

INTANGIBLE RESOURCES AS A DETERMINANT OF ACCELERATED INTERNATIONALIZATION

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ABSTRACT

The aim of this research is to analyze the internationalization strategies followed by small and medium enterprises (SMEs) of Jalisco. Specifically, we want to identify cases of early internationalization, and how SMEs get and manage their resources. We developed an analytical framework based on the resource-based view of the firm and on two internationalization models, the Uppsala and the Born-Global. The purpose is to allow the analysis of different typologies of internationalized SMEs. The empirical results show the internationalization strategies of SMEs follow two main trends: the first presents a gradual internationalization, as suggests the Uppsala model and the second follows an accelerated internationalization, agreeing with the born-global approach. An interesting finding is that accelerated internationalization is not an exclusive behavior of technology intensive or innovating companies. In fact, it is possible to find born-global SMEs even in mature and traditional sectors. This is possible thanks to the control of strategic intangible resources like experience and relational capital of managers. These findings contribute to extend and deepen the knowledge of born global companies.

JEL: F23; M16

KEYWORDS: Resource-Based View, Intangible Assets, Born-Global companies, SMEs.

INTRODUCTION

The present enterprise environment, characterized by constant evolution in the technologies of production, information, communications, transportation, the openness of markets and a greater mobility of human and financial capital, affects the way business is conducted. This managerial context forces companies, both established as those in formation, to reflect on business form and how best to take advantage of the prevailing conditions to survive, preserve their market position, diversify risks and grow.

In Mexico, the importance of SMEs can not be overstated. SME's are important based on the number of establishments (99.3% of total companies), generation of employment (88.9% of the jobs) and the possible benefits from internationalization (INEGI, 2009; SIEM, 2009). Because of this importance it is important to identify reasons that companies to succeed in foreign markets.

In the following section, we present the theoretical frame of this work, which includes a brief description of the enterprise success, the resource-based view of the firm (RBV) and the models of accelerated internationalization. Later, in the empirical section, we will describe the methodology used, the studied case will appear and we will discuss the reached results. The paper closes with some concluding comments.

LITERATURE REVISION

We define internationalization to be the commitments of a company outside its origin country and transferring services, products or resources beyond the borders. In a broader sense, an internationalized company is one that conducts any operation of its value chain in a country that is not local (Welch &

Luostarinen, 1988). Internationalization includes diverse phenomena, because the international economic relations that a company can establish differ according to their nature. These international relations, can include commercial relations (export and import), financial or of production (manufacture in other countries or subcontracting). We present two themes that will allow us to deepen in our conceptual map, first the determinants of the success or failure in companies and latter, how internationalization of a company takes place.

The Enterprise Success and the Exporting Performance

The subject of enterprise success is not new in the strategic management literature. Like a first approach and individual scale, the success of the company lies in its survival. A successful company can remain in its productive activity. The competitive success is associated with the enterprises capability to secure a favorable competitive position, to hold and to improve its position in the market and to get superior results to those of its competitors (Sierraalta, 2004).

Since the eighties, the literature has emphasized that enterprise success is founded in holding a competitive advantage that makes it possible to earn abnormal returns. A competitive advantage is the ability of the company to equip its products or services of key qualities that their competitors cannot imitate. This allows the company to earn a surcharge without losing market share or to enjoy lower costs. In both cases, the company earns income over the average of its industry because of its ability to respond to the demands of the market efficiently.

Nevertheless, to count on a competitive advantage does not guarantee success. In addition, the advantage must be sustainable in the long term. In this sense, a competitive advantage must be due to certain characteristics. It must be valuable, rare, difficult to imitate and difficult to replace (Barney, 1991) and must match with the preferences of the consumers of the objective market.

