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Internationalization of SMEs; Evidence from Mexican Leather Footwear Industry

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Abstract. Despite Mexican leather footwear industry is traditional, it has not increased or even maintained the level of competitiveness in the global market; the export problems of SMEs (Small and Medium Enterprises) have been studied by some authors but the internationalization (beyond exports and imports and including foreign direct investment, international subcontracting and international technical cooperation) has not been deeply explored so it is not documented how the process of this economic segment is occurring and if that is evolving accordingly to the theory (E.g. Uppsala model). The objective of this study is to analyze the internationalization of SMEs of the Mexican leather footwear industry to know if accumulated knowledge and experience in foreign markets effectively leads the organization to more advanced and complex stages of international exchange. A survey composed by 47 questions was applied to a sample of 21 SMEs of the Mexican leather footwear industry, their experience was also collected by semi-structured interviews. Results show that SMEs are involved in the internationalization process strongly oriented to the development of exports and imports and only a small number of them have been able to reach the stage of foreign direct investment. These results suggest that internationalization is only conceived in terms of imports and exports and efforts are carried out only to those stages even if SMEs could obtain a great benefit from the rest of the internationalization exchange (FDI, international subcontracting and technical cooperation). This behaviour might be due to some factors as: (1) the relatively low level of competitiveness of the Mexican firms in the global industry, (2) the lack of know-how and (3) the vision of the owners and managers of the company.

Keywords. Internationalization, SME, Footwear Industry.

1. Background and Problem Statement

In this dynamic era of globalization, small and medium enterprises (SMEs) play a pivotal role in the development of a country [1]. Ultimately, only companies themselves can achieve and sustain competitive advantage which arises from leadership that harnesses and amplifies the forces to promote innovation and upgrading. Globalize to tap selective advantages in other nations is a company policy that supports the important effort of adopting a global perspective to create competitive advantage [2].

Internationalization is suggested to be a gradual process; the Uppsala model postulates that firms go through this way [3], [4] and although that model was developed based on the internationalization process of relatively large size firms, it is equally useful for analyzing the exporting challenges and opportunities of SMEs as well. The development of SME's internationalization is a critical path since they are more challenged than larger firms because

of the lack of resources and capabilities; thus larger firms are more likely to overcome the challenges of exporting than SMEs [1].

Then, knowing the route to succeed the global competence is relevant however findings are heterogeneous: for instance, [5] states that firm size determines how trade barriers are perceived while [6] establishes that the perception of impediments varies between firms, in such a way that those with less experience perceive a higher incidence of problems in international business than the firms having more experience.

Other authors that have approach to the topic of internationalization of SME [7] suggest that export barriers and problems do not affect all the firms in the same way, and that the best predictor of whether a particular firm identifies a problem as relevant, is explained almost exclusively by the number of years the firm has been exporting. This supports the idea that experience is an essential factor for the success of exporters in overcoming and tackling export problems [8].

[9] states that manufacturers with a few years in business are more vulnerable to export barriers than experienced firms; that small and less profitable business units show greater vulnerability to export problems and that those lacking background organizational support experience greater export problems. Also, [10] postulates that in terms of internal barriers, the SME owner/manager's lack of vision may stem from their inability to think strategically about business in general.

[5] finds that export barriers can indeed influence the path to internationalization and that export barriers may have an under-researched effect: inducing choice of internationalization path, additional to the vast majority of traditional literature that establishes that export barriers prevent internationalization, inhibit international performance, and prompt de-internationalization.

The worldwide leather industry is mainly conformed by SMEs and research of global competition is continuously being developed in that area. For instance, [11] mention that countries which grow their brand images such as Italy and Spain come to the forefront in the world market by emphasizing their quality, while China, India and Brazil emphasize cheap labor and low cost.

The apparel industry in Italy is an excellent example of a sector that has thrived based largely on exports to industrialized nations of high-quality merchandise manufactured domestically by Networked SMEs [12]. Italian industry mainly (80%) consists of SMEs, exports to 116 countries and has comparative advantages. With its highly advanced tanning industry, modern accessory manufacturers and innovative designs, as well as high quality, branded products representing the latest fashion; Italy refers to upper income groups of the world [11].

In Spain, leather processing and leather product industries are among the traditional ones and also generally consist of SMEs which gather under various unions and associations in order to both maintain their domestic market shares and keep up with the competition in exports [11].

The Portuguese footwear industry is defined as low-tech and traditional, dominated by SMEs that applying new strategies made big changes in the image and performance achieved; since 2009, exports have increased more than 55% and have grown in almost all the important foreign markets. The competitive strategies followed by the Portuguese footwear companies can be clearly identified according Porter's three generic competitive strategies: cost leadership, differentiation and focus strategy [13].

In Mexico, 15 300 firms are dedicated to the manufacturing of leather shoes and 99% of them are SMEs [14]; Guanajuato State concentrates 70% of the national production but only

322 firms are exporters [15] which represents 3%. Despite Mexican leather footwear industry is traditional, it has not increased or even maintained the level of competitiveness in the global market; the export problems of SMEs have been studied by some authors [16], [17], [18] but the internationalization (beyond exports and imports and including foreign direct investment, international subcontracting and international technical cooperation) has not been deeply explored so it is not documented how the process of this economic segment is occurring and if that is evolving accordingly to the theory (E.g. Uppsala model).

2. Objective

The objective of this study is to analyze the internationalization of SMEs of the Mexican leather footwear industry to know if accumulated knowledge and experience in foreign markets effectively leads the organization to advanced and complex stages of international exchange.

