
Greater risk and a smaller opportunity: The opportunity space of SME internationalization in lower-income countries*

Chikondi Ng'ombe,^a Theunis Mans^a and Helena Barnard^b

Abstract

Why do small and medium-sized enterprises (SMEs) from lower-income countries internationalize using high-commitment modes? In this exploratory, qualitative study of 22 SMEs from South Africa (a middle-income country) and Malawi, Zambia and Zimbabwe (low-income countries), we document that the SMEs typically have both a greater tolerance for risk, likely due to the region from which they originate, and an appetite for opportunities smaller than what would be acceptable to multinational enterprises (MNEs) from advanced economies. This provides a very different opportunity space for the two types of enterprises. The size of the home country seems to matter: SMEs from middle-income countries often work on their own and target other emerging markets, but in poorer countries, SMEs often work synergistically with MNEs from more advanced economies, acting as their “delivery arm” into the small markets in their immediate region. This opens up a new way of understanding MNE-led development. Facilitating the development of partnerships between local SMEs and advanced MNEs is a potentially fruitful avenue that policymakers from poor countries can pursue to help their countries open to the benefits of internationalization.

Keywords: Africa, CSA, FSA, micro-multinationals, opportunity, risk

JEL classification codes: F63, L25, L26, M16, O19

* Received: 20 January 2023 – Revised: 11 April 2023 – Accepted: 17 April 2023

^a Gordon Institute of Business Science, University of Pretoria, Pretoria, South Africa.

^b Corresponding author. Gordon Institute of Business Science, University of Pretoria, Pretoria, South Africa (barnardh@gibs.co.za).

1. Introduction

How can firms that are not only small but also from less developed countries use high-commitment modes to internationalize? Extant literature has long suggested that small and medium-sized enterprises (SMEs) use low-commitment modes like exporting when they internationalize (Knight and Cavusgil, 2004; Oviatt and McDougall, 2005). There is increasing evidence that SMEs also set up subsidiaries abroad, so-called “micro-multinationals” (e.g. Stoian et al., 2018). This has been documented even for middle-income countries (e.g. in Peru by Dimitratos et al., 2014), but the evidence of such firms challenges existing ways of understanding internationalization.

It is not clear what capabilities SMEs from lower-income countries – arguably lacking both firm-specific and country-specific advantages (Rugman and Verbeke, 2001) – have to support internationalization. Even later studies where the emphasis is on efficient versus inefficient markets (Hillemann and Gestrin, 2016) suggest that such SMEs would not internationalize. Ibeh (2015) points out that the nascent MNEs from Africa represent the largest indigenous enterprises. In this paper, we set out to explain the apparent anomaly of why SMEs and not large indigenous enterprises choose to internationalize, and also how they do this.

Given how little work has been done on the topic, we approached the question with an open-ended, qualitative approach, and asked 22 SMEs from four Southern African countries why and where they internationalized. We spoke to executives and/or founders of SMEs from South Africa (with a maximum of 250 employees) and from Malawi, Zambia and Zimbabwe (with at most 50 employees in a location). Although many of the existing explanations for internationalization held, e.g. the importance of a market-seeking motive, our key contribution is to demonstrate that SMEs from lower-income countries operate in a very different opportunity space to that of advanced multinational enterprises (MNEs). The opportunity space we document has two dimensions: risk and opportunity.

The SMEs from Southern African low-income countries had a higher risk threshold, brought about by the inevitable requirement of dealing with the often quite risky conditions both at home and in the region. This higher risk threshold meant that they were willing to consider markets that would be deemed too risky by many other firms. The SMEs also had a different reference point for what made an opportunity attractive. Being small firms from small countries with small economies, they tended to find quite small prospects worth pursuing. But they also realized that there was less competition for smaller opportunities and thus were also more confident that they had the capabilities to succeed there.

This also meant that these SMEs were not competing against advanced MNEs. In fact, they almost always operated synergistically with those MNEs. Thus, whereas it has been presumed that MNEs lacking their own resources and in

inefficient markets would seek out “close strategic partnerships with local partners” (Hillemann and Gestrin, 2016, p. 770), we find that the partners themselves internationalized. The SMEs from Malawi, Zambia and Zimbabwe were often the local “delivery arm” of typically a single MNE, an anchor client requesting the presence of the SME in another country in the region. In turn, the SME provided work at a known and acceptable level of quality.

