The Impact of the Institutional Environment on SME Internationalization: An Assessment of the Environmental Assumptions of Emerging Integrated Models of Internationalization

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This study provides an empirical test of the assumptions that many existing models of internationalization make regarding the institutional factors influencing internationalization by small to medium-sized firms (SMEs). Utilizing a sample of over 2100 SMEs in nine countries, the roles of such institutional attributes as the nature of the economic and legal systems and the levels of economic and political risk are examined in light of the impact that these factors have on the levels of international activity of SMEs. The results indicated that each of these factors may play an important role in either motivating or enabling internationalization.

INTRODUCTION

Evidence of the growing internationalization of small to medium-sized enterprises continues to emerge in both popular literature and academic publications. A vigorous debate has ensued focused on whether traditional theories of internationalization, developed almost exclusively in respect to larger firms, are applicable to smaller more entrepreneurial firms. In response to this debate a number of integrated models of the internationalization of SMEs has been offered (Bell, McNaughton, Young and Crick, 2003; Oviatt, Shrader and McDougall, 2004; Zahra and George, 2002). While each of these models provides a unique perspective on SME internationalization the one common foundation of all is an assumption of the critical role of environmental factors in motivating or constraining internationalization. Each proposes a theoretically derived grocery list of environmental attributes that should impact both the choice and opportunity to internationalize.

To date, little empirical research has been offered to support or discount these assumptions. In order to provide a foundation for the assumptions of these models this research provides a limited test of the environmental assumptions of these integrated models of SME internationalization. We will first review the arguments for considering SME internationalization as a unique phenomenon and the integrative models suggested for understanding such behavior. Secondly we will present research hypotheses specifically designed to test assumptions regarding environmental or institutional factors influencing internationalization by SMEs. Finally, we will describe a limited test conducted to assess the impact of a range of institutional factors on SME internationalization and the implications of the results obtained.

STUDY MOTIVATION AND THEORETICAL FOUNDATIONS

SME Internationalization

International business operations, long considered to be the primary province of large multinational firms, is now widely observed in firms of all sizes (Fillis, 2001). A recent large scale study of UK firms noted that almost one-half of all SMEs surveyed maintained international operations (Kalantaridis, 2004) and Knight (2000), writing in 2000, noted that SMEs were believed to account for 35% of all exports from Asia and over 25% of all exports from developed countries elsewhere in the world. This growing internationalization of SMEs is underscored by Oviatt and McDougall's (2000) estimate that by 2005 one-third of all SME manufacturing firms would derived at least 10% of their revenues from foreign sources.

The increasing internationalization of SMEs has been reflected in a growing academic interest in understanding the nature of such activity and the intersection between internationalization and the entrepreneurial process. There have been special academic journal issues devoted to the topic by *Entrepreneurship Theory and Practice*, *Small Business Economics*, the *Journal of Business Venturing*, and the *Academy of Management Journal* as well as others. A special focus journal, the *Journal of International Entrepreneurship*, was founded in 2003 specifically to address research internationalization by entrepreneurial firms.

The growing body of research aimed at understanding the nature of the internationalization process for SMEs suggests that the unique characteristics of such firms, particularly their resource constraints and timing of entry into the international marketplace, make the application of traditional theories of internationalization, dealing primarily with large multinational organizations, tenuous at best (Bell, McNaughton, Young and Crick, 2003: Ibrahim, 2004: Madsen and Servais, 1997; and Oviatt and McDougall, 1994). Fillis (2001) argues that many SMEs exhibit behaviors that don't fit the traditional stages of internationalization and that globalization effects along with the impact of technology and industry specific changes make the application of existing models of internationalization impractical.

