THE IMPACT OF STRATEGIC MANAGEMENT AND INNOVATION ON INTERNATIONALIZATION: AN EMPIRICAL STUDY OF CANADIAN MANUFACTURING SMEs

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ABSTRACT:
This article aims to give a better understanding of the two dimensions of internationalization (inward and outward) generally addressed independently by the activities of export and import. This is done with the study of the effect of innovation on generic strategies that are seen as catalysts or inhibitors of the firm’s ability to internationalize. A Multivariate Probit model is estimated to take into account the fact that firms can simultaneously consider different dimensions of internationalization when they attempt to internationalize. The results show that there is a complementarity between these two dimensions (inward and outward).

Keywords: Inward internationalization; Outward internationalization; Innovation; Generic strategies.

1. INTRODUCTION:
The intensification of globalization in recent years has imposed radical changes to firms. This era of economic openness forced businesses to engage more and more internationally to take advantage of more opportunities available in foreign markets (Fleury & Fleury, 2003). The challenges linked to this new reality affect all businesses, but more particularly small and medium-sized enterprises (SMEs). These are, for several countries including Canada, the driving force of job growth (Parsley and Dreessen, 2003). Indeed, the Canadian economy heavily relies on SMEs, since 98.22% of all enterprises in the country have less than 100 employees. This percentage reaches 99.86% when considering firms with fewer than 500 employees (Statistics Canada, 2012).

This important place occupied by SMEs in the economy causes that they are constantly called to innovate to maintain their market share, access new markets, and stand out against the competition. However, Canadian SMEs still find difficulties in exporting their products and services. Indeed, despite the fact that they represent 87.5% of all Canadian exporters, they contribute only at the rate of 44.8% of the total value of exports (Statistics Canada, 2012).

All these factors have made it so that the encouragement of SMEs to go international became a priority for countries constantly seeking to stimulate innovation in this type of business, and to promote the development of their national economies (Edwards et al., 2005).

However, SMEs operate in a disadvantageous context compared with large companies that find it easier to recruit staff, have more resources devoted to R & D activities, have greater bargaining power with suppliers, and a greater capacity to absorb the costs associated with the failures of their R&D projects (Hewitt-Dundas, 2006). In addition, with the excess of market globalization which has intensified competition, SMEs have seen their competitive advantages crumble little by little. In fact, recent statistics issued by Industry Canada indicate that 48% of Canadian SMEs identified the growing of global competition as a significant obstacle to their growth.

Despite all these difficulties, SMEs are forced to internationalize and seek opportunities in foreign markets, given the saturation of the domestic market. However, in the presence of the obstacles and constraints discussed earlier, some SMEs manage to internationalize through various input modes and generate very significant profits.

To cope with this dilemma, leaders are trying to put in place strategic mechanisms to better position themselves on local and international markets, hence the emergence of the concept of strategic
management. So, this paper aims to investigate how SMEs' strategic guidelines affect their abilities to internationalize, and what role innovation plays in their internationalization process.

2. LITERATURE REVIEW

2.1 The dependent variable: Internationalization

There are a variety of internationalization-related theoretical approaches dealing with the choice of input mode favored by businesses. This choice is recognized as a crucial decision for companies wishing to internationalize (Wind and Perlmutter, 1977, cited by Andersen, 1997, p. 28). Among the most important, we mention the Uppsala model (Johanson and Vahlne, 1977) and the model of innovation (Bilkey and Tesar, 1977; Reid, 1981). These two approaches are based on the concept of gradual organizational learning to explain sequentially the phenomenon of internationalization. Indeed, these theories consider internationalization as a linear process, consisting of a set of gradual and successive steps.

The Uppsala model advocates that internationalization takes place in four incremental steps (OPMEE, 2003): 1) No regular activity of exportation (firm not involved or involved sporadically in export activities); 2) Export via independent representatives; 3) Creation of its own sales subsidiaries abroad; and 4) Installation of infrastructure of production abroad.

In accordance with the Uppsala model, the I-model designs the internationalization of SMEs according to a sequential approach, but incorporating the concept of innovation. This model is inspired by Rogers' model of diffusion of innovation (1962), and considers each step that will lead the company to integrate the foreign market as an innovation in itself (Gankema et al., 2000; Khayat, 2004).

