The tangible and intangible Processes of Internationalization: the Argentinean SMEs

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Abstract
This study reviews the concepts of tangible and intangible internationalization using a data from Argentinean SMEs. The findings suggest that managers may have to make a strategic commitment to upgrade and expand firms’ resources and capabilities to achieve long term internationalization. The results offer evidence that becoming an international company is not only about having a physical presence in a foreign market. It is important to re-focus the firms’ outlook from competing in a protected domestic market to competing in markets with a strong presence of international companies. In addition, managers may have to shift their focus from short-term rent and profit seeking to long-term internationalization. This research also contributes to the study of internationalization of SMEs as it further expands the concept of internationalization by including a long-term perspective where the company can be international without having a physical presence in a foreign market.

Keywords: emerging economies, internationalization, strategy.
JEL classification: M16, M13

Introduction
Small- and medium-sized firms from emerging economies are seen as having the potential to play an important role in increasing the level of competitiveness and the economic performance of those economies. The transition from a relatively closed economy to a relatively open economy implies that economic agents can trade in goods and services with other agents and businesses in the international community at large. Local SMEs may be forced to meet the productivity level of foreign firms competing in their domestic markets. International competition is no longer a phenomenon that only takes place in foreign markets but also in domestic markets independently of the characteristics of the industry.

As increased competitiveness is the key to competing locally or internationally, a literature review suggests that SMEs may need to expand their knowledge base of world-class requirements and standards, as buyers and sellers in international markets have better access to a wider set of substitutes products (Greve & Salaff, 2003; Zahra et al., 2000). In contrast to the conventional wisdom that it takes many resources to engage in internationalization, firms may instead invest in cultivating collaborative advantages in the form of alliances and networks (Chen & Glen, 2004; Jack et al., 2004). For smaller firms in search of becoming competitive, synergistic operations with selected partners, both buyers and suppliers, appear to help them overcome resource constraints by contributing and sharing a pool of resources of a
The idea of a transition from transaction-specific commitments to institutional commitments incorporates the cultural dimension to the economic perspective. The economic performance depends on general economic rules, how those rules are enforced, the specific institutional structure of each market, and economic change they have undergone in such areas such as lowering tariffs, reforming taxes and the extent of deregulation of financial and labor markets (Johnson, & Robinson, 2005; North, 2005). Internalization strategies of SMEs

The central aim of this paper is to provide an integrative framework to explore the internationalization processes that SMEs from emerging economies may follow. In order to achieve this objective, two different internationalization strategies are presented. The first one is a tangible internationalization. Tangible internationalization (TI) is a restricted and short-term approach defined as a physical presence in a foreign market; it consists mainly of foreign sales, foreign direct investment, physical presence in foreign markets, and foreign suppliers. When a company follows a tangible internationalization, its internationalization strategy is more likely to be susceptible to fluctuations of the exchange rates, costs of inputs, and other resource endowments that are usually tied to a particular geographic location. It is a short-term strategy because it takes advantage of temporary macro- and microeconomics conditions. Importantly, it does not require change at the firm level.

The second one, intangible internationalization, (IT) embodies a comprehensive change in the way a firm reconfigures, develops or secures, and uses resources. It involves facilitating learning at all levels of a firm to increase the stock of knowledge in order to improve flexibility in production and increase the likelihood of developing new processes and resources and thus enhancing the firm’s critical invisible assets (Itami & Roehl, 1987). Intangible internationalization occurs at the firm level and has a weaker correlation with the characteristics of the country in which the firm operates. It is distinct from the geographical dispersion of a firm’s activities in the sense that IT refers to the use of existing capabilities, the development of new ones, and ultimately to an increase in the firm’s level of competitiveness compared to foreign companies. Consequently, a firm is not required to be physically present in a foreign market in order to be internationally competitive to which we refer as “international” for ease of further use. Even market segments consisting of non-tradable goods such as infrastructure, education and restaurant services, which have traditionally been protected from foreign competition, are facing increasing domestic pressure from foreign competitors and from international market trends (Perraton et al., 1997).