This was much less the case for the slightly larger South African SMEs, where both the size of the firm and the size of the home economy predisposed SMEs to seek larger opportunities, often in other emerging markets. Practically, this suggests that their relationship with advanced MNEs is a potentially less synergistic one. But it also confirms the value of seeking nuanced explanations for how internationalization takes place at different tiers of the global economy (Barnard, 2021).

Our paper proceeds as follows. We first review the literature on SME internationalization, before explaining our research design, Southern African setting and data gathering. We then provide our evidence; the more traditional explanations that remain important, and the different understandings of risk and also of opportunity. We discuss the symbiotic relationship of the SMEs from low-income countries with advanced MNEs and conclude with implications for theory and especially policy.

2. Literature review

The literature on early internationalizers (Oviatt and McDougall, 2005) or as they are often called, “born globals” (Knight and Cavusgil, 2004) examines why and how SMEs go about accessing international markets. The trajectory of these SMEs differs from the internationalization typically described for MNEs. One difference is in the mode of international market entry: Born global firms tend to use low-commitment modes such as exporting, whereas MNEs come about because they set up subsidiaries abroad. In addition, those SMEs from the outset seek international markets, whereas MNEs typically internationalize after some period of time. This occurs once they have developed what has been called ownership advantages (Dunning, 1980), firm-specific advantages (Rugman and Verbeke, 2001) or capabilities (Teece, 2014) to support internationalization and, for those from emerging markets, sometimes once they realize that international markets can help develop such capabilities (Luo and Tung, 2007; Mathews, 2006).

It does happen that SMEs internationalize using high-commitment modes. UNCTAD published a study in 1998 on the internationalization of SMEs in Asia, finding that the collective impact of these relatively small entities can be significant (UNCTAD Secretariat, 1998). Dimitratos and co-authors in 2003 theorized what they termed “micro-multinationals”, and a number of papers have further developed the concept

(e.g. Prashantham, 2011; Shin et al., 2017; Stoian et al., 2018; Vanninen et al., 2022). Evidence is emerging that the internationalization of SMEs (more so than for larger enterprises) is particularly aided by new technologies (Park et al., 2022), but this presupposes that SMEs have mastered advanced technologies.

There is some evidence of the internationalization of SMEs from middle-income countries (e.g. Peru; Dimitratos et al., 2014). UNCTAD (2022) reports that SMEs are more likely to invest in countries at a similar level of development that are geographically closer to them and also that they tend to avoid industries that require extensive capital investment, focusing instead on professional and information and communication services. However, this raises further questions on how firms from small, less developed countries are even able to internationalize, as it suggests that these enterprises from behind the technology frontier are competing essentially on human capital.

The question is made particularly salient by the fact that the nascent MNEs from Africa are known to be the largest indigenous firms, arguably because larger firms have the resources that make it easier to deal with the challenging local environment (Ibeh, 2015). Given that scholars have hitherto overlooked internationalizing SMEs from Africa, we needed an open-ended research design that would allow for the discovery of new explanations.

3. Research design

Understanding the internationalization of SMEs requires systematic evidence on a business activity that combines two challenging data-gathering contexts, namely (i) less developed countries, as in Africa, and (ii) SMEs, with their high failure rate and often fluid operations (Barnard, 2020). To advance the field, we decided to use a qualitative and exploratory approach to answer key questions about the high-commitment internationalization of SMEs. We first sought to understand why SMEs from low- and middle-income countries internationalized. We then sought to understand how, focusing on both the enablers and the barriers they encountered. Mindful that the generalizability of qualitative research is limited, we nonetheless offer insights that we believe can help focus the future efforts of both policymakers and governments.

3.1. Setting

We gathered data from four countries in Southern Africa with a shared history as British colonies: South Africa to represent middle-income countries, and Malawi, Zambia and Zimbabwe as examples of low-income countries. The four countries provide a range of contexts with non-trivial differences but also similarities, especially in terms of institutional underdevelopment and home-country instability. Table 1 summarizes some important differences.