However, these approaches are very criticized because many businesses do not necessarily follow the linear process described by them. Several companies qualified as 'born global' are indeed moving from their inception to international markets, to meet a need internationally (Wolff and Pett, 2000; Gankema et al., 2000; OPMEE, 2003). Because of these limits, we will discuss, in this paper, another classification of internationalization that distinguishes the following three types: 1) Mercantile internationalization; (2) Technology internationalization; and 3) Organizational internationalization (St-Pierre and Perrault, 2010).

**Mercantile internationalization**

This classification of internationalization primarily affects the flow of goods. It is expressed through two streams of activities abroad: overseas export and import (supply and subcontracting). This form of internationalization usually fills the unmet need in local markets, either because of limited demand in the local market or due to the lack of local suppliers or excessive labor costs.

On the one hand, exporters will see the life cycle of their products lie in external markets, and on the other hand, importers will have improved access to innovative products, and will benefit from the knowledge and the expertise of international firms (St-Pierre and Perrault, 2010).

**Technology internationalization**

Technology internationalization is linked mainly to the introduction of new technologies developed abroad. Through this type of internationalization, firms seek to acquire advanced technologies enabling them to better face the competition. However, this search for technological efficiency remains dependent on the skills and knowledge present in importing firms of innovative technologies (Yang et al., 2004; Zhang and Dodgson, 2007).

Moreover, this form of internationalization is not always voluntary. Very often, fierce competition in the local market and the absence of local suppliers will compel firms to turn to more distant markets, including international markets (St-Pierre and Perrault, 2010).
Organizational internationalization

The success of international activities, regardless of its mercantile or technological form, is contingent on the firms' detention of specific capabilities to ensure this success (Terjensen et al., 2008; Cuevo - Cazurra et al., 2007). Organizational internationalization refers to the preparation of firms, mainly at the structural level, to engage internationally, for example, the establishment of specific practices in the management of human assets, such as multiculturalism, multilingualism, etc. Therefore, from this perspective, firms will leverage the in-house expertise and organizational learning to generate a useful knowledge base that favors the success of their international activities (St-Pierre et al., 2011; Hilmersson, 2014; Lague and Rhaiem, 2014).

This categorization of internationalization into three groups discussed previously does not mean that firms have to choose a mutually exclusive strategy of internationalization (mercantile, technology, and organizational). On the contrary, it recognizes the existence of a relationship between mercantile internationalization and technology internationalization, respectively, with corporate internationalization. The latter serves to prepare the organizational structure to engage in international markets.

In short, this classification has allowed us to have a different understanding of the concept of internationalization by establishing explicit links between the nature of the activity (goods, technology, etc.) and the two dimensions of internationalization: inward internationalization and outward internationalization. It has also enabled a better understanding of the international born firms. In this paper, internationalization refers to two variables: the inward internationalization (importation) and the outward internationalization (exportation).

2.2 Explanatory variables:

Literature depicts that the manufacturing sector is subjected to five different forms of factors which explain why firms go international according to the two dimensions of internationalization: Inward and Outward. These are: 1) type of strategy; 2) innovation; 3) interaction between strategy and degree of novelty of innovation; 4) firm’s network; and 5) control variables such as firm size, sector and firm age (Becheikh et al., 2006).

2.2.1 Strategic Management:

Strategic management refers to the formulation, implementation, and control of strategies of enterprises by leaders (Coulter, 2002). This definition, very simplistic at first view, turns out to be very complicated in terms of application. Moreover, in the literature, debates surrounding this concept are still topical.

According to the logic underlying the idea of strategic management, managers are continually trying to formulate and implement the best strategies, in order to achieve the growth expected to improve the performance of their organizations, to open new domestic or international markets, and to be competitive in these markets (Porter, 1996). This type of management affects all firms operating in an economic environment where efficiency is the ultimate goal. Specifically, for the case of SMEs, in the context of resources' scarcity and with the competition intensification in the majority of sectors, they rely more and more on strategic management to position themselves compared to the competition (Larsen et al., 1998). For them, strategic management is, somehow, a regular vigilance system allowing SMEs to get the best possible information regarding their operational environment (Coulter, 2002).