The study of the internationalization processes of small and medium sized firms is a complex process that requires

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**Table 1. Characteristics in emerging economies**

<table>
<thead>
<tr>
<th>Institutional Constrains</th>
<th>Macroeconomic Factors</th>
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<tbody>
<tr>
<td>• Judiciary systems</td>
<td>• Economic cycles</td>
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<tr>
<td>• Regulations</td>
<td>• High unemployment rate</td>
</tr>
<tr>
<td>• Taxation system</td>
<td>• No compensatory assistance</td>
</tr>
<tr>
<td>• Labor market</td>
<td>• High inflation rate</td>
</tr>
<tr>
<td>• Welfare system</td>
<td>• Balance of payment problems</td>
</tr>
<tr>
<td>• Political leverage</td>
<td>• Monetary policies</td>
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<tr>
<td>• Lack of managerial expertise</td>
<td>• Asymmetric access to information &amp; to technology</td>
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<tr>
<td>• Lack of consulting services</td>
<td>• Limited access to local and international capital markets</td>
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<tr>
<td>• Lack of administrative structure</td>
<td>• Poor dissemination of information related to international markets</td>
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a multidisciplinary approach. This study first examines the resources and capabilities that firms may need to increase their competitiveness and to be able to face increasing competition within local and foreign markets. The second and final approach is network theory. Given the constrained resources of SMEs, they may seek to establish contacts with other local and foreign firms to create networks to compete in local and international markets. The empirical investigation focuses on Argentina at the firm level. Argentina provides a good test site for a number of reasons including the importance of SMEs for the economy in terms of number of employees, number of firms and percentage of the GDP generated by SMEs. Furthermore, Argentina has chosen a relatively open trade regime and has gone through a liberalization process that has forced domestic firms to compete with multinational firms.

**Theoretical Framework**

The shift from a static view of the world to a dynamic approach has led managers to be more concerned about connectedness, and interdependence in order to pursue business opportunities than control (Alvarez & Barney, 2007; Kirzner, 1973). This matter becomes critically important in the context of emerging economies where firms are not only facing changes in the socioeconomic structure, but also in the surrounding and institutional environments. SMEs may have to challenge the way they have been doing business in the past because they are immersed in a new economic reality (George, 2005; Krake, 2004). The capacity to exploit a new set of opportunities depends, partly, on the strategic decisions made by managers. In some cases, these opportunities require at least a reconfiguration of the activities of the firm. More often, they require the incorporation of new resources, and especially new processes in order to be both competitive and flexible (Gammeltoft et al., 2010; Guillén & García-Canal, 2009).

Firms can be defined as a bundle of different kinds of resources, a set of commitments to certain technologies, human resources, processes, and know-how that the manager-owner marshals. An advantage of identifying the resources is that the resources and capabilities that a firm possesses can be recognized. Hence it may allow managers to identify the investments needed to capture the full economic value of a firm. Firm-specific, combinative knowledge, usually in the form of organizational routines, constitutes capabilities that ensure the performance and competitive advantage of the organization (Johanson & Vahlne, 1977). Moreover, resources are embedded in a complex social context (Barney, 2000; Jack & Anderson, 2002), are path dependent and markets are often incomplete (Barney, 2000; Peteraf, 1993); therefore developing resources may prove crucial for a SME. In particular, managers are required to maintain a certain level of explorative learning to avoid a competence trap (Caldart & Ricart, 2007; George, 2005), and to minimize learning barriers such as defensiveness (Argyris & Schön, 1974; Henfridsson, & Söderholm, 2000), inertia (Collinson & Wilson, 2006; Leonard-Barton, 1992).

SMEs from emerging economies can be competitive if they develop strategies based on valuable, scarce, and difficult to imitate resources (Gammeltoft et al., 2010; Guillén & García-Canal, 2009). To increase the possibility of finding new products and new markets, it helps if managers understand and identify key resources for their firms and share this information with the rest of the company. Managers developing a strategy for the SME's international expansion generally need to know what their resources are and the nature of the input and output markets in which they are competing. Resources deeply influence the expansion strategies that SMEs choose and which resources and capabilities to acquire in order to achieve their strategic plan. Moreover, given the characteristics of SMEs in emerging economies as mentioned previously, SMEs that mainly base their competitiveness on their own resources are constrained in terms of their international expansion. The extent to which SMEs have a strategy to compete in international markets, or survive the pressure in their local markets, is directly related to the extent that they have a clear understanding of the resources that add value to their activities and the complementary resources needed.

**Hypothesis 1:** The greater the senior managers’ understanding and recognition of the resources controlled by their SMEs, the higher the likelihood of having intangible.