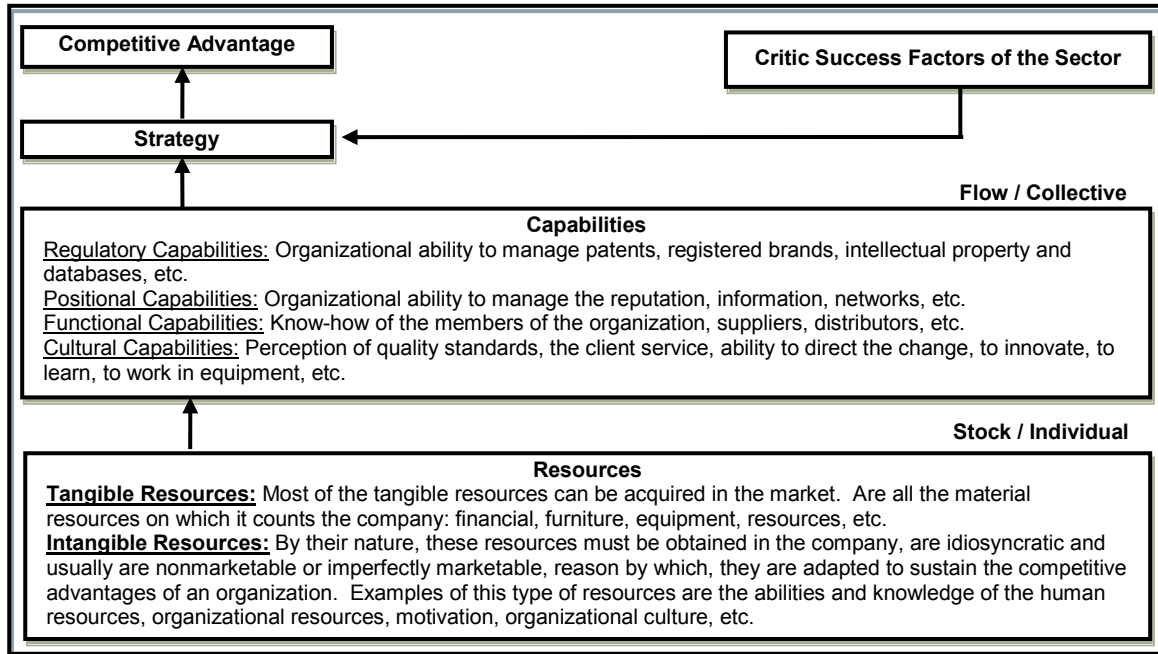
Nevertheless, how the company builds and preserves its competitive advantage, and how it can use this advantage in foreign markets remains an open question. A suitable base to respond to these questions is the RBV. This theory suggests that, in turbulent times and of great changes, as much in the technology as in the needs of the clients, the sustainable competitive advantage must rely on the resources and capabilities the company owns. Under this theoretical frame, Grant (1998) raised the theory in which the company combines the internal elements with those of their environment to achieve a competitive advantage. In this perspective, the company combines its tangible and intangible resources to form the organizational capabilities, which preserve the strategy, considering the factors that have lead to the success to other companies of the sector (See Figure 1).

Thus, exporting performance, like an expression of the enterprise success can be conceptualize like a strategic answer. It is conditioned by the internal elements which the company posses (its resources and capabilities) (Valenzuela, 2000).

The Internationalization of the Company

A high number of investigators have studied the phenomenon of the internationalization during several decades from different theoretical perspective. Nevertheless, between investigators does not exist consensus on the most important characteristics to analyze and to explain the internationalization (Welch & Luostarinen, 1988). This is the reason we can find manifolds theories that approach this phenomenon, each centered in one or several partial aspects of the internationalization (Galan, Galende & Gonzalez, 1999; Vazquez & Vazquez, 2007). We present a tentative classification of these theories in Table 1.

Figure 1: Resources, Capabilities and Competitive Advantage



Source: Own elaboration based on Barney (1991), Grant (1998) and Fong (2002). Figure 1 shows the route towards the competitive advantage according to the RBV. According to this, particular combinations of the firm's resources (tangible and intangible) create the capabilities (regulatory, positional, functional and cultural) needed to sustain a specific strategy. This strategy must be designed according to the specific resources and capabilities of the firm and to the critic success factors of the sector, which could produce a competitive advantage.

