HOW ORGANIZATIONAL RESOURCES MAY INHIBIT THE INTERNATIONALIZATION OF OLDER SMES

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ABSTRACT

Recent studies highlight the importance of organizational resources on the internationalization of small and medium-sized enterprises (SMEs). In recent years, much of this research has been dominated by studies on international new ventures – firms that internationalize from their inception. Few studies have examined how the resources currently owned by older SMEs might hinder their internationalization. Evidence suggests that firms which internationalize later in their life cycle will have resources, routines and structures in place which may prevent them from internationalizing. Against this background, this paper will explore how the resources owned by older SMEs may inhibit their internationalization. It was concluded that resources such as top management, networks and knowledge, which have previously been associated with increased and rapid internationalization, may inhibit internationalization of older SMEs.

Keywords: *Internationalization SMEs, resources, networks, top management*

INTRODUCTION

Globalization has fundamentally altered conditions in many industries and has presented organizations with a range of challenges (Bartlett and Ghoshal, 1989; Johansson and Yip, 1994). The reduction of barriers has resulted in MNEs entering the competitive local market of local SMEs (Levitt, 1983, Ohmae, 1985), forcing many of these companies to move away from their domestic focus. The approach these firms are adopting to enter and compete in these markets has been of particular interest to international business scholars (Bell, Crick and Young, 2004, Calof and Viviers, 1995, Westhead, Wright and Ucbasaran, 2001, Wolf and Pett, 2000). Generally, there are two streams of research on the internationalization of SMEs (Lu and Beamish, 2001). The first stream, and the one currently dominating the field, focuses on international new ventures (INVs) (Oviatt and McDougall, 1994). These firms internationalize rapidly at an early age (often less than two years from inception) (Madsen and Servais, 1997). The second stream is concerned with examining the internationalization of older SMEs, defined here as those firms which are 6 years or older (Brush and Vanderwerf, 1992, Zahra, Ireland and Hitt, 2000).

A number of theoretical frameworks have been offered to explain the internationalization of SMEs (Etemad, 2004, Zahra and George, 2002, Rialp, Rialp and Knight, 2005, Jones and Coviello, 2005). Many of these frameworks posit that firm specific factors such as size and organizational resources influence SME internationalization (Etemad, 2004, Jones and Coviello, 2005, Ibeh, 2003, Cavusgil and Nevin, 1981). Unique organizational resources have allowed many smaller firms to overcome the barriers to internationalization which are associated with their limited financial and human resources (Young, Dimitratos and Dana, 2003, Peng, 2001). It has been suggested however, that a coherent theoretical framework that explains the potential influences of organizational resources on the internationalization of older SMEs is missing (Zahra and George, 2002). Recent studies in the field have tended to focus on INVs in the early stages of internationalization, and consequently have given limited attention to exploring how resources influence the internationalization of older SMEs (Zahra and George, 2002). Older SMEs have resources and structures in place, which may limit their internationalization efforts (Collis, 1991). Indeed there is much evidence from the general management literature that resources acquired by firms over time may impose constraints on their strategic options (2001, Penrose, 1959, Levinthal and March, 1993, Mishina, Pollock and Porac, 2004). This evidence suggests that it is important to develop an understanding, not only of how organizational resources drive or facilitate internationalization, but also how the organizational resources acquired by SMEs over time, may hinder their internationalization efforts (Autio, 2005). This paper extends current understanding regarding the role of resources on the internationalization of SMEs. The broad research problem addressed in this paper asks: how might organizational resources hinder the internationalization of older SMEs?

While the ideas presented in this paper may apply to larger firms as well as SMEs, we have focused on SMEs for several reasons. It has long been recognized that SMEs are important contributors to economic health and job creation (Morrison, Breen and Ali, 2003). They account for over 95% of firms and represent 60 to 70% of employment (OECD, 2000). However, despite the increasing pressures to expand operations abroad (Hitt, Keats and DeMarie, 1998, Etemad, 2004), SMEs have not been very well presented in international markets (Doole and Lowe, 2001). A number of internal and external barriers have been identified to explain why some firms do not internationalize (Leonidou, 2004). In addition to these, Etemad (2004) points to the lack of theoretical developments available to guide smaller firms, and argues that most models developed for larger MNEs are not adequate for internationalizing SMEs. By addressing how the resources owned by older SMEs may prevent their internationalization, this paper extends current theory on SME internationalization, and offers additional explanations for the domestic focus of some older SMEs.