Over time, SMEs have seen the nature of their rents change. In a close economy, rents tended to flow from the asset structure that can be achieved by owning a resource that is scare (Ricardo, 1951) or through governmental protection (Bain, 1968). For the vast majority of firms that were competing in closed economies, these two kinds of rents may no longer be achievable when competing in the international arena and even in local markets. Under an open economy, a new type of rent is usually referred to as “Schumpeterian rent”. It tends to flow not just from the asset structure of the firm but also from the firm’s ability to reconfigure and transform itself. It may be achieved through risk-taking and entrepreneurial insight (Cooper et al., 1991; Rumelt, 1987; Schumpeter, 1934). Schumpeterian rents frequently require strong commitments to skill acquisition, learning and the accumulation of organizational and intangible or “invisible” assets (Itami & Roehl, 1987).

In order to engage in intangible internationalization, SMEs may need to 1) improve their organizational structures by creating decentralized organizational processes, 2) examine the environment to identify changes in it, 3) assess markets and competitors (Dawar & Frost, 1999), and 4) reconfigure their abilities before the competition (Amit & Schoemaker,
intangible internationalization.

**How SMEs Access and Secure Resources**

It is becoming increasingly difficult to define precisely where an industry begins and ends. Companies have to collaborate with, and learn from, leading edge customers and suppliers wherever they are located. A senior manager's role in creating strategy is being redefined. Firms may have to focus on corporate competencies integrated systems, sharing opportunities and risks with other firms that may provide the flexibility to work in a rapidly changing business environment.

SMEs, compared to larger firms, face major challenges in terms of securing resources, and these challenges are increased by the characteristics of emerging economies. Increasingly, networking is seen primarily as a “means of raising required resources” [Ramachandran & Ramnarayan, (1993), p. 515]. The entrepreneurship literature has studied the significance of networks to small firms (Arelius & DeClercq, 2005; Dana et al., 2001; Hoang & Antonic, 2003), particularly as a means to obtain resources that smaller firms would not otherwise be able to acquire for their business (Elango & Pattanaik, 2007; Fernández, & Nieto, 2005). Networks are important instruments to ease the constraints facing SMEs in terms of access to capital, labor markets, information and technologies. According to Podolny and Page (1998, p. 59), an economic network is a group of agents that pursue repeated, enduring exchange relations with one another. A broad circle of friends and acquaintances can introduce manager-owners to a wider circle of resource holders, including suppliers, investors, employees, distributors, customers, and regulators (Davidsson & Honig, 2003). In fact, there is already some evidence in entrepreneurship research that entrepreneurs with larger networks identify more opportunities (Hills, Lumpkin, & Singh, 1997) and may enhance the firms' performance (Dana et al., 1999; Zaheer & Bell, 2005). In their domestic markets, SMEs face increased foreign competition and institutional inefficiencies that favor larger enterprises. In addition, SMEs still do not have the experience and standards needed to expand into international markets.

Emerging economies are characterized by macroeconomic and political fluctuations, so flexibility and the ability to muddle through unstable circumstances may be important to becoming competitive. Networks are more flexible in their ability to adapt to change in their environment than hierarchies (Powell; 1990). They may provide a source of stability and business opportunities because “their members are engaged in repeated exchanges that help sustain cooperation–collusion” [Rauch, (2001), p. 1179]. The ability to access, commercialize, and act as a broker of new resources, especially knowledge, is key to improving the competitive levels of SMEs. Where internal resources are important for a firm’s performance (Gnyawali & Madhavan, 2001), resources also can be secured within networks that may allow firms to be competitive locally and internationally. A managers do not only use their s business network to foster internationalization but also their social network. Social networks define as a “set
of nodes (persons, organizations, etc.) linked by a set of social relationships of a specified type” [Laumann et al., 1978, p. 458] can prove fundamental to improve the company’s competitiveness. If a social relationship exists, manager-owners may be able to elicit a resource commitment based on readily available interpersonal ties that eventually may lead to improved performance outcome (Chetty & Agndal, 2007; Zhou, Wu, & Luo, 2007). These ties are most likely to occur in family or kinship networks where close relatives feel motivated or obligated to assist each other although there is an expectation such favors will be reciprocated in the long term (Chen & Glen, 2004).