Table 1: Main Theories of the Internationalization of the Firm

Perspective	Description	Theory
Economic	The internationalization is seen as a phenomenon purely based on the costs and the economic advantages.	Monopolistic Advantage Theory (Hymer, 1976), Internalization Theory (Buckley & Casson, 1998), Eclectic Paradigm (Dunning, 1980), Organizational Capabilities Theory (Madhok, 1997).
Sequential	Internationalization is conceived like a process of incremental commitment based on the learning, the knowledge accumulation and in the increase of resources placed in the outer markets.	Uppsala Model (Johanson & Wiedersheim-Paul, 1975), Product's Cycle Life Theory (Vernon, 1966), Innovation Models (Bilkey & Tesar, 1977), Networks Theory (Johanson & Mattson, 1988)
Accelerated	Raises the possibility the companies, despite being of recent creation, export a significant part of their total sales.	Born-Global or INVs companies (Knight & Cavusgil, 1996; Oviatt & McDougall, 1994).

Source: Own elaboration based on literature revision. This table shows a tentative classification of the most important theories of the internationalization of the firm; they are group in three categories, according to the characteristics used to analyze and to explain the internationalization.

In the present investigation we explore two possible explanations for the internationalization of SMEs: the Uppsala model and born global model. This because most theories are not applicable to these companies which tend to address only abroad studies of internationalization by way of direct investment. Moreover, the Uppsala model and born-global models are compatible with the RBV.

The Uppsala model presents internationalization like a gradual and evolutionary process that follows stages: not to export, export sporadically, export regularly by agents, organize a commercial network to export and settle down abroad. Each one of these stages supposes a greater implication and commitment of the company (Johanson & Wiedersheim-Paul, 1975).

From this perspective, companies look first for the psychically nearest markets, where psychic distance is the set of factors that make the flow of information between a market and the company difficult, for example: language, culture and education.

The Born-Global approach arises because of the existence of an increasing number of companies, mainly SMEs, which begin international activities not in a gradual way, as suggest traditional models but by risking an important amount of company resources (Oviatt & McDougall, 1994; Rialp, Rialp & Knight, 2005).

It is important to note that a fundamental difference between a traditional company and born-global in the role-played of resources and capabilities. Born-global companies, being by definition of recent creation, do not count on an extensive grant of financial or human resources, at the same time they can also lack other properties including equipment and other physical resources. This is important because these resources, mainly tangible, are those that traditional companies have used to be successful in foreign market. However, the born-global company uses a set of intangible resources to get and to preserve international competitive advantage (Rialp et al., 2005).

Rialp et al. (2005) propose the following factors, related to one another although not necessarily in this order of importance, like which model the way of international development of companies: (1) to count on management team with a global vision from its foundation. (2) Have an enterprising with previous experience in international businesses. (3) Have a greater commitment and directive dedication with the international activity. (4) Make a more significant use of networks and personal and between companies' relations. (5) Have greater knowledge of the foreign markets. (6) To more deeply integrate intangible, unique or singular and hardly imitable resources, based on the strategic management of the knowledge. (7) To get a greater value added through differentiating the product or innovating technology. (8) To follow a proactive international strategy, focused to spread geographically niches of the global market. (9) Have identified and to focus towards segments of the outer market with a greater direct relation with the final client. (10) Have a greater strategic and organizational flexibility to adapt to changing conditions of the international environment.

Rialp, Rialp & Knight (2005) propose a theoretical model for the analysis of the internationalization. This model arises from combining several contributions that consider managing intangible resources including a critical element to create a competitive advantage in a certain context (See Figure 2). From this theoretical frame we arrive at our hypotheses:

