

# **What Fosters SME Internationalization? A Cross-Border Study on Italian and Slovenian Manufacturing of SMEs Entering Foreign Markets**

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Extensive research has been conducted on the topic of SME internationalization and on the strategies that SMEs deploy to overcome deficiencies they face in resources and competencies when expanding into international business. On the one hand, innovation has been recognized as a critical element to support SMEs internationalization and export development. On the other hand, empirical results are rather contradictory. This paper presents an empirical study which is based on the notion that while innovation and export are outcomes of a firm's knowledge resources, they must be accompanied by some form of strategic decision-making. Therefore we analyze how a firm's growth and export performance is supported by innovation, a risk-taking attitude and a strategic intent orientation. Interestingly, to the best of our knowledge, the cognitive perspective analyzing the role of these variables has rarely been used in studies on SMEs' export performance. Additionally, most of the studies we found are not specifically focused on crisis periods, when internal demand is reduced and internationalization often becomes the only way that SMEs have to survive. Our study looks at the key components for the survival and expansion of SME on the backdrop of the last financial crisis. More precisely, our study focuses on innovation on one hand and risk-preference and strategic intention attitude on the other and specifically analyzes how these variables interact with each other and contribute to fostering SME's internationalization.

Methodologically, our paper applies a structural equation model on data collected through 319 questionnaires from SMEs located in Italy and Slovenia. Many of these SMEs had been heavily affected by the financial and economic crisis. The questionnaire, the subsequent statistical analysis and its results are the dominant portions of this paper. The primary desired outcome of our study is to identify a connection between strategic intent, risk perception, innovation (both

radical and incremental) and export performance. For this, we developed a series of research questions and drew a series of hypotheses for each research question. They relate to the effects of risk attitude, strategic intent and innovation. Managers of export firms were asked how they assess these during a financial crisis. Another set of questions referred to the interrelatedness between risk attitude, strategic intent and innovation.

The preliminary findings of our research show that export performance is positively influenced by incremental innovation and risk preference, while we did not find a statistically relevant connection between radical innovation and export performance,. The results regarding the relation between strategic-intent and export performance are weak. But we found that the incremental innovation is fostered by radical innovation and strategic intent. We also found radical innovation is positively influenced both by risk preference and strategic intent.

Our paper discusses the varied outcomes of our research in light of the most common internationalization theories. We look at the two-stage models that have been developed, the Uppsala Internationalization Model (U-model) and the Innovation-related Model (I-model), and we noticed that the Uppsala-type seems to be adequately represented in times of economic stability and incremental growth only. Our findings suggest that a contingency approach may better explain how businesses behave in times of crises and forced globalization. From there, we think that the results of our study could be a useful contribution to the ongoing debate on the topic from a theoretical perspective. From the practical perspective, our results could be used by policy makers in order to develop policy to support SMEs' internationalization (e.g. by developing specific forms of grants to support incremental and continuous innovation). Another important implication of the paper for practitioners is that it demonstrates how CEOs of SMEs need to evaluate the elements related to internationalization and which skills, competencies and management know-how are crucial.

***Keywords: SMEs; Internationalization; Italian and Slovenian Manufacturing; Foreign markets entering.***