3. Methodology

In this study, internationalization refers not only to exports but to all activities that put SMEs into a meaningful business relationship with a foreign partner: exports, imports, foreign direct investment, international subcontracting and international technical cooperation using the methodology proposed by the European Commission Enterprise and Industry [19]. The definition of SME considered is the one proposed by INEGI: “Micro-enterprises, as having fewer than ten employees; Small enterprises, as having fewer than 50 employees; Medium enterprises, as having fewer than 250 employees”.

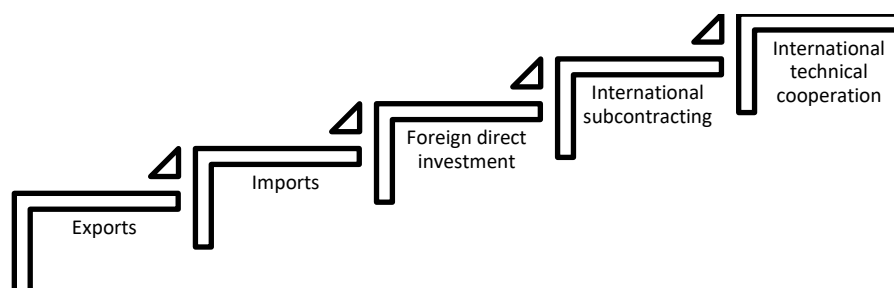


Fig. 1 Internationalization exchange stages of firms. Source: Created by authors based on European Commission Enterprise and Industry (2015)

In order to establish the effect of experience accumulated by SMEs in advancing through the different stages of the firms' internationalization process, a survey composed by 47 questions was applied to a sample of 21 SMEs of the Mexican leather footwear industry, their experience was also collected by semi-structured interviews.

The selection of cases was based on the fact that there is no ideal number of cases, but choosing between 4 and 10 usually yields the results necessary for the investigation [20]. Similarly, the methodology recommended by the author states that the cases are chosen for theoretical reasons and not for statistical reasons, so the search for the most representative cases for the research exercise was developed.

Thus, the selection of companies was carried out among the attendees of regional public events that promote the competitiveness and internationalization of the footwear industry. These companies were selected since they met the following criteria: a) easy access to information; b) participation in events, and c) willingness to be considered in the study. This

made the selected cases were interesting insofar as they allowed a comprehensive analysis of the development and stage of internationalization.

For [20], the case study methodology aims at generalization and the construction of new theories. In this sense, and following the author, to analyze the cases, it was assumed that the use of multiple researchers improves the creative potential of the study, since the team members provide complementary ideas. Thanks to the members of the research team, in-depth interviews, observations and analysis of the information provided by SMEs were developed. Finally, the information was triangulated in contrast to the theoretical framework and literature. The following section presents the results of the case studies, which account for the experiences of the 21 companies.

4. Results

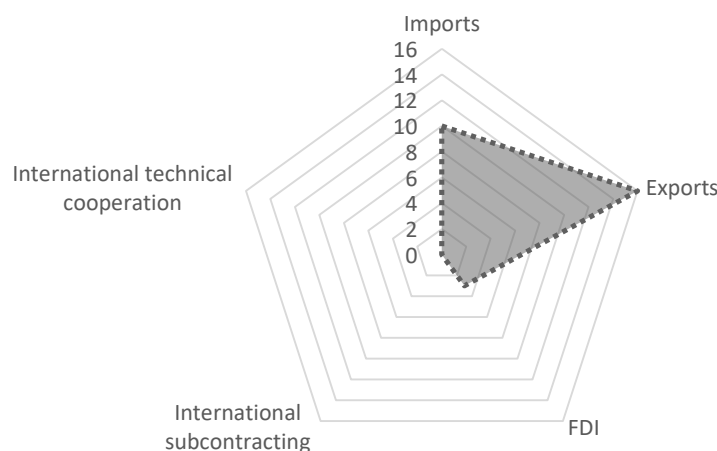


Fig 2. Internationalization Stage of Mexican leather footwear industry, Source: Created by authors.

Results in Fig. 2 show that SMEs of this sample are involved in the internationalization process strongly oriented to the development of exports and imports and only a small number (3) of them have been able to reach the stage of foreign direct investment, however these relationships are so recent (less than one year) that the outcomes cannot be evaluated at this point of the research. Additionally, no one of the surveyed companies expressed any interest of commitment to advance neither to international subcontracting nor international technical cooperation stages in the near future.

These results suggest that internationalization is only conceived in terms of imports and exports and efforts are carried out only to those stages even if SMEs could obtain a great benefit from the rest of the internationalization process levels (FDI, international subcontracting and technical cooperation). This behavior might be due to some factors as: (1) the relatively low level of competitiveness of the Mexican firms in the global industry, (2) the lack of know-how and (3) the vision of the owners and managers of the company.

Despite the surveyed SME's could be considered as advantaged in terms of their international performance, and that was a key element to consider them in this research, the investigation confirmed that the expectations of global participation are rather conservative and thus resources destined to the international development are also restricted.

5. Discussion

Internationalization process is complex and requires time to mature in any of their different stages (imports, exports, FDI, international subcontracting and international technical cooperation). However, the pass of time by itself does not imply that the company immersed in global activities will be advance in their path to the next levels of the process.

That is the case for the SMEs considered in this research, even some of them are aware of the benefits of increasing their activities in international markets, they do not proceed according to that for different reasons but mainly grouped in 3 categories: (1) competitiveness, (2) know-how and (3) vision of leaders. This might lead to a stagnation of the internationalization of Mexican leather footwear industry considering that most of the companies are SMEs with a low orientation to international markets.

Efforts of the companies, sectorial associations and Government should be directed to promote the conditions for a better international performance but also the diffusion of the benefits of exploring different options from the well-known imports and exports.

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