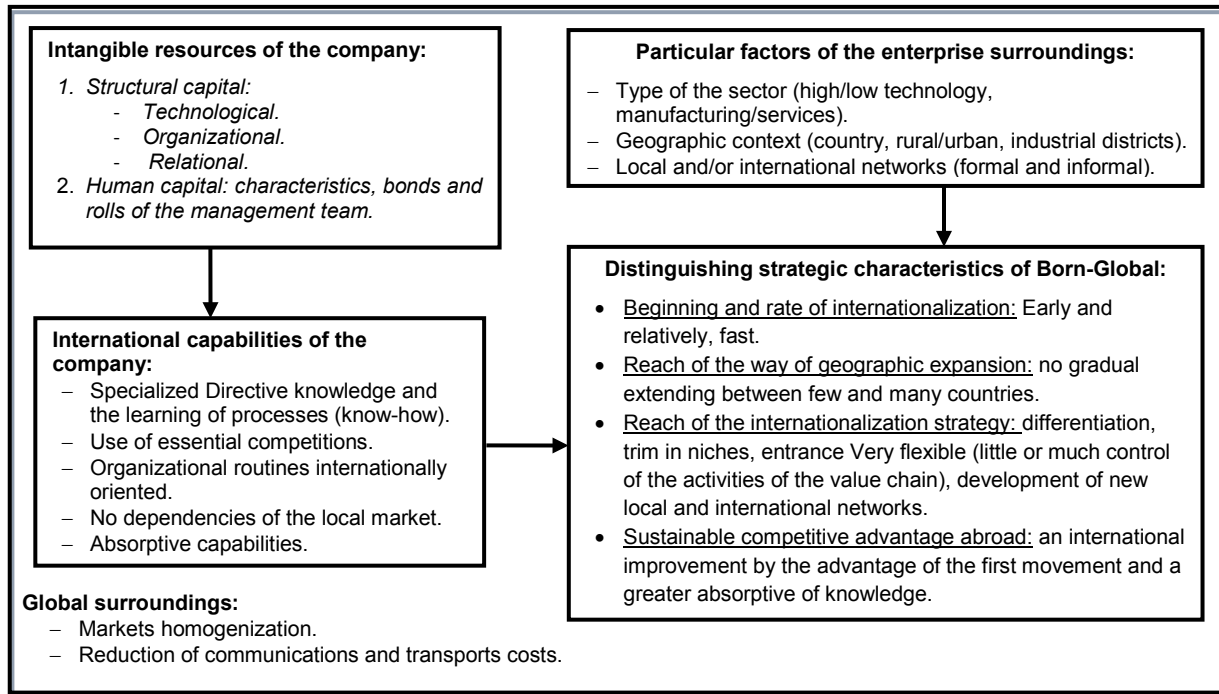
H1: Holding unique and valuable resources, of character mainly intangible, that support the competitive advantage will improve the internationalization strategy and the exporting performance of the SME.

On the other hand, of specific form, following theoretical the model presented, we have the following hypothesis:

H2: The company reaches internationalization following an evolutionary footpath, characterized by an increase in the resources it risk.

H3: The SME is able to export a significant part of its products to diverse countries because of its foundation. The foundation includes its ability to identify opportunities, its networks and relational capital and the knowledge of its manager about foreign markets.

Figure 2: Model of Internationalization of the Born-Global Approach



Source: Adaptation of Oviatt & McDougall, 1994 and Rialp, Rialp & Knight, 2005. This figure shows the route of accelerated internationalization cradle in resources and capabilities. Here we describe how combining certain resources results in increased international capabilities of the company. When combined to the characteristics of a particular sector context and general economic context this sprouts a born global company.

DATA AND METHODOLOGY

For this investigation, we use a mixed methodology to companies of Jalisco, Mexico. We applied a quantitative strategy (correlation analysis) and later a qualitative analysis (case study). For the present investigation, we used a survey applied to 56 managers of internationalized SMEs of diverse sectors from Jalisco. This survey is part of the investigation “Factors that favor the competitiveness of the internationalized SMEs of Jalisco” developed by University of Guadalajara and Council for Science and Technology of Jalisco. We calculate correlation coefficients between the most relevant variables (See Table 2) as well as the other 17 variables related to the internationalization models presented above.

