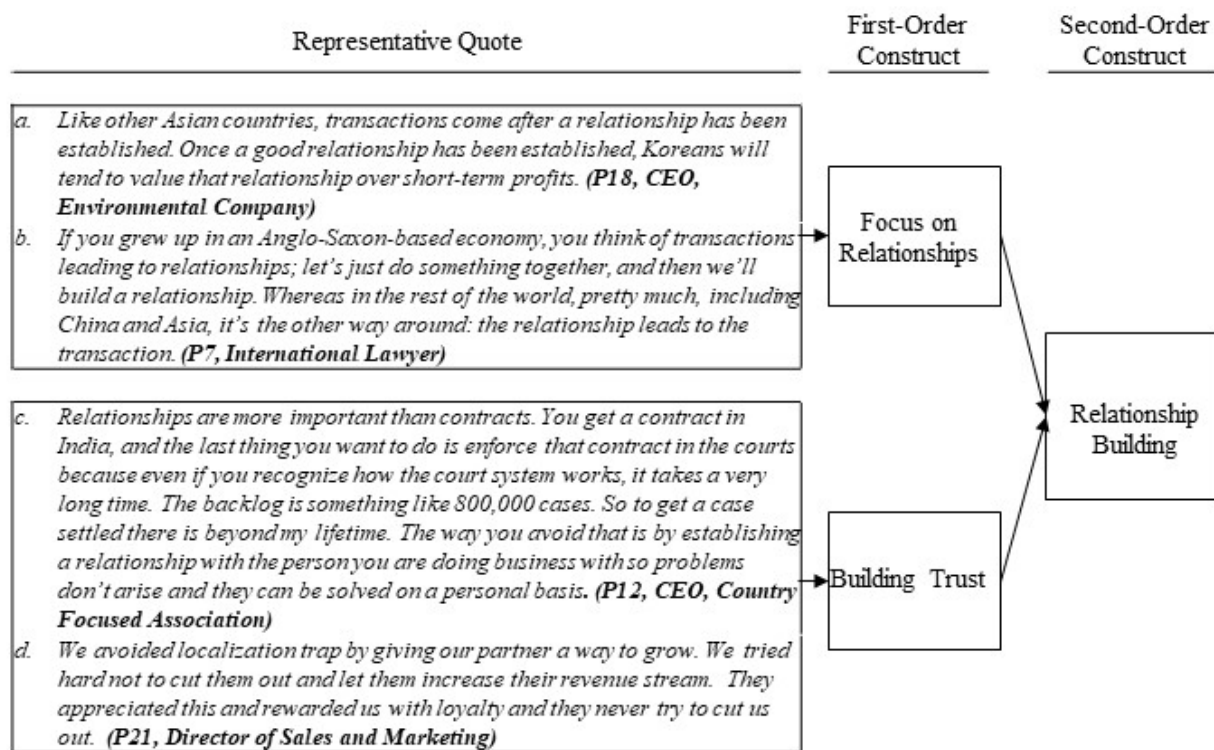
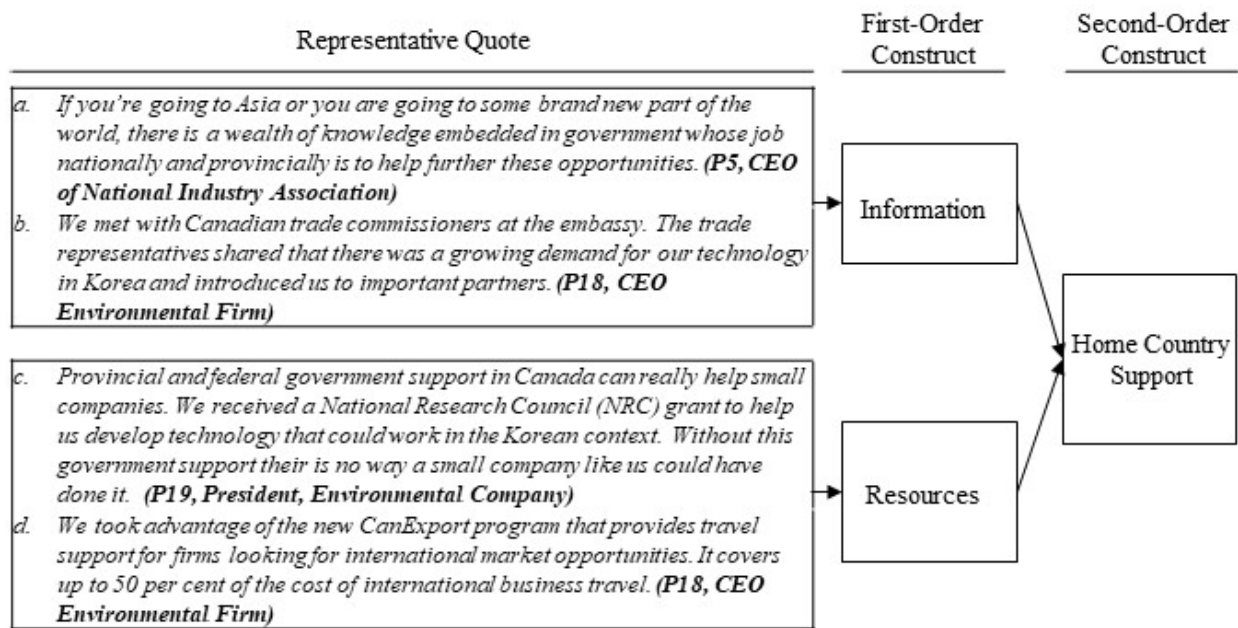


Figure 7: Presence - Relationship Building



**Figure 8: Policy - Home Country Support**