SMEs are mainly family-owned firms or businesses—with a highly concentrated ownership structure focused on individuals—in which non-economic relations have an important influence in business decisions. A SME may be part of a network not only because it may find complementary resources but also because managers may have friendship ties with other managers. Non-economic reasons may be as important as economic reasons. Socially competent managers may also be more adept at capability building, because of their ability to form non-pecuniary (friendship) ties with various stakeholders, customers, employees, suppliers, distributors, and even competitors (Davidsson & Honig, 2003; Ingram & Roberts, 2000). Some authors, like Burt (1992) argue that non-redundant contacts are a better source of business opportunities. The existence of a “relationship of non-redundancy between two contacts” creates social capital for the actor who is able to link up with a member of the network that possesses complementary resources (Burt, 1992, p. 65). Those managers that act as brokers enlarge the set of opportunities for their SMEs by creating a brokerage opportunity between their contacts, thus giving the firm potentially useful information and control benefits. The present study argues that even redundant contacts can benefit SMEs given the institutional failures in emerging economies. Several authors (Elango & Pattnaik, 2007; Upton et al., 2001) argue that SMEs may have to participate in networks to learn and to expand their pools of resources. A network with a larger firm may help overcome inherent constraints of size and to achieve the efficiencies required for world-class competitiveness (Etemad, et al., 2001).

In conclusion, networks are a vital instrument that SMEs can use to gain legitimacy, and be an efficient source to acquire knowledge about managerial expertise, international markets, and how to incorporate new technologies and vital information in a relatively short time (Adler & Kwon, 2002; Zaheer & Bell, 2005). SMEs do not necessarily have to own, to develop or buy resources in order to secure their use. By putting these changes into effect, SMEs will move from learning from other firms to eventually learning with the members of networks, and therefore, increase the likelihood of achieving an intangible internationalization. This type of strategy is the result of an explicit process that requires being reviewed when new resources and capabilities become available to the firm through learning and networking. It is a two-way iterative process between strategizing, learning, and networking.

**Hypothesis 4:** The greater the pooling of SMEs with similar constraints in terms of infrastructure requirements and governmental support related to export and import activities, the greater the likelihood those SMEs can have an intangible internationalization

**Hypothesis 5:** The degree of participation of a SME in an industry cluster is positively correlated with an expansion of its resources and capabilities.

### Methodological approach

In order to address the hypotheses discussed in the conceptual section, it was decided that a survey methodology would be appropriate. The 10-page questionnaire was developed for this study and it includes three types of questions: data-based questions such as number of employees and exports as percentage of sales, a 7-point Likert-type question, and viewpoint questions such as managers’ impressions about network activities. The questionnaire was translated into Spanish and was pre-tested on a small sample of firms with similar characteristics as the target population. The targeted companies constitute a network called ProPymes, created by the Techint Group in 2002. ProPymes is constituted of small and medium suppliers and customers of the Techint Group, all of them are independent from the Techint Group. From the 250 firms that formed ProPymes in 2006, approximately 40% are suppliers and 60% are customers of Techint. The network includes different sectors such as “industrial machinery” (28%), construction (13%), farm equipment (12%), car parts (7%), oil and gas (5%), and others (13%). The companies compete in different industries and share enough characteristics with the rest of the firms that the findings can explain the internationalization processes of an average company.

ProPymes handled the questionnaire emailing process because the program has continuous communication with the firms, in some cases, almost on daily basis. Each firm in the original sample was contacted either by email, or usually through personal communication, in order to explain what was required and the objectives of this study. Every firm involved with ProPymes received a letter introducing the project, its characteristics and participants and a Spanish version of a questionnaire specifically developed for this project. Each Argentinean SME was contacted at least once, and three additional reminder emails were sent to the non-respondents. Of the 245 questionnaires emailed, 50 responses were received, thus giving a response rate of 18.2%.

### Operationalization of the model

The conceptual component of this dissertation identifies the following set of dependent variables: 1) intangible internationalization, and 2) tangible - internationalization. The questions on the survey were designed to operationalize the concepts described in theoretical framework. Given the characteristics of the sample the only physical presence that the firms have
in foreign markets are their product, therefore, it was decided to use exports as a measure for tangible internationalization. Regarding the operationalization of intangible internationalization, two measures were used. This internationalization strategy is a combination of intangible and tangible internationalization. It involves new managerial processes and organizational capabilities that will improve the capacity of firms to react to and anticipate changes in the market and to reconfigure and develop resources accordingly. Consequently, the operationalization of this dependent variable should capture the actions done by companies to become competitive at international standards. The first operationalization is IntBenchStd. This variable is used as a proxy to represent the importance of having organizational and administrative processes that are at international standards to implement an intangible internationalization strategy (Grant, 1996a; Spanos & Lioukas, 2001). In order to achieve these objectives, managers may have to periodically revise and compare the administrative structure of their firm against international firms in order to incorporate new processes and to modify the organization structure to become more efficient and competitive.