Table 2: Variables for the Correlation Analysis

Variable	Description	Measuring Criteria
Exp/Sales	Percentage of exports respects the total sales.	Continuous Variable (between 0-1)
Countries	Total number of countries in which the company is selling its products.	Discreet Variable (between 1-8)
Int. Clients.	Total number of clients in foreign markets.	Discreet Variable (between 1-100)
Internationalization Lv.	Maximum internationalization level reaching by the company.	Scale Variable (0 = Only Exports, 1 = Realizes distribution / commercialization activities, 2 = Account with establishments abroad.

Source: Own elaboration. The table shows a brief description of the four key variables used for the correlation analysis and the measuring criteria applied for each variable. These variables allow us to understand some relevant aspects of the internationalization process reached for the SMEs of Jalisco.

While correlation does not settle the existence of causal relation between variables, it allows us to observe the degree and the sense of relation that keep the variables. The causal relation will be in a sense according to the realized theoretical revision.

Despite the proven virtues of the quantitative analysis in the scientific research, some aspects related to the aim of this work, and especially to the adopted theoretical frame, suggest the need to consider other methodological alternatives, the qualitative type methodologies. In this sense, diverse investigations (Fong, 2002; Hall, 1993; Nisar, 2006; Rosen, 2006; Zadrozny, 2006) have showed the utility of the case study methodology to analyze firms in their environment and to look into the internationalization in SMEs.

Thus, we designed and orchestrated the case study following the methodology raised by Yin (2003a, 2003b) applying the triangulation principle for the contrast of information. We used diverse investigation techniques, like semi-structured interviews with key informants, application of surveys with Likert scale to a representative sample of workers, documentary revision in files of the company, journalistic publications, through the internet and nonparticipating observation. Contact with the company occurred throughout June of 2008.

The first point of study was the route followed by the company in its internationalization strategy, identifying the time it took the company to begin exporting its products after its foundation. If the company started exporting within three years of its creation, it is considered a born-global company. On the contrary, we will assume the firm has followed a traditional internationalization like the raised by the Uppsala school. Later we identify information about the key resources required to begin and to stay in foreign markets. A brief description of the variables analyzed appears in Table 3.

Table 3: Variables under the Born-Global Approach

Variables	Source of Evidence
Vision of the managers about the course that must follow the company	Interviews with key personnel Documentary Revision
Experience in foreign markets of the managers	Interviews with key personnel Documentary Revision
Commitment and dedication of the directive with the internationalization	Interviews with key personnel Documentary Revision Archives Revision
Personal networks or between companies	Interviews with key personnel
Knowledge of the destiny market	Interviews with key personnel
Technological differentiation of the product or innovations	Interviews with key personnel Direct observation Documentary Revision
Participation in spread niches of market	Interviews with key personnel Documentary Revision
Strategic and organizational flexibility	Interviews with key personnel Documentary Revision Archives Revision

Source: Own elaboration. This table shows the variables used for the case study under the born-global approach and the sources of evidence used for each variable.

RESULTS

Correlation Analysis

We applied the correlation analysis of the four variables previously described against another 17 variables of the survey that were tied with the proposed model. We identify variables with greater relation with “exports on total sales” and if the firm adopts “internationalization like a positioning strategy”. We also examine the “number of countries in which the firm operates” and the “number of clients who are

abroad”. This suggests that, when the company sets an objective of reaching a better competitive position and develops a strategy around this objective, the results of the internationalization are better than when exporting occurs by external situations. That agrees with the expositions of the born global approach.

Table 4: Correlation between Variables

	1. Exp/Sales		2. Countries
Internationalization like a positioning strategy	0.3569***	Competitive aggressiveness	-0.3255**
Agreements to realize R&D	0.2976**	Use of Internet sales	0.2978**
Use of Internet sales	0.2938**	Number of strategic alliances	0.2482*
Kind of company	-0.2383*	Agreements to realize R&D	0.2469*
		Number of international suppliers	0.2373*
		Internationalization like a positioning strategy	0.2282*
	3. Int. Clients		4. Internationalization Lv.
Antiquity of the R&D department	0.4315***	Performance evaluation	0.4097***
Internationalization like a positioning strategy	0.2659**	Competitive aggressiveness	0.3222**
Agreements to realize R&D	0.2521*	Employees capacitating	0.2522*
Realizes purchases by Internet	0.2475*	Antiquity of the company	-0.2224*
Use of Internet sales	0.229*	Manager’s educative level	0.2215*

Source: Own elaboration. This table shows the statistically significant coefficients obtained from the correlation analysis. Estimations were between four relevant variables (percentage of exportation respect the total sales, number of countries in which the firm sales its products, number of clients abroad and the internationalization level reached) and 17 variables theoretically related to the internationalization. *, ** and *** indicate significance at the 10% ($p < 0.1$), 5% ($p < 0.05$) and 1% ($p < 0.01$) levels respectively.