Emerging Integrated Models of SME Internationalization

Some of the more popular theories drawn from business research and utilized in an attempt to understand the internationalization of SMEs include "Innovation-Related Internationalization" models (Bilkey and Tesar, 1977), "Foreign Direct Investment Theory" (Buckley and Casson, 1993), and "Network Theory" (Johanson and Vahlne, 1998; Sharma 1992). Additionally, such traditional economic theories as Transaction Cost Theory (Zacharakis, 1997) and Resource Theory (Woodcock, Beamish and Makino, 1994; Yeoh and Jeong, 1995) have been applied. The most widely explored theories of internationalization in business research that have also been applied in SME-based research, are those labeled as the "stage" theories of internationalization or the "Uppsala Internationalization Models" (Aaby and Slater, 1989; Petersen and Pedersen, 1997). The most influential of the stage models is the one developed by Johanson and Vahlne (1977). These theorists suggest that firms internationalize through various processes slowly and incrementally over time. The underlying assumption of the model is that as firms learn more about distant markets the risk-reward valuations improve allowing the firm to incrementally increase commitments of resources to foreign markets. Johanson and Vahlne (1977) suggest that firms will move first into international markets that are most similar to their home markets and then with time and knowledge acquisition will take increasingly greater risks in entering markets that are more distant or more dissimilar to their own home markets.

Although the stage models of internationalization seem appropriate in characterizing the behavior of larger firms, many scholars, as noted previously, have begun to question their applicability to SMEs. In response to the criticisms aimed at applying traditional theories of internationalization to SMEs, a number of integrated models of SME internationalization have been proposed. Three models that have gained increasing notice are ones developed by Zahara and George (2002), Bell, McNaughton, Young and Crick (2003) and Oviatt, Shrader and McDougall (2004). Each of these integrative models provides a unique perspective for understanding the SME internationalization process.

Oviatt and McDougall began developing the basic elements for a process theory of SME internationalization built around their foundation research (Oviatt and McDougall, 1994) on "born global" firms. In 2004, they along with Shrader (Oviatt, Shrader and McDougall, 2004) proposed a "risk management" model of new venture internationalization. The model, focusing on firms that rapidly internationalize from inception, describes a complex set of interactions between the founders and the general environment of the venture which are mediated by the industry environment and the characteristics of the entrepreneur.

The traditional stage models of internationalization suggest that firms gradually move into increasingly more risky international transactions while the "born global" perspective outlined by Oviatt and McDougall (1994) focuses on firms that internationalize from inception. A second perspective has been enunciated by Bell and Young (2001) that incorporates a process understanding of SMEs that are well established in their domestic markets but which suddenly, based on some critical triggering event, rapidly internationalize. Madsen and Servais (1997) earlier described this process as a "leapfrog" process. Bell, McNaughton, Young and Crick (2003) propose a model of internationalization that seeks to accommodate all three processes of internationalization—incremental internationalization, born global, and leapfrog. They argue that the pathway that an SME takes is dependent upon the knowledge resources of the firm, the strategic posture of the firm and the unique attributes of the firm's internal and external environments.

A third integrative model of the internationalization process is proposed by Zahra and George (2002). Arguing that existing models do not adequately consider the international entrepreneurial behavior of established firms, these theorists propose a model intended to accommodate such behavior. Building on a definition of international entrepreneurship as "the process of creatively discovering and exploiting opportunities that lie outside a firm's domestic markets in the pursuit of competitive advantage (Zahara and George, 2002, p. 261), they focus their model on the forces that influence the degree, speed and geographic scope of international activities. The model outlines a complex interaction between firm attributes and strategic and environmental factors that lead to internationalization.

Although each of these models has a different temporal focus as it relates to internationalization one common attribute of each is the acknowledgement of both firm-specific and environmental or institutional antecedents to internationalization. While firm-based antecedents of internationalization have a long history of exploration far less explored are the institutional factors that motivate or constrain internationalization. Oviatt et al (2004) suggest such institutional variables as political systems and government policies, economic and social conditions and certain attributes of the natural environment as playing a role in internationalization. Although they do not provide specific attributes, Bell et al (2003) suggest an important role for environmental factors in internationalization. Zahra and George (2002) argue that in addition to competitive forces and growth opportunities in the environment such factors as national culture and attributes of the institutional environment play a role in the internationalization process.