Table 2. Operationalization of the dependent variables

<table>
<thead>
<tr>
<th>Dependent Variables</th>
<th>Definition</th>
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<tbody>
<tr>
<td>Tangible Internationalization</td>
<td>- % of sales outside Argentina</td>
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<tr>
<td>Export%</td>
<td></td>
</tr>
<tr>
<td>Intangible Internationalization</td>
<td>- International standard (Likert)</td>
</tr>
<tr>
<td>IntBenchStd</td>
<td>- Periodic update of administrative structure (Likert)</td>
</tr>
<tr>
<td>NetInvset</td>
<td>- Investment to improve network activities (Likert)</td>
</tr>
</tbody>
</table>

Table 3. Hypothesis 1

Dep. Variable: Intangible Int’l
Measure: NetInvset
Regression: OLS

| Sales2006                          | -2.81e*^-8                  | (1.95e*^-8)   | -2.81e*^-8                  | (1.95e*^-8)   |
| ExchangeM                          | 1.64†                      | (.882)       | 1.64†                      | (.882)       |
| DecisionCuSup                      | 1.07                      | (.771)       | 1.07                      | (.771)       |
| InterBench                          | -2.11                     | (.354)       | -2.11                     | (.354)       |
| NationalBench                      | .825†                     | (.506)       | .825†                     | (.506)       |
| IntensityCompetition               | 1.53                      | (.918)       | 1.53                      | (.918)       |
| ChangeInvM                         | -.813†                    | (.414)       | -.813†                    | (.414)       |
| Constant                           | -9.33                     | (8.88)       | -9.33                     | (8.88)       |

F(7, 20) = 2.61, Prob > F = 0.0435, R-squared = 0.2606, Root MSE = 3.306

Source: author.

The positive sign of this coefficient emphasizes the relevance of knowing what may be the competitive advantage of the firm and its weakness. If a firm is to engage in an intangible internationalization and be competitive at the international level, it must be available to reconfigure, to redeploy its re-
sources and to find – in its network – those resources it may need. For these reasons, it is imperative that a firm knows what its resources are, and their present and future values. The last factor is the change in the firm’s investment in marketing and distribution after joining ProPymes. Interestingly, this coefficient is negative which contradicts the theoretical prediction (see Table 3).

Hypothesis 2 suggests that the change in the efficiency of the work force (ChangeHR) is the only factor that has a statistically significant and positive effect in an intangible internationalization. Human resources have been considered in the academic and business literature as the main resource of any firm; therefore, a trained work force is important. A more prepared and competent personnel, partially because of ProPymes training programs, increases the likelihood of having long-term internationalization. If managers also have a larger pool of capable employees, then it is more probable that these firms will become more competitive.

In addition, there is little incentive to invest in new technologies, new processes or a quality control system if the firm lacks the human resources to take full advantage of these costly investments. A better-prepared and more educated work force is also more aware of the challenges, opportunities, and difficulties that a firm faces. In a country such as Argentina where education levels are not the best by international standards, it may be beneficial to take advantage of any opportunity to train the work force (see Table 4).

Hypothesis 3 states that the more dispersed the knowledge base within the SME, the greater the likelihood of a SME pursuing an intangible internationalization. Three coefficients are statistically significant and all have a positive impact on an intangible internationalization. SMEs that have a formal plan related to their international expansion (FormalPlan) have a higher likelihood of engaging in an intangible internationalization. The creation of a plan implies an understanding of the resources and capabilities of the firm as well as an analysis of the environment. It also makes explicit to the rest of the firm what the objectives of the company are, and what actions would have to be taken in order to achieve those goals.

The next coefficient is the degree of centralization of the decision-making process. Interestingly, it has a positive coefficient which usually is associated with a relatively small number of employees having the necessary knowledge to make strategic decisions.