Another relevant variable was the use of the internet like a tool of businesses. This variable is also important in the “number of countries in which operates the company” and the “number of clients the firm has abroad” (where not only it influences like a tool for the sale, but also for the purchase). At the same time, the “number of countries in which the company has presence”, the relational capabilities (international alliances and suppliers, besides the agreements of R&D) are important.

Finally, for “level of international operations reached”, we found the aspects related to managing the personnel become essential (evaluation of performance and qualification). This implies the personnel expertise and educational level of the company directors are relevant to greater internationalization.

In addition, this is the unique variable in which the “age of the company” gains importance (the age and size of the firm had not been statistically significant in other cases). Here, there exists an inverse relation between the “antiquity of the organization” and the “reached level of internationalization”. We can explain this, at least in part, because older companies are less motivated to look for internationalization, or oppose internationalization. New companies focus their attention in foreign markets, which is compatible with the born-global exposition. Although the results do not represent forceful evidences to accept or to reject the hypotheses of this investigation, they give us a view compatible with the raised accelerated internationalization model.

Case Study Results

We conducted a case study of “Metropolitans candies”, a company located in the Industrial Zone of Guadalajara, Jalisco, in the West of Mexico. This is a median company that has 240 employees. This company was created in 2004, although the managers, the brothers Raul and Roberto Guzman Montes (Commercial Manager and Operation Manager, respectively), began their learning of the candies business in 1952. In that year, their parents, Jose Guzman and Martha Montes, created a small manufacturing candy company called “The Willows” in Guadalajara, Jalisco. At the beginning, this was a strategy to draw for economic difficulties, taking advantage of a process received from his father Mr. Jose Guzman. In this business, the Guzman brothers learned the techniques and basic processes of production and formed relations of friendship with some suppliers and clients.

Today, the company concentrates on producing trowels and massive caramel a part of which are assembled for Confi Candies. In addition they offer the line of BioSalud products, that includes caramels, trowels, confectionery oriented and health care to other wholesalers. Today, Metropolitan Candies exports his products to Central America countries including Panama, Guatemala and Costa Rica, besides Spain and the United States.

The evidence revealed the company followed an accelerated internationalization process, as it raises the born-global model. We consider the formal foundation of the company in May of 2004 (although it adopted the name “Metropolitan Candies” until 2006). The evidence shows exports started in January of 2007. We identify Metropolitan Candies as a Multinational Trader (Oviatt & McDougall, 1994).

The firm has stayed in foreign markets since then and has increased international sales from roughly 3% of total sales in 2007 to a little more than 11% at the time of this investigation. In addition, the company has increase the number of destinations to which they direct its products, expanding from Central America to the United States and Spain.

Next, we wish to identify the most important resources required for accelerated internationalization and to increase the participation in the foreign markets. With regard to the variable “Vision of the managers about the course that must follow the company” our examination shows the search of foreign markets was underway since the formation of the firm. Managers promoted an active search of opportunities to place products internationally. This is clearly important for the internationalization of the firm.

The next variable is based on Respect. More specifically we ask “previous experience in foreign markets by the managers”. The history in this case tells us how the brothers Raul and Roberto gained the abilities, skills and knowledge necessary to evolve in the confectionery sector. The evidence showed the experience of some international markets was decisive and led to looking for export markets from the outset. Nevertheless, knowledge gained from the European and Asian markets in Confi Candies had to be adapted to the particularities of the markets of Central America. The evidence corroborates that previous experience of the managers has a positive impact in the potential to realize early exports.