Building a Framework for Assessing the Role of Institutional Variables

The primary goal of this research is not to provide a new model of SME internationalization but rather to begin testing the assumptions the models have in common regarding the institutional factors impacting internationalization. It is hoped that such research will provide a starting point for integrating all three temporal perspectives of SME internationalization into an empirically testable framework. Both the resource based view (RBV) of the firm as well as institutional theory is used in this analysis to understand the role and importance of the institutional environment of the SME to internationalization. The institutional environment has been defined as the set of political, economic, social and legal conventions that establish the foundational basis of production and exchange (Oxley, 1999). Kalantaridis

(2004) argues that changes in the institutional framework of international trade have created a new age of global economic integration. Institutional variables are of particular importance in understanding the capacity of SMEs to internationalization. Given the limited internal resources base of the SME there is a far greater reliance on the external environment for the resources necessary for internationalization. A review of existing institutional theory research as well as internationalization research yields a wide range of factors that may impact internationalization. For purposes of this study we have chosen to look at four components of the institutional framework assumed to influence internationalization and the range of individual variables reflecting each component.

Environmental Munificence

Keats and Hitt (1988) suggest that a munificent environment, an environment characterized by a broad range of resources supporting growth (Dess and Beard, 1984), will support expansion and the generation of slack resources supporting growth. First explored by Staw and Szwajkowski (1975) as an important variable in organizational growth and decision capacity, environmental munificence has been linked both to the survival and growth of firms as well as the ability of new firms to enter a specific market (Castrogiovanni (1991). It has traditionally been assumed that the more abundant the resources available to firms the more likely the firms are to pursue strategies beyond those necessary for survival. As resources become scarce, competition intensifies and firms have limited ability to pursue goals beyond survival (Castrogiovanni, 1991). A wide range of resources have traditionally been employed as reflecting the level of environmental munificence. These include, particularly as it related to technology-based industries, such things research and development spending by governments and businesses. Variables assumed to impact all firms operating in a specific environment include such things as population growth, workforce educational levels, personal income, commercial and industrial loan volume and venture capital investments. Because most often SMEs must seek resources external to the firm for both growth and the pursuit of strategic options such as internationalization, it is assume that environmental munificence has a particularly significant impact. Given these assumptions and the preponderance of historical research linking environmental munificence to strategic options we propose the following relationship between environmental munificence and internationalization.

> *Hypothesis 1: The greater the levels of environmental munificence of the home market of an SME the greater will be the level of internationalization.*

Economic Risk

Environmental risks, particularly economic and political, have been link to the nature and extent of transactional interactions of firms (Ghosal, 1987). The unattractive nature of economically risky environments has been shown to limit the ability of SMEs to form alliances (Dickson and Weaver, 2011) as well as deterring foreign investment (Oxley, 1999), particularly in those settings in which there is a history of government expropriation of foreign-held assets. Economic risks are driven by the institutional forces that impact stability. For firms in countries with high levels of economic risk the lack of external investment and the limited attractiveness of potential alliance partners would seem to suggest a greater need to increasingly seek growth outside the home market of the firm. This suggests the following hypothesis:

> *Hypothesis 2: The greater the level of economic risk of the home market of an SME the greater the greater will be the level of internationalization*

Economic and Political Freedom

According to Hitt, Ahlstrom, Dacin, Levitas and Svobodina (2004) institutional factors have great power in shaping economic activity and the strategic choices of firms. One such institutional factor, economic freedom is a widely utilized construct that reflects the freedom and protection that individuals have in acquiring property and engaging in voluntary transactions (Gwartney, Lawson, and Block, 1996).