This paper will be structured as follows. We begin by discussing the foundational theories of internationalization highlighting some of their limitation with respect to explaining the internationalization of SMEs. After this, we provide a discussion of the resource based view (RBV) and, in particular the role of resources on the internationalization process. We then review the literature from the general management field regarding the constraining influence of some organizational resources on the strategic options of the firm. A series of proposition regarding the role of resources on the internationalization of domestic SMEs will then be presented along with a conceptual framework and directions for future research.

INTERNATIONALIZATION

In today's competitive global economy, internationalization, or "the process of increasing involvement in international operations" (Welch and Luostarinen, 1988: 36), is considered an important strategic option for SMEs (Porter, 1990, Hitt et al., 1998). Earlier theories of internationalization, known widely as the stage models (Turnbull, 1987), posit that firms will internationalize gradually, in a stepwise manner (Johanson and Vahlne, 1977). The large number of models offered by this stream of literature (Johanson and Vahlne, 1977, Bilkey and Tesar, 1977, Reid, 1981, Rao and Naidu, 1992), assume that a firm will first serve its domestic market before embarking on foreign operations. The general argument is that firms start their international expansion via low risk modes such as indirect exporting to similar, "psychically close" markets because they lack the relevant foreign market knowledge (Johanson & Vahlne, 1977). As firms learn more, and hence become less uncertain about a foreign market, they are more likely to increase commitment to that market, and eventually target more psychically distant markets. A number of stage models have emerged over the years (Cavusgil, 1980, Reid, 1981, Rao and Naidu, 1992) most of which posit that domestic operations is an important first step in internationalization (Cavusgil, 1980, Rao and Naidu, 1992, Czinkota, 1982).

Over the years, many have questioned the notion that internationalization involves the step-wise, forward progression into foreign markets (Reid, 1983, Turnbull, 1987, Bell, 1995). It has been argued that early models of internationalization, which were based predominately on research on larger MNEs, do not adequately explain the internationalization of SMEs (Etemad, 2004). For example, some researchers have highlighted the inconsistencies between the stage models and the empirical evidence from a growing body of research on the early and rapid internationalization of international new ventures (INVs) (McDougall and Oviatt, 1996, Bell, 1995). In contrast to the evolutionary internationalization and importance of the domestic market implied by the stage models, INVs expand aggressively into foreign markets at an early age – often less than two years from inception (Moen and Servais, 2002).

ORGANIZATIONAL RESOURCES

While both external (environment) and internal (resources) factors influence internationalization (Etemad, 2004, Young et al., 2003, Dunning, 1980), recent research highlights the important role played by firm specific factors (Andersson, Gabrielsson and Wictor, 2004, Ibeh, 2003, Westhead et al., 2001). In their review of the export literature, Aaby and Slater (1989) identified firm characteristics and competencies as playing the major role in a firm's internationalization. In a more recent review, Etemad (2004) identifies resources as internal drivers that push the firms strategy along the internationalization process. The idea that resources are important to the internationalization of SMEs is reflected in various other conceptual frameworks describing SME internationalization (Ibeh, 2003, Zahra, 1993). These authors have recognized organizational resources as key antecedents of internationalization, whilst environment variables take on moderator roles (Ibeh, 2003, Zahra & George, 2002). Consistently, the Resource Based View (RBV) has been acknowledged as a valid framework in research on internationalizing SMEs (Peng, 2001, Andersen and Kheam, 1998, Oviatt and McDougall, 1994).