If this is the case, important knowledge would be available only to a few people in the company instead of being shared with all those who may apply it. On the other hand, a higher degree of centralization may facilitate communication and control within the firm. The explanation behind the sign of this coefficient may also be related to the characteristics of the firms in the sample. A strategic decision such as investing in new
processes, new technologies, or to actively participate in international business will be taken at the highest level. Because of the ownership structure of this type of company, it is a decision that will affect the wealth of the owners and senior managers in a much larger way than if these were multinational companies; most of the time, it is a “family decision”. The other statistically significant coefficient is the change in the quality and skills of the work force after joining ProPymes. As mentioned earlier, in order to be internationally competitive it may be important to train the most important resource of the company (see Table 5).

Concerning Hypothesis 4, the results show that the frequency with which a firm collects international business information from industrial and/or trade associations (IBassoscia) is positively associated with intangible internationalization. SMEs may not have the same level of resources as their larger counterparts; furthermore, they may not have the physical presence in international markets that MNEs do. The most reliable and efficient means to collect information about international markets is through trade associations. Industrial associations also provide useful information about the technological changes in the industry as well as new processes, new suppliers or substitutes; briefly, every aspect related to that specific industry. Furthermore, information released by public agencies may not be as precise or accurate as the information provided by industrial or trade associations. Another statistically significant coefficient is the amount of investment in marketing (MarketingInv) made by the firm after joining ProPymes. Interestingly, the sign of this factor is negative which does not concur with the theoretical model. This means that the more a firm invests in processes for creating, communicating, delivering, and exchanging offerings that add value to its customers, the lower the likelihood of having an intangible internationalization. A possible explanation for this discrepancy is the fact that the firms in the sample are taking advantage of the other members of the network distribution channels and marketing expertise. The final significant coefficient is the perception of growth opportunities in the domestic market. The sign of the coefficient is negative which means that higher perception of growth based on the domestic market has a negative impact on the intangible internationalization. This result is consistent with the theoretical prediction. International expansion usually implies taking higher risks rather than competing only in the domestic market. If managers perceive that the domestic market opportunities meet their expectation, then, it may not be logical for those companies to engage in an international expansion.

Furthermore, if the potential growth of the domestic market is due to an increase in the demand, it may be possible for firms to take advantage of the economic boom without having to become more competitive even though this may be a risky long-term strategy. ProPymes, investments made to improve the “marketing characteristics” might not be a high priority for managers. Given the limited resources to which they have access, there may be other investments (capital goods, equipment, and quality control systems) that have higher priority for managers. This may be a probable cause as to why marketing investments has a negative coefficient (see Table 6).

Hypothesis 5 states that by being involved in a group of companies like ProPymes, SMEs may have access to a wider option of resources and capabilities. In this case the only factor that was statistically significant is the financial impact of ProPymes (FinacialImp) (see Table 7). According to Bebczuk (2004), credit policies do not show the desirable degree of transparency, making it difficult to pass any sound judgment about the impact of the programs in place on SMEs. Furthermore, he argues that “it is undeniable that private financial intermediaries have an anti-SME bias” (Bebczuk, 2007, p. 29). Even with the bias against SMEs from private banks, Bebczuk (2004) points out that public banks do not appear to perform better than private banks in improving the access to credit top SMEs.

Table 6. hypothesis 4

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<tbody>
<tr>
<td>Age</td>
<td>-0.035 (0.192)</td>
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</tr>
<tr>
<td>IBassoscia</td>
<td>1.131* (0.438)</td>
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<tr>
<td>ChangeInvTech</td>
<td>0.106 (0.348)</td>
<td></td>
</tr>
<tr>
<td>Changeexp</td>
<td>0.810 (0.562)</td>
<td></td>
</tr>
<tr>
<td>MarketingInv</td>
<td>-0.8207* (0.348)</td>
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<tr>
<td>Growthhopp</td>
<td>-2.688† (0.835)</td>
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<tr>
<td>GovPromotExp</td>
<td>-0.287 (0.498)</td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>25.4 (4.25)</td>
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F(7, 19) = 2.94
Prob > F = 0.028
R-squared = 0.4408
Root MSE = 2.875

† P ≤ 0.1; * P ≤ 0.05; ** P ≤ 0.01

Source: author.