Table 1. Key country-level data, 2021

	GDP/capita (\$)	Population size	Human Development Index	Net inward FDI (\$ million)	Net outward FDI (\$ million)
Malawi	635	19 889 742	0.4	50	-21
South Africa	7 055	59 392 255	0.7	40 889	19
Zambia	1 137	19 473 125	0.4	-457	-453
Zimbabwe	1 774	15 993 524	0.5	166	55

Source: World Bank Development Indicators (for GDP per capita, population size and Human Development Index); UNCTADstat (for FDI).

South Africa was long the most industrialized country in Africa, but under white (Apartheid) dominance which triggered extensive social and political resistance. Although both the South African Government (through capital controls) and most of the developed world (through censure and later sanctions) sought to isolate South Africa economically, the country instead saw escape FDI and the emergence of MNEs (Luiz and Barnard, 2022). Thus, there is a long tradition of international business in the country, most of it in conditions of instability.

Malawi, Zambia and Zimbabwe have not experienced similar violence. They are an interesting case, because from 1953 until independence they were administered as one country under the name the Federation of Rhodesia and Nyasaland. The territory crossed tribal boundaries and is therefore an example of the quite random borders that scholars have speculated might influence international business (Barnard et al., 2017). As a result of this history, the three countries share similar administrative and institutional structures.

Nevertheless, they have followed very different trajectories since independence. For example, before 2000 Zimbabwe was a beacon of development, but since then, the macroeconomic environment has substantially deteriorated (Madimu, 2020). In contrast, after many lost years, Zambia became one of the fastest-growing economies in the world in the early 21st century. This means that internationalization from the three countries, from a similar point of departure, can highlight the importance of differences in the home- and host-country conditions (Cuervo-Cazurra, et al., 2015).

3.2. Data gathering

We opted for a purposive sampling method, identifying potential cases from our own networks, media reports and conversations with other businesses. This interaction allowed us to identify businesses from a range of industries that operated first as domestic enterprises before deciding to internationalize, and moreover, decided on a high-commitment mode of doing so.

All were SMEs with wholly owned operations in at least two countries. In the case of SMEs from Malawi, Zambia and Zimbabwe, we used the definition from the African Development Bank and applied a cut-off of 50 employees or fewer. For the SMEs from South Africa, a middle-high-income country, we used the World Bank definition and applied a cut-off of at most 250 employees. It was hard to obtain a clear picture of the financials of the SMEs. Moreover, their estimated annual turnover varied extremely, ranging between \$100,000 and \$5 million from the three lower-income countries, and between \$150,000 and in excess of \$10 million from South Africa.

It is worth noting that in neither setting did our selected sample represent isolated cases. For example, an informal appraisal of firms in Malawi, Zambia and Zimbabwe resulted in a list of more than 30 firms potentially meeting the criterion of having wholly owned operations in at least two countries but at most 50 employees in each location. Closer inspection revealed that some of them were primarily exporting or that some of them had more than 50 employees in a location – for example, some retail chains with a large number of lower-level employees exceeded the limit. It is therefore important to note that the 13 cases selected from those three countries for detailed investigation were chosen to represent a spread across industries and countries. Table 2 gives more detail about the cases. We also identify the countries to which the firms internationalized in appendix table A1.

Table 2. Details of cases reported in this study

	Number of cases	Number of employees	Time from founding to first internationalization	Number of countries to which SMEs internationalized	Industries represented
		Average (range)	Average (range)	Average (range)	
Malawi	6	21 (10–50)	6 (3–13)	2 (1–4)	IT and software development Advertising and marketing services Vehicles and tire services Tourism and hospitality
Zambia	2	35 (20–50)	3 (2–3)	5 (2–7)	Financial services and consultancy Merchandising services

/...

Table 2. Details of cases reported in this study (Concluded)

	Number of cases	Number of employees	Time from founding to first internationalization	Number of countries to which SMEs internationalized	Industries represented
		Average (range)	Average (range)	Average (range)	
Zimbabwe	5	45 (35–50)	7 (2–12)	3 (2–5)	Advertising and marketing services Manufacturing Audit and consulting services
South Africa	9	60 (24–139)	5 (1–32)	2 (1–4)	Manufacturing Financial Fintech Technology Consulting services Asset management

Source: Authors' interviews.