The RBV posits that close competitors differ in the resources and capabilities in significant and durable ways and that these differences drive their internationalization (Barney, 1991, Peteraf, 1993). Furthermore, in order for a firm to achieve a sustainable competitive advantage, resources should be inimitable, rare, valuable and imperfectly mobile (Barney, 1991). A wide range of terms have been used in the literature to describe the elements of the organization, including resources, capabilities, and competencies (Barney, 2001, Javidan, 1998). Broadly speaking, resources have been defined as "…all assets, capabilities, organizational processes, firm attributes, information, knowledge etc. controlled by a firm that enables the firm to conceive of and implement strategies to improve its efficiency and effectiveness" (Barney, 1991: 101). While resources can include both tangible elements, such as raw materials as well as intangible elements such as culture and knowledge (Carmeli and Tishler, 2004), the role of intangible resources are especially important to small firms that face international barriers due to their lack of financial and human capital (Leonidou, 1995). Indeed, research has found a positive relationship between the intangible resources owned by the firm and its internationalization (Kotha, Rindova and Rothaermel, 2001, Delgado-Gomez, Ramirez-Aleson and Espitia-Escuer, 2004). A range of resources have been identified as important to the internationalization of SMEs including networks (Coviello and Munro, 1997, Bell, 1995, Welch and Welch, 2004), top management characteristics (Kundu and Katz, 2003, Bloodgood, Sapienza and Almeida, 1996, Westhead et al., 2001, Johnson, 2004), and knowledge (Autio, Sapienza and Almeida, 2000, Johanson and Vahlne, 1977, Yli-Renko, Autio and Tontti, 2002).

Despite the influence of the RBV on the study of SME internationalization, it has been argued that this research is still in its infancy (Zahra and George, 2002). Much of the research on the internationalization of SMEs has largely focused on INVs in their early stages of internationalization, thus these studies do not capture how the resources acquired by the firm over time might influence internationalization. Unlike new ventures, older SMEs have resources, structures and routines in place which may prevent them from changing strategic direction (Collis, 1991). Thus, firms which have focused predominately on the domestic market may be restrained by their resources from going abroad. Indeed, it has been suggested that older, domestic SMEs might need to shed their domestic rigidities before being able to embrace internationalization (Autio, 2005). Increasing competitive conditions are putting pressure on SMEs to expand into foreign markets (Etemad, 2004, Hitt et al., 1998), yet evidence shows that a large number of SMEs face barriers that prevent them from doing so (Leonidou, 2004). Thus, identifying those factors that hinder the internationalization of older SMEs may make a valuable contribution. The remainder of this paper will thus draw on the general management literature and discuss in more detail the role of resources in the internationalization of older SMEs. There is convergence that organizational resources are important for the internationalization of SMEs (Zahra and George, 2002, Andersen and Kheam, 1998, Oviatt and McDougall, 1994). The point of departure of this paper is that organizational resources developed by SMEs over time, and which may have contributed to their success in domestic markets, may actually hinder their internationalization. From this discussion, some propositions regarding the role of resources on the internationalization of older SMEs will emerge.

PATH DEPENDENCY

While most literature suggests that organizational resources positively influence the internationalization of the firm, they can also create path dependencies, which hinder internationalization (Autio, 2005). The term path dependence is more often linked to the work on the evolution of technology and institutions by economists (Arthur, 1994, David, 1985, North, 1990). While most of the literature on path dependence has been concerned with the adoption of inefficient technologies, there has been increased interest on the role of path dependence in individual firms (Gartland, 2005, Heffernan, 2003). It has been defined as "the set of dynamic processes where small events have long-lasting consequences that economic action at each moment can modify yet only to a limited extent" (Anotnelli, 1997: 643-644). Path dependence implies that a firm's decisions at one point of time can either open up (or close down) future choices regarding markets, technologies and products (Booth, 2003). According to Teece et al (1997):

> The notion of path dependencies recognizes that 'history matters'. Bygones are rarely bygones, despite the predictions of rational actor theory. Thus, a firm's previous investments and its repertoire of histories (its history) constrain its future behavior (522-523)