1. Opposition parties, the business community, and former ministers have accused public agencies such as INDEC of manipulating macro and microeconomic figures for political purposes (La Nacion, 2009; El Clarin, 2008).
Discussion and Conclusion

An analytical examination of the resources of a firm may help to develop an understanding not only of possible short-run business strategies, but also of future diversification (Montgomery & Wernerfelt, 1988), growth strategies (Penrose, 1959), and sustainability of long-term rents (Rumelt, 1984; Wernerfelt, 1984). The results for Hypothesis 1 show that frequency of firm benchmarking against national standards has a positive effect on intangible internationalization, while international benchmarking was not significant. Perhaps the domestic market is still the most important market for most SMEs. Finding information about competitors and customers that are already acting in the domestic markets may be easier than searching for information from firms competing in foreign markets. Furthermore, managers may find that what is happening in their local markets is more important and pressing than trends, opportunities or potential threats developing in foreign markets. The exchange of information between managers also has a positive impact on intangible internationalization, which is consistent with the theory. Since competition is an exogenous factor, and it is not something that a SME manager wants to face, managers may have to focus on promoting communication among themselves in order to have a better understanding of the resources and capabilities of their firms. Surprisingly, investment in marketing and distribution channels has a negative impact on intangible internationalization. Firms that belong to ProPymes are able to utilize of other members of the network distribution channels, therefore, managers might prioritize investment in other areas where they do not have support or assistance. From a long-term strategy perspective, this dependence may be disadvantageous for the SME.

The results in Hypothesis 2 suggest that a better trained work force may be important for recombined resources in order to create new capabilities and be able to compete at international standards. The improvement perceived by managers in their workforce after joining ProPymes has a positive effect on the intangible internationalization. This finding is consistent with the theoretical development. Training aimed at achieving high standards provides the basis to develop competitiveness and deal with the complexity of a global economy (Kapur & Ramamurti, 2001). Higher levels of education allow firm managers to draw resources from a pool of qualified individuals and may increase the likelihood of having more efficient organizational processes, adopting new technology faster, and respond to changes which is important for intangible internationalization. SMEs in emerging economies may not have the resources to train their personnel. However, if they are part of a network, they may have the opportunity to use another company’s resources to train its personnel.

Small and medium-size firms need to expand their knowledge base in order to compete both internationally and in domestic markets, and this is the main focus of Hypothesis 3. Several authors (Kor et al., 2007; March & Olsen, 1976; Zahra et al., 2006) have emphasized the importance of adopting an organizational learning approach by which firms can cope with uncertainty and environmental complexity. A key characteristic of a learning organization is learning how the environment is changing in order to adapt to those changes. Most of the resource-acquisition processes also require learning the necessary know-how in order to cope with the new manufacturing, managerial and/or technological

Table 7. Hypothesis 5

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<tbody>
<tr>
<td>Age</td>
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</tr>
<tr>
<td>Financialmp</td>
<td>.20* (.186)</td>
<td></td>
</tr>
<tr>
<td>ChangeHR</td>
<td>.266 (.254)</td>
<td></td>
</tr>
<tr>
<td>TechnoCust</td>
<td>.200 (.150)</td>
<td></td>
</tr>
<tr>
<td>AdminPROV</td>
<td>-.056 (.225)</td>
<td></td>
</tr>
<tr>
<td>ExpansionAB</td>
<td>-.110 (.198)</td>
<td></td>
</tr>
<tr>
<td>TypesofSup</td>
<td>-.114 (.751)</td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>5.888 (1.37)</td>
<td></td>
</tr>
<tr>
<td>F(7, 21) = 3.51</td>
<td>Prob &gt; F = 0.0119</td>
<td>R-squared = 0.3410</td>
</tr>
<tr>
<td>Root MSE = 1.9928</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: author.

Several studies have concluded that the scale of state programs are consistently small and that little information is disclosed on key criteria such as project selection and costs and benefits of the programs (Bebczuk, 2007; Briozzo & Vigier, 2006). McDermott (2000) argues that the main problem for SMEs to access bank finance is a combination of structural and relational factors: the existence of quasi-oligopolistic banks and their reluctance to invest in SMEs. He also argues that from the demand side, SMEs often lack the experience, information, and knowledge to present credible projects. Additionally, during the 2001-2002 recession the financial system collapsed and private institutions became even more reluctant to work with SMEs.

The opportunity that ProPymes offers to its members to have access to resources to improve their competitiveness and international expansion is certainly unique and important for small firms in a country such as Argentina.
requirements. To be internationally competitive requires strong commitments to skill acquisition, organizational learning and accumulation of capabilities in terms of both the tangible and intangible (or “invisible”) types (Itami & Roehl, 1987) that are continually re-combined and re-configured to improve competitiveness.