Concerning the “commitment and dedication of the directive with the internationalization”, the interviewed individuals signaled there is a serious commitment to the exporting activity. Evidence of this is regular attendance of the firm at national and international exhibitions of confectionery. Nevertheless, the evidence is not decisive as there is a notable lack of more aggressive campaigns for penetration to new markets or the lack of investment in publicity abroad.

In relation to ‘Personal’ or ‘between companies’ networks, while some interviewed people looked to reduce the importance of networks, all recognized the decisive role that networks played for Metropolitan Candies. This importance is not only in direct relation to manufacturing, but also contacts the Guzman brothers had with suppliers, competitors, clients and inclusively governmental authorities, have been useful in the internationalization.

With regard to the variable “Knowledge of the destiny market”, there were no evidence that this contributed in a significant way to internationalization. As mentioned previously, the market in which the company initially exported was Central America, and its knowledge of this was limited. However, the previous experiences in exports and relations with other companies allowed them to little by little covering knowledge shortages. It is important to stress that, it is less complicated to export to Costa Rica, Spain or even the United States, than to Saudi Arabia. However, under conditions of a reduced psychic distance with the destiny markets, this finding is understandable.

Finally, with regard to “differentiation of the product or technological innovations” a great deal of evidence is obtained. By the interviews, as by the surveys and the documentary revision, the relevance of the laboratory, used to develop products, was identified. In this same sense, the line of BioSalud products is an extra indicator of the search of differentiation. We accept the H3 hypothesis, based on forceful evidence the company managed to penetrate foreign markets in an accelerated way. This was due to having a distinguished product, an ample relational capital and directive equipment with knowledge of foreign markets.

CONCLUSIONS

Company internationalization is a natural destiny in the present economic context. Internationalization affects, positive or negative, all companies without regard to size, geographic location or even if they are conscious of the importance. For the SME, incursion in foreign markets is more complicated, because of the limitation in resources. Nevertheless, there exist cases, such as that reported here of companies that have developed an international presence in a successful way.

Our objective in this research was to analyze the internationalization strategies followed by Jalisco’s SMEs. In particular, we identified cases of early internationalization, looking to deepen our understanding of the processes that allow SMEs to perform in international markets.

The first step was to construct a suitable explanatory theoretical model. So, in order to accomplish these aims, a model for the analysis of these organizations that combines the postulates of a model of evolutionary internationalization and one of accelerated internationalization were considered, with an approach using RBV. Under this perspective, we developed a model that was used to analyze internationalization.

Specifically, the evidence suggests that accelerated internationalization is not reserved to industrial sectors with an intensive use of technology or to the services sector, with an elevated use of the knowledge. In fact, in this investigation, we cataloged a company in a traditional sector that counts on an artisan component within the group of international new ventures. This is possible because the company controls some unique and valuable resources. These resources are, the experience of the managers in international businesses, the interenterprise and personal networks that have been built, a constant search for innovation and relational capital the organization has gathered.

We agree the general hypotheses of the born-global scheme are fulfilled, but with some particularities. It is necessary to consider these results are exclusively for the specific empirical context that we have presented here. This sets an analysis of the predictions of the theoretical model proposed for born global companies in a context not previously tried.

Future investigations should be directed towards replicating the findings here using multiple cases of SMEs. Examinations of firms of diverse sectors and sizes, that have managed to enter international markets are warranted. In addition, it is necessary to design a questionnaire that allows the use a more sophisticated quantitative technique, to look for a possible theoretical generalization of the results. In the end, this could lead to the design of mechanisms to replicate these successful experiences.

NOTES

Please contact the authors for a sample (Spanish version only) of the Survey Applied to Manager of Internationalized SMEs

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ACKNOWLEDGEMENT

This work has been done with support from the National Council for Science and Technology (CONACyT) of Mexico, through the Sectoral Fund for Research for Education, Science Basic Call. Additionally, we want to thank to Professors Lourdes Rodriguez and Enrique Cuevas the facilities granted for the use of their database in this investigation.

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