Traditionally it has been assumed that the freest economies are those that have a minimal level of government interference and least free are those where significant restrictions are placed on what can be produced, how much is produced and for whom production is intended (Karabegovic and McMahon, 2005). Economic and political freedom has most often been assumed to include such reflective attributes as low taxes, low regulations on business transactions and secure property rights (Kreft and Sobel, 2005). Past research has empirically linked the level of economic freedom in a region to economic growth, the development of democratic institutions, civil and political freedoms and other economic outcomes (Karabegovic and McMahon, 2005). More recently the level of economic freedom has been linked to the level of entrepreneurial activity (Kreft and Sobel, 2005). To our knowledge there is limited research linking the level of economic freedom uniquely to the likelihood of SMEs to internationalize.

The level of economic and political freedom in the home market of the SME is assumed to impact the decision and timing of internationalization in three key ways. First, due to the limited resource capacity of the SME, the lower the economic burden placed by local, regional and national taxes the greater the resource capacity available to internationalize and thus the greater the SMEs tolerance for economic risk associated with internationalization. Second, in order to choose to internationalize the owner or manager of the SME must be able to assume a reasonable capacity for the expatriation of earnings from international operations with no unreasonable regulations or taxation. Finally, again due to the limited resource base of the SME and a consequential limited capacity to manage restrictive legal barriers to international trade, internationalization by the SME will be significantly impacted by the level of burdensome regulations to international trade placed by local, regional and national governments. Given these assumptions we propose the following relationship between economic freedom and SME internationalization.

> *Hypothesis 3: The greater the economic and political freedom of the home market of an SME the greater will be the level of internationalization.*

Nature of Legal Systems

The legal systems governing the transaction environment of firms has often been viewed as creating regulatory pressures that impact strategic choices (Oxley 1997; 1999). Legal systems impact organizational actions through the establishment the basis for production, exchange and distribution in an effort to establish order (Davis and North, 1971; Yiu and Makino, 2002). Because of the resource constraints faced by most SMEs there is a need for a strong system of equitable and enforceable laws that support the successful operation of the firms. La Porta, Lopez-de-Silanes, and Shleifer (1997; 1998; 1999) argue that the primary issue determining the strength of a legal system to protect transactions is the legal origin of laws. Their research, which has been widely utilized in financial research, utilizes four legal systems based on origin. These include English common law and French, German and Scandinavian civil law. While their work suggests that in general wealthy countries enforce laws better the economically poor countries, in general they find that French civil law countries have the lowest quality of legal enforcement in terms of contracts and property rights.

Utilizing similar logic as that relating to economic risks, it would seem that firms located in countries with lower levels of legal protection for transactions would be more likely to seek transactions outside their home market. This logic would suggest the following hypothesis:

> *Hypothesis 4: The legal system governing an SME will be significantly related to the SME's likelihood of internationalization. In comparison to SMEs in French Civil Law Countries, SMEs in countries with legal origins in English Common Law, German Civil Law or Scandinavian Civil Law will have lower levels of internationalization.*

RESEARCH DESIGN

Sample

SME manufacturing firms in Australia, Costa Rica, Finland, Greece, Indonesia, Mexico, Netherlands, Norway and Sweden were randomly selected for inclusion in the study. The study sample was based on a methodologically rigorous survey sampling program conducted by the authors over a five year period. For purposes of the study, an SME was classified as any firm with less than five hundred employees, but no less than six employees as consistent with both European and U.S. classifications (European Network for SME Research 1995, U.S. Government Printing Office 1995). A key informant design was chosen for the survey given the individual and firm level attributes of interest. This design was deemed appropriate based on the strong theoretical argument that firms of this size are in extensions of the key individuals in charge (Lumpkin and Dess 1996). The total sample included 8578 SMEs in the nine countries included in the research. This sampling resulted in a total of 2141 useable responses. Lists of potential firms were developed, where possible, from data base listings and where such listings were not available, lists were developed from organizational affiliation lists of commercial firms in each country. Mailing lists for some European countries were developed through the use of KOMPASS On-Line systems, which is an electronic database that provides addresses for manufacturing firms. Manufacturers were selected at random from eleven different industry groups representing major industrial classifications in the Gross Domestic Product (GDP) of each country. Only SMEs with 6 or more employees and less than 500 employees were included in the study. A complete report on the sampling demographics can be found in Table 1.