These SMEs are therefore strategically moving in various possible pathways by the way of competitive strategies.

Competitive strategies

These so-called generic strategies (Porter, 1980; 1985) are based on the following basic assumption: "a competitive advantage is sustainable if it is not substitutable by competitors." (Porter, 1980). This approach of "strategic positioning" describes the positioning of the firm in the market compared to its competitors, and the process of strategy formulation (Porter, 1996; cited by: Fleury and Fleury, 2003).
The approach is one of the highlights in organizational management theories, which explains the scope of its field of application in different areas (Miller and Friesen, 1986; Robinson and Pearce, 1988).

In his seminal work, Porter became interested in the competitive strategies of firms by introducing the notion of potential competitive advantage, on the one hand, related to the choice between three types of possible strategies, and on the other hand, the focus on only one of these strategies to optimize its control, and develop a real competitive and sustainable advantage (Chan and Wong, 1999; Arpita, 2013). Porter also wants to remind decision-makers of the danger to remain ambivalent between two types of strategies (Chan and Wang, 1999).

- **Strategy of reduction of costs**:

This type of strategy is part of operational efficiency research. Indeed, labour is hired and trained to produce at the lowest possible production costs. However, the reduction of these costs affects all elements of the value chain. In addition, this strategy is essentially based on tangible assets (plants, machines, etc.), as opposed to intangible assets (trade secret, copyright, etc.) (Arpita, 2013). However, with such a strategy, companies focus their efforts mainly on production costs, at the expense of research and development. Some authors explain that this type of strategy is negatively correlated with innovation (Zahra, 1993). If we try to make a rapprochement with the theory of Rogers (1962) on the diffusion of innovations, proponents of this strategy fit into the categories "late majority" and "laggards" on Rogers' curve of diffusion of innovation(1962). Firstly, companies observe the reactions of consumers regarding the innovations introduced by their competitors. Afterwards, they decide to adopt these innovations when the costs start to fall (Rogers, 1962; Porter, 1980).

The link between this strategy and internationalization is explicit in the literature. Indeed, this strategy promotes inward internationalization. Firms that adopt it, mainly with the introduction of new technologies or systems of production made abroad, seek to enhance their operational efficiency. Therefore, it is a strategy more linked to technological internationalization (Yang et al., 2004; St-Pierre and Perrault, 2010; Zhang and Dodgson, 2007).

- **Strategy of differentiation**

By adopting this strategy, firms aim to distinguish themselves from their competitors, in terms of the value offered to customers. This is possible when the firm offers goods and services that have a higher quality than the competition, which creates their brand value (Arpita, 2013).

The commitment in this type of strategy is synonymous with an investment in research practices and development that is of a very risky nature. It is rightly that this strategy has been identified by several authors as a determinant of innovation in enterprises (Kotabe, 1990). In this vein, Porter (1980) and Zahra (1993) found that the strategy of differentiation is positively correlated with innovation, because innovation allows the firm to acquire a competitive advantage that keeps it ahead of its competitors (Porter, 1980; Zahra, 1993). These incentives to innovations coincide with the reality of an economic open world that forces businesses to differentiate and create value to cope with competition (Lee et al., 2010).

These innovations differ in nature, but also in respect of the degree of novelty, ranging from those so-called minor to radical innovations. The latter are those that firms seek through differentiation strategies because they are the most profitable. In fact, they support the competitiveness of firms by allowing to gain a sustainable competitive advantage (O'Connor et al., 2002).

For many authors, this strategy, based on innovation, is one of the best ways to ensure the growth of a firm at the International level (Arpita, 2013; Haliem et al., 2014). Moreover, the relationship between innovation and internationalization is reciprocal: firms want to exploit their innovations in new international markets through the activities of export or by searching for foreign allies to exploit these innovations (Briggs and Park, 2014).
• **Strategy of concentration:**

These strategies are also called niche or focus strategies. They include the concentration by cost and differentiation. By adopting a niche strategy, a firm focuses its efforts and resources on a narrow and defined segment. Niche strategy is often used by SMEs who lack sufficient resources. Thus, they focus on the minimization of costs or on differentiation, but only for a niche or a definite segment (Porter, 1980, 1985; Coulter, 2002).