Semi-structured interviews were conducted with the founders, chief executive officers and/or executives with primary responsibility for internationalization. The smaller the SME, the more often these three roles were filled by the same individual, but especially in the South African SMEs (with a maximum of 250 employees), the roles could be filled by different individuals. Interviews probed why and how the SMEs internationalized; they were recorded and transcribed.

The cases were then examined to establish what the motives for internationalization were, why SMEs chose the locations they chose and what barriers they encountered in the process. In reporting our findings, we rely heavily on verbatim quotations of respondents.

4. Findings

Three themes emerged from the data. First, many of the traditional explanations for internationalization hold, and as is typical, market-seeking was the dominant motive. Second, the respondents understood risk differently to what has been previously documented, and finally, they also saw opportunities differently. Table 3 summarizes our findings.

Table 3. Themes from data

Theme	Elements identified under theme
Traditional reasons for internationalizing	<ul style="list-style-type: none"> • Market-seeking a key motive • Desire to exploit capabilities in other countries • Familiarity with the region
A different understanding of risk	<ul style="list-style-type: none"> • Risky home-country conditions make SMEs keen to escape or at least diversify internationally • Risky conditions in the region make SMEs more likely to accept high levels of risk in host countries
A different understanding of attractive opportunities	<ul style="list-style-type: none"> • The smaller scale of SMEs makes smaller opportunities attractive • Regions have long been shunned by investors, resulting in less competition • SME capabilities are not extensive, but adequate for the needs of the region

Source: Author's compilation.

4.1. Traditional reasons for internationalizing

The executive of an internationalizing South African SME explained that “the objective here is to make money. We’re not an NGO”. Similarly, an SME that started in Zimbabwe in 1990 before relocating to Malawi in 2001, a year after the infamous “land grabs” of Zimbabwe started, explained:

It’s based on opportunity. You know, we would open up in any country where there’s an opportunity, and we see the business opportunity. (Originally Zimbabwean, then migrated to Malawi)

The point that opportunities in other markets were available because of their capabilities was made a few times by SMEs from different home countries and of different sizes:

What we found out was, for even most tech companies who are based in Zambia, their core engineers [are] outsourced, you know, from Kenya, from India and so on. They don’t really have like the local skills within there. (Malawian SME)

We have three things: 1) the uniqueness of the product, 2) the expertise to develop the product and 3) the ability to commercialize it. (South African SME)

Cultural proximity was often provided as an explanation for why SMEs located in certain countries, especially among the three countries that used to be governed as a single entity. As one founder explained:

So, the initial thinking about us being all former colonial partners, kind of thing, was true to some extent, in all these countries. I found

people who called me brother, and were willing to take me into their homes without anything... That happened in Zambia; that happened in Malawi. That happens in Zimbabwe. (Zimbabwean SME)

However, it was clear from the interviews that these more traditional considerations were secondary. They supported the decision of why and where to internationalize, but they did not explain it. Instead, what seemed to be the main explanation was that the SMEs understood both the magnitude of business risk and the size of the opportunity very differently than how larger firms and firms from larger economies would understand them. Opportunities that were unattractive elsewhere were attractive to these firms.

4.2. A different understanding of risk

Our evidence suggests two main reasons why SMEs from low- and middle-income countries have a higher risk threshold than more established firms from institutionally better developed countries. The first has to do with the fact that a different level of risk prevails in their general environment. Risk was often understood as the risk of being personally in danger rather than risk in terms of financial or operational challenges. Second, the home-country conditions of these firms were highly variable, and SMEs had no choice other than engage with those risky conditions. They sometimes chose to internationalize to escape them, but even when the predominant motives for internationalization related to pull rather than push factors, their risk tolerance was greater than is generally reported.