There is agreement among RBV theorists that resources are developed in a complex, path dependent process (Barney and Zajac, 1994, Dierickx and Cool, 1989). Because organizational resources influence the direction and pace of a firms expansion (Teece, Pisano and Shuen, 1997, Barney, 1991), the strategic behavior of the firm is also path dependent – that is current strategies are constrained by earlier events (Arthur, 1989, Sydow, Schreyogg and Koch, 2005, Booth, 2003). Consistently, it has been argued that internationalization is path dependent (Eriksson, Majkgard and Sharma, 2000). The stage models suggest that the knowledge gained by the firm during the initial stages of internationalization, will influence the mode and scope of later international activities (Johanson and Vahlne, 1977). Thus, firms get locked into specific growth trajectories (Autio, 2005). Based on this literature, it can be assumed that firms that have operated in the domestic market for a period of time might have built resources that are specific for that market and which thus constrain them from entering foreign markets. However, while there have been a number of attempts to explain the path dependent nature of internationalization (Eriksson, Johanson, Majkgard and Sharma, 1997, Eriksson et al., 2000, Araujo and Rezendez, 2003), only a few attempts have been made to explain the influence of domestic market operations on the internationalization of the firm (Blomstermo, Eriksson and Sharma, 2004). To the authors' knowledge, little effort has made to assess the constraining affect of existing resources on the internationalization of the firm.

ORGANISATIONAL CONTRAINTS

Firms need to upgrade their resources to deal with changing conditions if they are to sustain growth (Wernefelt and Montgomery, 1988), however, because resources are historically determined, a firm will face a limit to its growth and diversification as a result of its resources at any particular time (Penrose, 1959, Cyert and March, 1963). Theorists point to the "stickiness" of resources and argue that these resources have limited use when transferred to a market significantly different from that for which the resource was initially developed for (Rumelt, 1998, Wernefelt and Montgomery, 1988). Foreign markets differ with respect to their political, cultural and institutional environments (Luo and Peng, 1999), therefore resources required for the domestic market may not necessarily be suitable for foreign markets

(Johanson & Vahlne, 1977, Madhok, 1997). Indeed, Wernerflet and Mongomery (1988) posit that some organizational resources will lose their value when they are transferred to markets that are significantly different to the market for which the resources were originally developed.

Furthermore, organizations are often not always willing to change their resources and capabilities easily, especially if they have served the company well in the past (Christensen, 2006). Firms with valuable resources focus on finding ways to exploit those resources, rather than on exploring for new resources (Levinthal and March, 1993). This is because the returns from exploiting existing resources are often considered more certain than the returns associated with the exploration of new resources (Levinthal and March, 1993). Because resources can create commitments to a specific course of action, they can also limit the firm's ability to pursue opportunities outside its current domain (Selznick, 1957). Similarly, Levitt and March (1988) refer to "competency traps" within organizations and suggests that these occur when a firm has realized desired results from a particular strategic approach. Therefore, possessing a valuable resource may result in an increased focus by the organization to develop and exploit that resource, rather than to search for new resources and opportunities. According to Leonard-Barton (1992) the "values, skill managerial systems and technical systems that served the company well in the past…are experienced by others as core rigidities – inappropriate sets of knowledge" (118). Based on this literature, it can be posited that firms which have long focused on the domestic market, might face internal barriers with regards to identifying and exploiting foreign market opportunities.

The notion that serving the domestic market may hinder the internationalization of the firm has been supported by Vermeulen and Barkema (2002), who found that domestic firms cannot always adopt the rapid internationalization exhibited by INVs. They argue that domestic firms have mental maps which they need to adapt in order to internationalize (Vermeulen and Barkema, 2002). Similarly, Autio et al (2000) found a negative relationship between organizational youth at the time of internationalization and the SME's subsequent internationalization. According to Autio et al (2000), in addition to liability of newness, new firms enjoy learning advantages of newness. Similarly, Blomstermo et al (2004), in a study of 206 internationalizing firms, found that domestic operations have a direct effect on the accumulation of experiential knowledge. Firms with long domestic histories, thus have more difficulty changing their mental model processes in the internationalization process (Blomstermo et al., 2004). The previous discussion leads to the following proposition:

> P1: The longer the SME has competed successfully in the domestic market, the more likely it has developed resources for the domestic market. Thus the less likely the SME will internationalize.