As a summary of this theoretical part, it emerges that two groups of strategic approaches are dominant in the literature: the strategies of domination by costs and differentiation.

Therefore, in this study we consider two independent variables referring to the type of strategy put forward by SMEs: differentiation strategies and reduction of costs strategies. As shown by many prior studies, these two strategies explain a significant part of internationalization phenomenon.

2.2.2 **Innovation:**

Innovations differ in nature, but also in regard to the degree of novelty, ranging from those so-called minor to radical innovations. These latter are those that firms seek through differentiation strategies because they are the most profitable. Indeed, they support the competitiveness of firms to acquire a sustainable competitive advantage (O’Connor et al., 2002).

The scientific literature on this topic establishes close links between these two types of dependent generic strategies of innovation and internationalization. In fact, according to this literature, innovation is recognized as a catalyst for internationalization (Kotabe, 2007). In addition, innovation plays a dual role on the international dimensions: 1) **a role of source:** innovation is a source of competitive advantage in producing goods of high quality. This constitutes a potential to operate and to promote the internationalization of firms to commercialize these innovations (Outward) (Oke et al., 2007; Wang et al. 2008); 2) **a target role:** innovation is a target to look for abroad. Mainly, the firms that seek to minimize production costs are trying to implement new technologies to improve operational efficiency (Inward) (Thomas, 2014).

In this article, we will consider the degree of novelty of innovation as an explanatory variable of internationalization.

2.2.3 **Interaction between strategy and innovation:**

In this paper, we also tested the interaction between each type of strategy (differentiation and cost minimization) and the innovation variable, to determine the effect of each of these strategies on the dependent variable in the presence of innovation.

2.2.4 **Firm SIZE:**

As of yet, there is no consensus on the relation between firm size and internationalization. Many studies found that large manufacturing firms are more likely to go international than SMEs (Pangarkar, 2008; Vaona & Pianta, 2008; Wolff & Pett, 2006).

2.2.5 **Sector of activity:**

It was decided to introduce the sector as a control variable, because there is a consensus in literature that internationalization ability differs depending on the sector of activity (Bouyoucef and Sulin, 2015).
2.2.6 Firm age:

Authors don't agree on the effect that size of the firm has on internationalization. However, many studies observe the trend that larger manufacturing firms are more likely to go international (Johanson and Vahlne, 1977), and another stream of studies claiming that firms can be born global (Pett et Wolff, 2000; Gankema et al., 2000).

3. METHODS

3.1 Data

The questionnaire was adapted from the Oslo Manual, augmented by questions suggested by the sponsor of the study: the network of innovation and economic development of the Bas-Saint-Laurent (RIDE). The aim of the survey was to provide an overview about technological innovation and the factors that determine it a region located East in the province of Québec (Canada), the Bas-Saint-Laurent. The population included 505 firms of 250 employees or less. The list of these firms was provided by the sponsor of the study. The data were collected from December 2004 to February 2005. 184 enterprises were excluded for different reasons (are no longer in production, not reachable after many calls). 248 questionnaires were completed and used, We achieved a response rate of 77.57%, which is better than most response rate observed when using private "survey agencies".

3.2 Analytical plan

The econometric model used is the Multivariate Probit which allows: 1) to estimate simultaneously multiple dependent variables (two dependent variables in our case; 2) to establish complementarity, substitution, or independence between these two dependent variables; 3) to identify common and specific explanatory factors for each dependent variable; and 4) to capture the impact of the interaction between innovation and generic internationalization strategies.

The multivariate Probit specification allows for systematic correlations between choices for the two forms of internationalization (inward vs outward). Such correlations may be due to complementarities (positive correlation) or substitutions (negative correlation) between the two dimensions.

The multivariate Probit model used in our study consists of two binary choice equations. These choices are for the form of internationalization used by Canadian manufacturing firms: two forms of internationalization: exportation (outward) and importation (inward).