4.2.1. Risky business conditions in region

The SMEs we interviewed operated in and were familiar with regions that were generally risky. We found three types of risk assessment. The risk of being personally in danger was mentioned a few times and seen as an unacceptable risk. But other risks of operating in the region were either seen as requiring a workaround or lay at the heart of the business offering. Finally, the more typical business risks, e.g. of extensive restructuring in a host country, were noted, but treated almost as an afterthought. Appendix table A2 provides quotes in support.

4.2.2. Risky home-country conditions

Another reason why these SMEs had a different risk appetite related to the riskiness of their home countries. As highlighted in appendix table A2, the concern that the home-country conditions could deteriorate to the point that business was not sustainable, or was being plundered by government, was repeatedly expressed. Internationalization was seen as a way to counter that.

The weak institutions also presented risks to the SMEs, who repeatedly mentioned especially the challenges of getting access to foreign exchange. Certain countries (e.g. Malawi and Zimbabwe) were seen as particularly bad, and others (e.g. Botswana and Ghana) as attractive destinations for financial headquarters in particular because of the relative ease of obtaining foreign exchange. One of the few cases in our data set to internationalize out of the region, to the United States, did so because that eased payments.

In the course of explaining such workarounds, it became clear that respondents did not see direct investment as a more arduous commitment mode than exporting; on the contrary. There were many other challenges in the underdeveloped countries: Flight options were limited and flights were often cancelled. Connectivity by virtual means was not always guaranteed due to connectivity and electricity challenges. To the extent that businesses required more flexible and sophisticated services than were available in their home countries, direct investment in another country tended to ease rather than complicate the process of internationalization. Combined, the conditions in the region and at home resulted in the SMEs having quite a high tolerance for risk.

4.3. A different understanding of attractive opportunities

At the same time, the small economies of these countries – owing to the combined effect of relatively small populations and low GDP per capita – meant that SME owners were excited by much smaller opportunities than would be considered viable by other firms.

There are three reasons why SMEs saw small opportunities as attractive. The first has to do with scale. The firms were small, and they came from small economies. The reference point for what was an acceptably large opportunity was simply different than elsewhere. Second, the SMEs realized that they faced less competition in (for many other firms) less familiar markets. Third, SMEs were quite realistic about their capabilities. Their capabilities would not necessarily have given them a competitive advantage in more developed economies, but often allowed them to attract smaller deals.

4.3.1. A smaller scale

Numerous respondents explained that they were satisfied with the scale of operations in their small and low-income home and host countries. One Malawian SME with operations in Ghana, Kenya, South Africa and Zambia explained why it would not abandon its home market:

So, we felt that Malawi is still a big market for us. We've got no plans to exit Malawi but at the same time, we're able to cushion ourselves by being able to get a premium in other markets. (Malawian SME)

To contextualize the claim, Malawi then had a population of fewer than 20 million people and gross domestic product (GDP) of only \$12.6 billion. Similarly, two technology companies from Malawi had expanded on the back of the Malawian MNE NICO. Although the scope of work for this client would have been unattractive for many other firms, for this SME it provided a launch pad for internationalization:

I think I can say the NICO Group was our.... base client. We worked with them for about five years or so. And so, the reason why: we're addressing a small need and that allowed us to access, you know, the internal sort of system ecosystem, the internal structure of the company, and then we've identified some other needs around there. So, in the five-year relationship, I think they've given us maybe \$500,000 worth of business. (Malawian SME)

The point was perhaps most succinctly made by the founder of another Malawian SME:

If I'm making \$250,000 in three months, it's good revenue for me. But to a government that might be small money. Big businesses like Microsoft would not set a headquarters then in Botswana [with a population of under 2 million]. But for us, the revenue we make is good enough. (Malawian SME)

4.3.2. The benefit of less competition

Participants were aware of the fact that they were willing to consider opportunities that others did not. They recognized that the small size of the market and the fact that countries were not particularly well known outside of the region meant that competition was reduced. They used that to their advantage. Appendix table A.2 provides some examples.

SMEs tended to seek out business opportunities in other small and/or poor countries, often in the region. They did so precisely because those host locations tended to not be on the radar of more formidable competitors. This leads into the final reason why the SMEs valued opportunities differently.