TABLE 1
SAMPLE DEMOGRAPHICS

Country	Total Sampled	Useable Surveys	Percent Useable
Australia	1373	313	22.8
Costa Rica	1500	87	5.8
Finland	400	121	30.3
Greece	400	228	57.0
Indonesia	890	285	32.0
Mexico	650	363	55.8
Netherlands	300	131	43.7
Norway	2465	433	17.6
Sweden	600	180	30.0
Totals	8578	2141	25.0

A key informant design was used. Consistent with definition of a key manager used in this study the surveys were addressed and completed by either the owner or general manager of each firm selected. The strategic decisions regarding alliance relationships for firms of the size surveyed in this study are generally assumed to be determined by the key decision leader within the firm. This is one of the primary reasons that firms with 500 or less employees were utilized in the study. There is strong theoretical support that firms of this size are extensions of the individuals that are in charge (Lumpkin and Dess, 1996).

Survey items, developed originally in English, were translated with care and a back-translation process was utilized. Teams of experts reviewed the final survey translations for meaning and consensus was reached prior to the development of a final survey. In some of the countries the surveys were mailed (Norway, Sweden, Australia, Finland and the Netherlands) since past experience has shown a reasonable response rate for mailed surveys. Past experience has also shown that in some national settings mailed surveys have a very low response rate and a much higher response level is obtained when surveys are hand-delivered.

The representative nature of the final samples was assessed in two ways. First, a series of analysis of variance procedures were used to test for significant differences across all study variables when wave was considered as a main effect. No significant differences were found. A second assessment was completed through a random telephone survey of a select group, 50 in each country, of non-respondent SMEs. Because the surveys were anonymous, calls were placed randomly to firms selected until 50 firms had been identified that had not responded. The results of this telephone survey indicated that there were no significant differences between the responding and non-responding SMEs in terms of demographics alliance participation or industry classification.

Study Measures

The study variables were measured utilizing items drawn from existing research, macro-economic country data and a series of objective-type measures developed for the study. In order to control for the potential effects of time of collection of our sample, we measured the institutional factors associated with internationalization over a range of years. The natural log of the five year average (ending with the year of data collection) of real GDP (in 1990 U.S. dollars) was drawn from UNESCO Statistical Yearbook (2002) and used as a measure of environment munificence. Although this is a very broad measure of a country's economy it is assumed to reflect a broad range of resources available to SMEs. The Euromoney (1998) Country Risk Index, which is a measure of a country's debt in international finance markets, was uses as a measure of economic risk. The Freedom in the World Index (Karantnycky & Piano, 2002) was utilized as a measure of economic and political freedom in each country. The survey rates political rights and civil liberties utilizing a broad range of measures including civil liberties, organizational and human rights and economic freedoms. The origin of laws measure utilized in this study was drawn from La Porta, et al. (1997; 1998; 1999). A dummy coding scheme was utilized in which SMEs were coded as being from "French Civil Law," "Scandinavian Civil Law," or "English Common Law." No "German Common Law" countries were included in the current study. The study outcome variable, SME internationalization, was assessed by asking respondents to indicate the total percentage of their annual business that was derived from markets external to their primary country of operations.

Control Measures

In order to provide a rigorous test of the hypothesized relationships a wide range of control variables was utilized in the study. SME size was based on the number of total employees. Differences in the individual risk profile of the firm were controlled utilizing a widely used measure of entrepreneurial orientation developed by Covin and Slevin (1988; 1989). Twelve different industry groups were sampled in the study. In order to aid in the stability of the regression analysis these twelve groups were collapsed into four industry groupings based on the level of technological sophistication. The categorization scheme was based on one provided by the Organization for Economic Co-Operation and Development (OECD): Science, Technology and Industry Scoreboard (2003). A dummy coding scheme was utilized for the four industry groupings.