Top Management

An organizational resource that is consistently highlighted as a key driver of internationalization is the founder or Top Management (TM) (Cavusgil, 1984, Kuivalanainen, Sundqvist and Puumalainen, 2004, Maisonrouge, 1983, Reid, 1981). A number of TM characteristics have been found to influence internationalization in SMEs including education, an international orientation and international personal networks (Johnson, 2004). In particular, evidence highlights the important role of the TM's international experience on the internationalization of SMEs (Johnson, 2004, Oviatt and McDougall, 1995, Bloodgood et al., 1996, Ibeh, 2003, Rueber and Fischer, 1997, Sambharya, 1996). International experience equips the manager with knowledge required for internationalization (Reuber and Fischer, 1997) and also facilitates the acquisition of additional relevant knowledge (Cohen and Levinthal, 1990). In addition, international experience influence a global mindset, which has been found to influence internationalization (Nummela, Saarenketo and Puumalainen, 2004). A global mindset refers to a manager's openness to and awareness of cultural diversity and ability to handle it (Nummela et al., 2004). Managers of firms which have operated predominately in the the domestic market may not have gained adequate international experience and/or a global mindset required for internationalization (Blomstermo et al., 2004).

In a recent study Bell et al (2003) found that a change in TM was one of the key factors influencing previously domestic firms from pursing rapid and aggressive internationalization. Thus, while a number of TM characteristics have been associated with the internationalization of the firm (Reid, 1981, Sambharya, 1996, Cavusgil, 1984), we focus on TM tenure and suggest that the tenure of the TM in the domestic SME will inhibit the SME from gaining international experience. This is supported by Herrmann and Datta (2005) who recently found a negative relationship between TM tenure and internationalization. Top Managers who have remained with the company for a long time will have a narrow focus and exhibit commitment to existing procedures and practices (Cyert and March, 1963, Katz, 1982). Furthermore, they are more likely to develop a set pattern of habits, rely on information from a limited number of sources and a exhibit a stronger reliance on past experience (Finkelstein and Hambrick, 1990, Katz, 1982). The longer a manager spends with an SME, the more familiar the manager is with the market and products of that company (Gupta, 1988) and the more committed the manager is to the status quo (Finkelstein and Hambrick, 1990, Staw and Frederick, 1977). In addition, the manager would have acquired considerable knowledge relevant to that market and thus, may lack the capacity to absorb information needed for internationalization (Cohen and Levinthal, 1990). Thus we propose the following:

> P2: The longer the SME has competed in the domestic market without a change of management, the more likely top managers will be domestically focused. Thus it is less likely the firm will internationalize.

Networks

Organizational networks have also been found to play an important role in the internationalization of SMEs (Coviello and Munro, 1995, Coviello and Munro, 1997, Lu and Beamish, 2001, Welch and Welch, 2004). An organization's business network refers to a set of interconnected business relationships where each exchange relation is between business firms which are conceptualized as business actors (Anderson, Hakansson and Johanson, 1994). A firm's network is rare, inimitable and imperfectly mobile and thus represents an important organizational resource (Barney, 1991, Gulati, 1999). Networks are particularly important to SMEs as they provide access to resources which the SME otherwise would not have had access to (Mackinnon, Chapman and Cumbers, 2004). In addition to providing access to resources, networks with foreign firms can direct the strategy of the firms (Harris and Wheeler, 2005). For example, Bell et al (2003) found that network members such as domestic or foreign customers influence the choice of markets in which the firm competes. For this reason, it is important that SMEs develop sufficient networks to facilitate expansion (Coviello and Munro, 1997).