4.3.3. An adequate capability base

By the metric of advanced economies, the SMEs often had limited capabilities. They typically offered a narrow range of offerings, e.g. distribution or after-sales service of the offerings of an advanced MNE. In keeping with prior findings (UNCTAD, 2022), they rarely had extensive capital investment, and more often their local knowledge was key, e.g. in the case of auditing or consulting services. Although some SMEs might have been able to outcompete competitors from

across the world – for example in the case of some Zimbabwean marketing and advertising agencies or South African technology SMEs – it is unlikely that many of these SMEs would have been able to survive direct competition from more sophisticated competitors.

SMEs were not blind to that fact, and instead selected locations where their capabilities were adequate to ensure competitive success. This was clearly explained by a Zimbabwean SME:

We love South Africa, we thought there were lots of opportunities. But we thought that those guys, they'll give us a run for our money... Because of the cultural connections between the former colonial setup where Zimbabwe, Zambia and Malawi were kind of like together, and because these economies seemed to be growing, then we felt that if we went into Zambia, or Malawi, or one of those other countries like that, we would be able to afford the investment.
(Zimbabwean SME)

A number of respondents explained that they were able to internationalize because they met the expectations of an international client, for example:

In the process of interaction and doing business with one another, we were able to seek the opportunities that were existing in as far as the quality and levels of execution in the way that were expected by the client. We were able to pick that there is an opportunity in this country, whereby the large multinational's expectations were, where they were confident with the quality and levels of delivery we were offering them in Zimbabwe. So they wanted a seamless delivery.
(Zimbabwean SME)

In sum, the SMEs were able to pinpoint the capabilities they had that allowed them to internationalize, although those capabilities were often relatively limited by the standards of advanced economies.

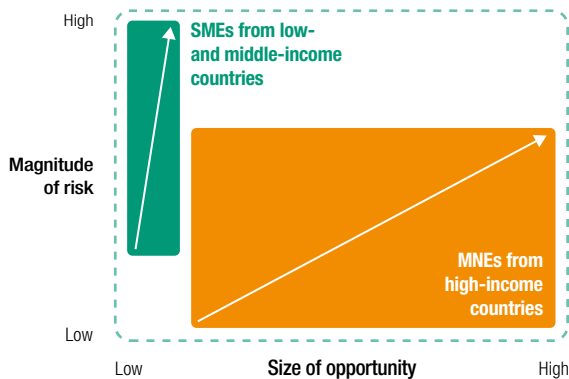
5. Discussion

The evidence suggests that the SMEs operated in a different opportunity space, rather than in competition with MNEs. Indeed, they often seem to act as the local “delivery arm” of advanced MNEs. We discuss these two points, before concluding with insights for policymakers.

5.1. A different opportunity space

Our evidence suggests that the SMEs operating from low- and middle-income countries are generally willing to accept a higher level of risk and a smaller opportunity than their counterparts from larger firms and countries. This means that the two sets of companies operate in very different opportunity spaces, a relationship that is explained in stylized fashion in figure 1.

Figure 1. Opportunity space for SMEs from low- and middle-income countries versus for advanced MNEs



Source: Authors' elaboration.

Although figure 1 presents only a stylized impression of the likely opportunity space conceptualized by SMEs from smaller and lower-income economies relative to that of advanced MNEs, it does help to explain why these SMEs continued to operate and even thrive alongside more advanced MNEs. These SMEs do not compete in the same opportunity space as advanced MNEs. Indeed, there was extensive evidence that the SMEs in the low-income countries had a symbiotic relationship with advanced MNEs.

5.2. The symbiotic relationship between SMEs and advanced MNEs in low-income countries

A striking finding was how often the SMEs from Malawi, Zambia and Zimbabwe reported that their internationalization was triggered by an advanced MNE requiring a partner in another less developed country in the region. Some of these numerous quotes appear in appendix table A2.

Ethics considerations prohibit us from disclosing the names of the SMEs. Because they so often work very closely with MNEs from advanced economies, we also cannot disclose the names of those MNEs. But the MNEs included vehicle, technology, fast-moving consumer goods and financial services firms from North America, Europe and Asia, all household names.