This model allows for estimating simultaneously many equations while assessing the presence or not of mutual correlations between their error terms (Landry et al., 2013).

The corresponding model can be expressed as follows:

\[ Y = \beta X + \Sigma \]

Where:

\( Y \) being the vector of the two binary dependent variables and \( X \) is the vector of the explanatory variables for the two equations. The independent variables are the same for the two equations. \( \beta \) corresponds to the matrix of the coefficients and \( \Sigma \) refers to the disturbances of the two equations. The MVP model also provides the estimates of the variance-covariance matrix of the equations' disturbances (Greene, 1995) that will serve to establish the existence of complementary/substitution effects between the two dimensions of internationalization.
Table 1: Operational Definitions of studied variables

<table>
<thead>
<tr>
<th>Measure</th>
<th>Items</th>
<th>Type of variable</th>
<th>Cronbach’s α</th>
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<tbody>
<tr>
<td><strong>DEPENDENT VARIABLES [INTERNATIONALIZATION]</strong></td>
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<tr>
<td><strong>Exportation</strong></td>
<td>Coded ‘1’ if the SMEs said that it exports, and '0' otherwise.</td>
<td>Binary (Yes or No)</td>
<td></td>
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<tr>
<td><strong>Importation</strong></td>
<td>Coded ‘1’ if the SMEs said that it exports, and '0' otherwise.</td>
<td>Binary (Yes or No)</td>
<td></td>
</tr>
<tr>
<td><strong>INDEPENDENT VARIABLES</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Strategic factors</strong></td>
<td>Weighted index that corresponds to the average of the responses of respondents who were asked to describe, on an agreement scale ranging from 1 (strongly disagree) to 5 (strongly agree), the following four statements:</td>
<td>Average (1 - 5)</td>
<td>0.66</td>
</tr>
<tr>
<td>Strategy domination by costs [STRDC]</td>
<td>Our costs of production and operation are lower than most of our competitors; We attach great importance to controlling our operating costs; We exercised pressure to closely monitor our operating costs and our management fees to keep them at a level lower than that of our competitors; We aim to have the lowest production costs in the industry.</td>
<td></td>
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<tr>
<td>Strategy of differentiation [STRD]</td>
<td>Weighted index that corresponds to the average of the responses of respondents who were asked to describe, on an agreement scale ranging from 1 (strongly disagree) to 5 (strongly agree), the following four statements:</td>
<td>We offer our customers unique or differentiated products, allowing us to apply higher prices than the competition; We place special emphasis on the unique and distinctive aspect of our products in our communications with our clients; Information on the performance of our products is considered more important than the cost control; We aim to always offer better products than our competitors.</td>
<td>Average (1 - 5)</td>
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<tr>
<td>Innovation</td>
<td>Weighted index that corresponds to the average of the responses of respondents who were asked to describe, on an agreement scale ranging from 1 (strongly disagree) to 5 (strongly agree), the following five statements:</td>
<td>Investment in equipment that was very important to your business; Investment in R &amp; D that was very important to your business; Very significant changes in the marketing strategies of your business; The employment of workers with skills that did not exist before in your business; The use of production technologies that your company did not use before.</td>
<td>Average (1 - 5)</td>
</tr>
<tr>
<td>Interaction</td>
<td>Interaction differentiation strategy and radicalness</td>
<td>Number (Ratio)</td>
<td></td>
</tr>
<tr>
<td>Factors related to the environment</td>
<td>Number (Ratio)</td>
<td></td>
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<tr>
<td>Local supplier networks [FSSLOC]</td>
<td>Coded '1' if the respondent qualified suppliers located within 100 km of the source of ideas for business or information Important, very important or extremely important to the development and improvement of products and processes output, and '0' otherwise.</td>
<td>Binary (0 or 1)</td>
<td></td>
</tr>
<tr>
<td>Networks of distant suppliers [LnFSSELO]</td>
<td>Weighted index that corresponds to the average of the responses of respondents who were asked to describe on an agreement scale ranging from 1 (not important at all source) to 5 (extremely important source), the following four items: The suppliers also in Quebec; The suppliers in Canada; US suppliers; The suppliers worldwide.</td>
<td>Average (1-5) 0.77</td>
<td></td>
</tr>
<tr>
<td>Local client networks [CLLOC]</td>
<td>Coded '1' if the respondent qualified customers located within 100 km of the source of ideas for business or information Important, very important or extremely important to the development and improvement of products and processes output, and '0' otherwise.</td>
<td>Binary (0 or 1)</td>
<td></td>
</tr>
</tbody>
</table>
### Networks of distant clients (LnCLELO)