Controls for the perceptions of the respondent regarding environmental conditions that might impact their strategic choices were also included in order to clearly picture the impact of the actual institutional environment of the SME. Perceptions regarding general market uncertainty, technological uncertainty and uncertainty specific to the firm's industry were measured utilizing scales drawn from the work of Covin and Slevin (1989) and Schultz, Slevin and Covin (1995). Reliability tests showed that reliability was above generally excepted levels for all measures in the study.

Analysis

The study utilized hierarchical linear regression to assess the factors associated with the level of internationalization of SMEs. In order to provide the most conservative test possible, all control variables were entered into the regression model first. Second, the variables measuring the firm owner's perceptions of the environment were entered. The institutional variables were entered into the model last. All continuous variables were converted to standardized scores in order to minimize as much as possible potential multicolinearity of variables.

RESULTS

Tables 2 and 3 provide an overview of the study demographics and the study measures.

TABLE 2
STUDY DEMOGRAPHICS

	English Common Law	Scandinavian Civil Law	French Civil Law	High Tech	Medium High Tech	Medium Low Tech	Low Tech
Total	313	734	1094	352	406	742	641

TABLE 3
STUDY VARIABLES

Variable	Mean	Standard Deviation
International Intensity[1]	18.21	26.8529
SME Size[2]	64.10	107.43
Risk propensity	3.00	.7737
General market uncertainty	3.02	.6858
Technological uncertainty	2.87	.9307
Industry uncertainty	2.84	.8371
GDP (log)	12.09	.7800
Economic risk index[3]	21.15	19.189
Freedom index[4]	2.26	1.6158

[1]Total volume of business external to home country. 915 firms had no international involvement. 11.8% had over 50% of total business external to home country.
[2]Firms with less than 6 employees are more than 500 employees are not included in the study.
[3]Variable coded such that lower index numbers indicate lower risk
[4]Variable coded such that higher index numbers indicate lower levels of freedom
Correlation matrix available upon request from the authors. There was no significant evidence of multicolinearity among predictor variables.

An overall response rate of 25 percent was obtained for the study resulting in 2141 complete and useable surveys. Of the survey total, 915 SMEs had no international involvement while just over 11 percent had over 50 percent of their total business derived from outside their primary country of operation.

Tests of Hypotheses

Table 4 provides the results of the hierarchical linear regression. Hypothesis 1 posits a positive relationship between the munificence of the environment of the SME's primary country of operation and internationalization. It is assumed that there must be at least a minimum level of resources and infrastructure available to the SME in order to aid internationalization. The results of the regression analysis support this assumption.

TABLE 4
HIERARCHICAL LINEAR REGRESSION FOR INTERNATIONALIZATION

Variables	Model 1	Model 2	Model 3
Constant	.005	.001	.508
Controls			
Firm Size (Loq)	.293***	.289***	.225***
Risk Propensity	.054**	.025	.044
High Tech Industry	-.110	-.102	.004
Medium High Tech Industry	.046	.053	.116*
Medium Low Tech Industry[1]	-.106*	-.103*	.011
Environmental Perceptions			
General market Uncertainty		.021	.041
Technological Uncertainty		-.033	-.042
Industry Uncertainty		.111***	.081***
Institutional Environment			
GDP (log)			.120***
Economic Risk Index[2]			.308***
Freedom in the World Index[3]			-.181***
English Common Law			-.765***
Scandinavian Civil Law[4]			-.150*
R^2	.101	.111	.158
Adjusted R^2	.099	.108	.153
ΔR^2	.101***	.011***	.047***
F Change	47.831	8.449	23.533

[1]Comparison group is “low tech” industry
[2]Variable coded such that lower index numbers indicate lower risk
[3]Variable coded such that higher index numbers indicate lower levels of freedom
[4]Comparison group is “French Civil Law”
N = 2141
*p< .05, **p< .01, ***p< .001

Hypothesis 2 predicted a positive relationship between the level of economic risk and the level of internationalization while Hypothesis 3 predicted a positive relationship between economic and political freedom and levels of internationalization. It was reasoned that concerns about risks in home markets would drive SMEs to internationalize while the freedom from unreasonable regulations and the ability to expatriate earnings without excess taxation would support them in doing so. Both assumptions proved to be correct. It should be noted that in the regression analysis the coefficient for the Freedom Index is negative. For this index higher index numbers indicate lower levels of freedom. Thus the negative coefficient indicates that has freedom increases (lower scores) internationalization increases.