However, developing networks is a path dependent process (Gulati, 1995), whereby early relationships influence later ones. In particular it has been suggested that companies can be more committed to their current network partners than to creating new partners (Gulati, 1995). This is because networks members in strong relationships often make significant investments in adaptations, which involve sunken costs within the relationship. By adapting to each other, business partners become more committed to each other (Hallen, Johanson and Seyed-Mohamed, 1991). The opportunity cost of adapting for one partner may be foregoing the opportunity to create a new partner (Han, Wilson and Dant, 1993). This is particularly the case with strong, direct relationships, as these involve more investment of time and effort (Oviatt and McDougall, 2005). In the context of a firm's internationalization, Autio et al (2000) explain how relationships with domestic customers and suppliers can create a 'domestic pull'. The more time and resources SMEs invest in establishing and maintaining relationships with domestic partners, the more those partners are treated as their main priority (Autio et al., 2000). Similarly, it has been argued that a firm's domestic networks can lead to opportunity costs (Hitt, Lee and Yucel, 2002). Consequently, while international networks such as global customers and suppliers may facilitate internationalization (Coviello and Munro, 1997, Bell, 1995), domestic networks create opportunity costs limiting a firm from extensive internationalization (Hitt et al., 2002). This leads to the following proposition:

> P3: The longer the SME has competed successfully in the domestic market, the more likely it will have strong networks with domestic companies. Thus the less likely the SME will internationalize.

Knowledge

As mentioned earlier, the SME's networks play an important role in their internationalization by providing important resources required for internationalization. Of particular importance to the internationalization of SMEs is the knowledge that these firms can provide with respect to foreign markets and operations (Johanson & Vahlne, 1977). A key tenet of internationalization literature is that knowledge about foreign markets and international operations is an important factor for international expansion (Eriksson et al., 1997, Johanson and Vahlne, 1977). Lack of internationalization knowledge has been associated with increased perceived costs in internationalization (Eriksson et al., 1997). In addition to the direct knowledge, the individual with whom the firm has a relationship can offer linkages to their own networks in other countries (Jones, 1999, Welch and Luostarinen, 1993). By accessing new knowledge from external network actors and combining it with existing knowledge, firms can create new knowledge (Yli-Renko, Autio and Sapienza, 2001).

However, while it has been acknowledged that networks are an important source of resources, the firm only ever has access to those resources that can be attained from the network (Gulati, 1999). More importantly, firms cannot access resources which are not owned and readily provided by network members to which the firm is tied (Gulati, 1999, Stuart, 2000). Thus, firms that want to develop resources required for internationalization need to form networks with firms which can provide them with the knowledge and other resources required for internationalization (Blankenburg Holm, Eriksson and Johanson, 1996, Johanson and Mattson, 1988). Countries differ with respect to culture and political factors, thus the knowledge required to manage foreign operations might be different from those skills and knowledge gained by operating in the domestic market (Luo and Peng, 1999). It follows that relationships with local companies may not be very good sources of foreign market information unless those suppliers operate or have relationships with other companies operating in foreign markets. Hitt et al (2002) suggest that internationalization may be limited by the boundaries of the firms' network. Some firms may not be able to take advantage of all the opportunities in the international marketplace because their domestic networks do not provide them the resources to do so (Hitt et al., 2002). According to Hitt el al (1998) "…one of the most critical forces restraining the sharing of assets is the continued domination of the home market in the decision process of the firm" (33). From the above discussion, the following proposition emerges:

> P4: The longer the SME has successfully competed in the domestic market, the less access it will have to relevant foreign market knowledge from its network members. Thus the less likely the SME will internationalize.