Weighted index that corresponds to the average of the responses of respondents who were asked to describe, on an agreement scale ranging from 1 (not important at all) to 5 (extremely important source), the following four items:

- Customers elsewhere in Quebec;
- Customers elsewhere in Canada;
- US customers;
- Customers around the world.

**Average (1-5)** 0.75

### Participation networks (LnRESPAR)

Weighted index that corresponds to the average of the responses of respondents who were asked to describe, on an agreement scale ranging from 1 (never) to 5 (very often), the following two levels of participation:

- The national level;
- The international level.

**Average (1-5)** 0.77

### Control variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>Description</th>
<th>Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firm size (LnTAILLE)</td>
<td>Measured by the total number of employees</td>
<td>Number (Ratio)</td>
</tr>
<tr>
<td>Age of the firm (LnAge)</td>
<td>Measured by the total number of years</td>
<td>Number (Ratio)</td>
</tr>
<tr>
<td>Degree of technological intensiveness</td>
<td>Measured with a set of binary variables defined as follows:</td>
<td>Binary (0 or 1)</td>
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<tr>
<td></td>
<td>Low technology ([INTFAIB]): - coded ‘1’ if the company operates in a low-tech sector, and ‘0’ otherwise.</td>
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<td></td>
<td>Medium technology ([INTMOYE]): - coded ‘1’ if the company operates in a medium-technology sector, and ‘0’ otherwise.</td>
<td></td>
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<tr>
<td></td>
<td>Technology-intensive ([INTHAUT]): - coded ‘1’ if the company operates in a technology-intensive sector, and ‘0’ otherwise.</td>
<td></td>
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</tbody>
</table>

*INTHAUTE is the reference category*
The results of a principal components factor analysis (PCFA) and internal reliability coefficients (Cronbach's Alpha) for the explanatory variables with a multiple-item scale indicate that these variables satisfy the unidimensionality criterion. Moreover, the values of Cronbach's $\alpha$ indicate that the items forming each index are reliable.

4. REGRESSION RESULTS

Regression results are summarized in Table 3. The pseudo McFadden R$^2$ has a value of 0.281 which indicated that the goodness of fit of the model is very acceptable. The quality of the model fit is also assessed the first Likelihood Ratio Index (LR index1) that compares the unrestricted model to the "naïve" model which is limited to an intercept for each of the two equations. The computed value of this likelihood index is much larger than the critical value of the chi-squared statistic with 24 degrees of freedom at the 1 percent level. This indicated that at least one of the parameter coefficients is different from zero. Therefore, the estimated model is significant at the 1 percent level.

The upper part of Table 3 also shows that the model results confirm a strong correlation of 77.09% between the two dependent variables: export and import. This correlation is significant at 1%. Thus, it can be said that SMEs that export the most are also those that have a high import activity. So there is a complementary effect between export activities and import activities (internationally both dimensions: inward and outward).

Likewise, with regards to the explanatory variables, the results indicate that the likelihood that firms internationalize outward increases as the interaction between differentiation strategy and radicalness of innovation increases. This means that the more firms differentiate the offering of their products that constitute radical innovations, the more their chances of going international increase.

Also, the likelihood that firms internationalize outward decreases as the interaction between leadership strategy costs and radicalness of innovation increases. This means that firms which adopt strategies of domination by costs while developing radical innovations are less likely to go international (technological need is already satisfied locally).

The results indicate that an increase of the degree of novelty of the SMEs’ products increases their likelihood to import. For the variables related to the company networks, we found that distant customer networks and participation networks positively affect the likelihood that firms internationalize outward, whereas distant networks of suppliers and local customers negatively affect this likelihood. Moreover, the results show that variable that refers to the local suppliers networks has no impact on the SMEs’ probability to export.