Hypothesis 4 predicted a significant relationship between the origin of the legal system of the home country of the SME and the SME’s levels of internationalization. The results suggest that in comparison to “French Civil Law” countries, both “English Common Law” and “Scandinavian Civil Law” countries have lower levels of internationalization. This supports the assumption that lower levels of protection of trade in the SMEs home country might encourage higher levels of internationalization.

Discussion

The findings of this study help to provide a framework for understanding the role of the institutional environment in motivating or enabling the internationalization of SMEs. Taken in total, the results of the study suggest that the greater the risks in a SMEs home country the higher will be the levels of internationalization by the SME. At the same time, internationalization is enabled when there are high levels of economic and political freedom and when the institutional economy provides a foundation and infrastructure supporting of business operations. The origin of laws within the home country of the SME was also found to have a significant impact on internationalization.

While the study illuminates the role of institutional variables in the internationalization activities of SMEs, it has a number of limitations. It provides a broad sampling of SMEs from multiple countries and industries but generalizations made to countries and industries other than those included in the study should be made with care. The study utilizes survey methodology, that while providing unique information has potential limitations. Also, a limitation potentially present in all cross-national research is the potential of misinterpretation of questions by respondents and interpretations of results by researchers.

Study Implications

The current debate regarding the unique nature of SME internationalization is theoretically robust with a range of proposed "process-based" models driving the discussion. This study finds its significance in presenting research hypotheses aimed at assessing one attribute each of these process models have in common, the assumptions regarding the role of the institutional environment in the internationalization of SMEs. The goal of the study is to provide a starting point from which all three temporal perspectives of SME internationalization outlined by the process models reviewed, might be integrated and empirically tested. Extant research is rich regarding the role of firm resources in enabling internationalization. It is hoped that the present research will expand our knowledge by providing a unique view of the enabling or constraining attributes of the institutional environment of the SME and in so doing stimulate additional research in this area.

This research also promises to have important policy implications as it relates to SME internationalization by illuminating the role of various factors of the institutional environment, many reflective of local and regional trade and industrial support policies, in supporting or constraining SME internationalization. For example, it is hoped that answers to such key questions as to what aspects of economic freedom, i.e. tax structures, trade regulations, etc, are most critical in supporting or constraining SME internationalization. Likewise based on the industry of the SME, what attributes of environmental munificence, i.e. availability of financial capital, R&D expenditures, educational preparation, etc, are most relevant in understanding the ability of SMEs to internationalize. Finally, does the international diversity of a region make a difference in the ability of SMEs to internationalize and if so what are the linkages between a diverse population and SME firms that are most relevant in support of internationalization?

CONCLUSIONS AND FUTURE RESEARCH

Recent research into SME internationalization has called into question the adequacy of traditional models of internationalization in explaining the strategic choice of SMEs to enter the international marketplace and the timing of such entry. Several "process-based" models of SME internationalization have been proposed by modern theorists. One commonality across all such models is the assumptions regarding the role of both firm-specific resources and institutional factors in impacting SME internationalization. Although there has been an abundance of research focusing on firm-specific resources and internationalization the research focusing on the relationship between the attributes of the institutional environment and SME internationalization has been limited. This research provides four specific research hypotheses designed to empirically test the institutional framework proposed by the process models of internationalization. These hypotheses focus specifically on the relationship of economic munificence, economic risks, economic and political freedom, environmental munificence and the nature of the home country legal systems in motivating or constraining SME internationalization decisions. We believe this research to be of significant importance both in developing a common ground for integrating the various process models of internationalization and in illuminating the important policy implications of the relationship between the institutional environment and SME internationalization.

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