SMEs, compared to larger firms, face major challenges in terms of securing and updating resources, and these challenges are heightened by the socio-economic characteristics of Argentina. The results for Hypothesis 4 suggest that firms look for private organizations such as trade associations for information and market research. Public information is not always available and sometimes is not trustworthy. Consistent with previous studies, the results also imply that the higher the perceived potential growth of the domestic market, the less likely that companies will engage in a intangible internationalization. International expansions are usually more risky than domestic expansion, especially for SMEs. Intangible internationalization entails being able to compete at the international level, not necessarily to have a physical presence in international markets. Therefore, especially during an economic boom, firms may have to start investing in upgrading, renewing, or developing new resources and capabilities while they have access to financial resources. The findings in Hypotheses 4 and 7 suggest that when large firms act as a hub in a network, there may be some crowding out effects in terms of investment in marketing and distribution channels. It is important for managers of the SMEs in the sample to be aware of this phenomenon in case ProPymes’s policy changes in the future. Furthermore, they may be losing some lucrative opportunities by not developing their own set of processes for creating, communicating, and exchanging potentially valuable information with customers.

The final topic relates to the challenging context that most SMEs face in Argentina. The trade policies adopted by the countries since the 1990s under MERCOSUR and the emergence of Chinese and Indian companies as strong competitors in international and domestic markets have added further pressure on SMEs to meet international standards to increase their competitive level. From a historical perspective, international business researchers were first interested in large companies in developed economies (Bartlett & Goshal, 1986; Buckley & Casson, 1976; Dunning, 2001. Models developed to explain SME internationalization such as the Uppsala and stage model (Cavusgil, 1982; Johanson & Vahlne, 1990; Johanson & Wiedersheim-Paul, 1975) might face serious challenges in applicability to SMEs in emerging economies. The stage model may not take into consideration the characteristics of a country such as Argentina. The stage model assumes that firms have the time to accumulate key resources. The stage model also fails to consider alternative organizational structures such as networks

(Baum et al., 2000; Oviatt & MacDougall, 2005) that can mitigate “the liability of smallness” (Briderl & Schiussler, 1990). Given the characteristics of the Argentinean economy, the results of Hypothesis 5 suggest that having a partnership with a large firm that can provide access to financial markets may be important to achieve intangible internationalization. Small and medium firms need to invest in capital goods, in training programs to become more competitive and, later, to compete in new markets (Wickramansinghe & Sharma, 2005; Smallborne et al., 1995). Financial institutions – private or public – may be unwilling or unable to provide the financial support required (Bebczuk, 2007; McDermott, 2000). Intangible internationalization may require investing in equipment to update the organizational and manufacturing capabilities, to develop new products or services, and to train the personnel. Consequently, having access to financial resources may prove essential. If a company cannot secure funding in the financial markets or through governmental programs, it may be able to tap into financial resources through its network.

Implications for Managers and limitations

The necessary condition for a SME to undertake intangible internationalization is for managers to make a strategic commitment to invest the necessary resources in order to be able to face international competition even if they do not physically enter international markets. Among the lessons learned from the analysis is that a manager’s choice of strategy can have a significant impact on how well the firm is able to adapt to compete against international companies. Becoming an international company is not only about having a physical presence in a foreign market. It is important to re-focus the firms’ outlook from competing in a protected domestic market to competing in markets with a strong presence of international companies. In addition, managers may have to shift their focus from short-term rent and profit seeking to intangible internationalization.

SMEs do not control or have access to all the resources they may need to be competitive. Given the increased competition resulting from pro-market reforms, trade agreements, globalization, the rise of China and India as major international players, SMEs may have to increase their productivity and competitiveness independently of their level of international activities. Firms face the dynamics of rapidly changing relations with both external and internal stakeholders, which have their own motivations that the firm cannot control. Based on the findings, given the resources required for engaging in intangible international internationalization and the characteristics of an emerging economy, SME participation in a network may enable it to access needed resources. It is beneficial that SMEs collaborate not only with other SMEs but also with larger firms as in the case of ProPymes. Managers with international experience are a valuable resource for companies and probably more so for small
and medium firms. These managers can provide a faster and less risky method to obtain insights about how to compete in international markets. Another possibility, which may be more accessible for SMEs, is to engage in a rather stable and continuous exchange of information with other firms that already possess that knowledge. Networks are an important tool for SMEs to learn and to develop new capabilities.

References


Etemad, H., Wright, R.W. & Dana, L. (2001). Symbiotic interna-