Four control variables were considered in the explanatory model of SME’ import and export. Results indicate that size is positively associated with the probability of importation. With regard to industrial sectors where SMEs operate, the results show that those operating in low or medium technology-intensive industries are less likely to import than SMEs operating in high technology-intensive sectors. This is in agreement with the literature. Indeed, firms importing high-tech usually recourse to a strategy of domination by costs. The age of the SMEs was not found significant to explain the probability to import. This latter result also corroborates several prior studies stating that some firms were born international (one of the limitations of the Uppsala model). For export, size and age variables were found to be positively associated with likelihood to export. On the other hand, SMEs operating in medium technology intensive sector rather than a high technology intensive one are less likely to export.

5. CONCLUSION

This article has focused on the effect of generic strategies on internationalization, in the presence of innovation. It took into account the two dimensions of internationalization: inward and outward, to argue that it is possible for SMEs that are locally highly-competitive to take advantage of the inward dimension
of internationalization. One of the key messages of this study is that the success of firms and SMEs abroad does not depend only on the resources engaged. The adoption by managers of appropriate strategies that take into account available resources can also influence the propensity of their SMEs to internationalize.

The results of this study also show that innovation is a key element in any process of internationalization (inward or outward). It plays a dual role of 'target' and 'source' depending on the orientation of firms abroad. However, regardless of these roles, the dynamic capabilities of these firms remain crucial to succeed internationally, in a particularly disadvantageous context for SMEs.

Finally, it is important to mention that this study has certain limitations. First, it focuses on generic strategies, and then evacuates combined strategies approaches that are increasingly used by firms. It will be interesting, in future research, to focus on combined strategies as levers of internationalization. In addition, and as a future avenue of research, the relationship of complementarity between the export and import activities investigated in the empirical part of this paper offers a good research lead in order to identify a general taxonomy of the international firms based on the combination of these two dimensions.

Table 3: Multivariate Probit regressions’ results

<table>
<thead>
<tr>
<th>Correlations between disturbances</th>
<th>Coeff. (β)</th>
<th>P-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>( \varepsilon_j ) (Importation)</td>
<td>.7709***</td>
<td>.000</td>
</tr>
<tr>
<td>( \varepsilon_i ) (Exportation)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Number of observations | 248       |
| Log Likelihood          | -157.53   |
| McFadden d              | .285      |
| LR index, \( \chi^2 (24) \) | -220.44   |

Comparing the unrestricted model to the "naive" model containing only the intercept for each of the five equations.

<table>
<thead>
<tr>
<th>Independent variables</th>
<th>Exportation [PANEL A]</th>
<th>Coeff. (β)</th>
<th>P-value</th>
<th>Importation [PANEL B]</th>
<th>Coeff. (β)</th>
<th>P-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>-2.615</td>
<td>0.026</td>
<td>-4.450</td>
<td>0.031</td>
<td></td>
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</tr>
</tbody>
</table>

**Strategies:**
- Domination by costs [STRDC]
- Differentiation [STRD]

<table>
<thead>
<tr>
<th>Innovation:</th>
<th>Exportation</th>
<th>Coeff. (β)</th>
<th>P-value</th>
<th>Importation</th>
<th>Coeff. (β)</th>
<th>P-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Radialness</td>
<td>-.077</td>
<td>.144</td>
<td>.192*</td>
<td>.08</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Interaction strategy / Degree of novelty:**
- Interaction: Differentiation strategy *Radicalness
- Interaction: Domination by costs *Radicalness

<table>
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<tr>
<th>Network firm</th>
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<th>P-value</th>
<th>Importation</th>
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<td>Size [LnTAILLE]</td>
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<td>Age [LnAGE]</td>
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REFERENCES:


Arpita, A., "Firms' strategy and capital structure: solving pecking order and market timing theories' often contradictory proposition", Corporate Finance Review, Volume 17, Number 5, Pages 14, 2013.


**AUTHOR PROFILE:**

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