CONCLUSION

The literature has long acknowledged the impact of firm specific resources on the internationalization of SMEs (Kotha et al., 2001, Westhead et al., 2001). The focus of much of this literature was to identify resources which facilitate or drive SME internationalization (Etemad, 2004, Ibeh, 2003). While there are generally two streams of research in on the internationalization of SMEs – one that focuses on INVs and one that focuses on older SMEs (Lu and Beamish, 2001), the former has tended to dominate the more recent research agenda. As a result, researchers have failed to adequately identify how the resources currently owned by domestic SMEs might hinder their internationalization. The strategic management and general management literature has long acknowledged that the strategic options of the firm, including its internationalization, are largely determined by the resources owned or controlled by the firm (Barney, 1991). Consistent with the RBV, resources developed over time in older firms might restrain their future growth (Penrose, 1959, Teece et al., 1997, Arthur, 1989). Against this background, this paper integrates ideas from the general management literature concerning rigidities (Leonard-Barton, 1992), competency traps (Levinthal and March, 1993) and path dependencies (Arthur, 1989) with research on the internationalization of SMEs and explores some of the constraints posed on older SMEs with respect to internationalization. The conceptual framework which identifies this relationship is provided in Figure 1. From the literature, we know that some TM characteristics such as international mindset and foreign market experience are important for the internationalization of SMEs (Ibeh, 2003, Kundu and Katz, 2003, Zahra and George, 2002). International network members such as clients and suppliers are also very important for the internationalization of SMEs as they provide SMEs with valuable resources required for internationalization (Bell, McNaughton, Young and Crick, 2003, Coviello and Munro, 1997). Hence these are represented as factors facilitating internationalization in the conceptual framework[1]. On the other hand, some resources which were developed for the domestic market may hinder internationalization. In particular it has been shown that some resources such as strong domestic networks, local knowledge, and long serving top management teams, all of which might have contributed to the success of the firm in the domestic market, might actually prevent those firms from internationalizing.

The conclusions made in this paper pose significant implications for SMEs. It has long been recognized that firms can no longer focus on the domestic market (Etemad, 2004). This is especially the case with firms operating in small domestic markets like Australia and New Zealand (Chetty and Campbell-Hunt, 2004). As foreign competition increases, these firms will need to seek opportunities abroad. Resources, which have helped them succeed in the domestic market, may not facilitate entry into international markets (Montgomery and Wernefelt, 1988, Autio, 2005). Indeed, these resources may actually hinder their internationalization efforts by limiting the foreign market opportunities which are available to them. It is thus important that firms remain aware of the significant impact their current resource endowments may have on their future performance and where possible ensure that current decisions do not lock them out of foreign markets opportunities. Furthermore, for optimal growth in foreign markets, the SME should not only exploit current resources, but also search for and create new resource positions (Wernefelt, 1984, Penrose, 1959).

[1] It is beyond the scope of this paper to review the literature on organizational resources and to identify all of the resources which facilitate or drive internationalization. Thus we have included only those resources which we mention in the text of this paper. For more comprehensive review, please see Zahra and George (2002) and Etemad (2004)

Based on our review of the literature, underpinned by the RBV and process model, we suggest several directions for future research on the role of resources on the internationalization of SMEs. First, the resources which have been identified in this paper as hindering the internationalization of SMEs (top management tenure, domestic networks) do not represent an exhaustive list and further research should identify other factors that inhibit the process. Exploratory, qualitative research in particular, may reveal other rigidities that were not presented in the literature. Second, in line with the general argument suggested by Autio (2005) it is argued that more research is required on strategies that may enable older SMEs to overcome their domestic rigidities and embrace internationalization more fully. Research from organizational change literature may be useful here. Third, research may benefit by focusing on each of the different dimensions of internationalization (Zahra and George, 2002). The speed of internationalization, the geographic scope of operations and the service modes used, may have all impacted by the resources which an organization owns. Understanding how the current resources endowment of SMEs hinders internationalization in terms of each of these will be an important contribution to the internationalization process of older SMEs.

Figure 1 - Key Conclusions and Conceptual Framework

	Inhibitors of Internationalization	Organizational Resources	Facilitators of Internationalization	
Domestic Market ←	Domestic Focus (P2)	Top Management	International Mindset Foreign Market Experience (Ibeh, 2003, Johnson, 2003)	→ Foreign Markets
	Domestic Networks (P3, P4)	Networks	International Networks (Bell, 1995, Coviello and Munro, 1995)	

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