In many ways, it appeared that the SMEs were the “delivery arms” of advanced MNEs in these low-income countries. MNEs who had identified a competent provider would either directly or indirectly (by way of an “anchor” contract) support the internationalization of the SME into other, similar countries in the region. This was of benefit to the MNEs, because they could externalize the risk of operating in the region and still derive some sales from it.

It is important to note that the South African respondents did not mention this type of relationship. It seems that the symbiotic relationship existed only when both the countries and the SMEs were very small.

5.3. Insights for policymakers and scholars

SMEs from lower-income countries that use high-commitment modes to internationalize do exist. Because it is often assumed that SMEs operate primarily domestically or would prefer use to use low-commitment modes like exporting if they do decide to internationalize, very few databases track the international expansion of SMEs. Moreover, almost no government support exists for such SMEs. Yet it seems that the contemporary global economy is connected to such an extent that even very small firms from small and poor countries operate across borders. It is therefore important to track this activity on a more systematic basis.

Much of what is known about internationalization remains relevant when studying the high-commitment internationalization of SMEs originating from lower-middle-income countries. Firm resources and capabilities remain key enablers of internationalization, and market-seeking is, as elsewhere, the dominant motive for internationalization. However, it is necessary to clarify existing concepts to allow them to be of use across different levels of the economic hierarchy.

For example, it is not clear how one is to most accurately describe the motive of Malawian SMEs locating their financial headquarters in Botswana because

of foreign exchange regulations at home. Is it an example of seeking “efficiency”, language used by some respondents but with a different meaning in traditional international business research (Dunning, 1993), or is the search for a more efficient way of banking “created asset-seeking”? SMEs are clearly seeking to avoid poor home-country conditions, but it is not clear whether they are exploiting existing resources (“escape”) or exploring new resources (“buy better”), using the language of Cuervo-Cazurra et al. (2015). These are matters of precision in terminology, and they are needed because globalization has resulted in a situation where internationalization can take place from anywhere, including home countries with (remediable or non-remediable) institutional dysfunction, and by virtually any enterprise, including SMEs.

Much more work has to be done to unpack how risk is understood in such contexts. In our work, we noted that respondents differentiated between the risk of violence to persons, the risk of expatriation of the firm or funds, risks associated with weak institutions and business risks. Because our focus was not primarily on the different ways that risk was understood, we are not certain that the list encompasses all risks, and neither can we suggest the differential effects of different risks on the SMEs. These are important matters for further research.

A notable difference emerged in comparing the South African SMEs with those from Malawi, Zambia and Zimbabwe: The South African SMEs were generally more ambitious in the scale of opportunities that they sought, but the SMEs from the low-income countries almost exclusively operated in the region, in countries that were typically quite risky and quite poor. It was clear that the different SMEs operated with different reference points of what constituted an attractive opportunity. We saw evidence of a regional anchoring effect, but also a fairly realistic assessment of their own capabilities. Determining how different-sized firms decide whether an opportunity is worth pursuing is important to assist in brokering more extensive international contact.

We summarize suggestions for policymakers in table 4. The fact that investment took place mainly in the region suggests that regional blocs such as the South African Development Corporation should be key drivers of SME FDI policy. The blocs can conduct forums, create databases, provide information and assist with the cross-border set-up of businesses. This support could include investment policies that allow regional players easier access to foreign exchange (a recurring complaint) as well as incentives and tax breaks for investing across borders within the African region. Often, policymakers could do well by simply removing current obstacles to the mobility of funds and the mobility of people.

One of the investment promotion activities that can be targeted specifically at SMEs involves building relationships. The role of partnerships and networks is a theme that came through very strongly across the cases. This suggests that substantial benefits can be derived if policymakers can facilitate the formation of relationships,

Table 4. Suggestions for policymakers

Recommendation	Elaboration
Improve records of SMEs with international ties	The known benefits of internationalization also accrue to these smaller players.
Improve the ease of foreign exchange, especially within regions	Many low-income countries suffer recurring foreign exchange shortages. Making it easier to pay for especially foreign transactions in the region is likely to have particular benefits because that is where most internationalization takes place.
Use the regional trading blocs to develop investment promotion strategies	Given that most internationalization takes place within regions, the regional blocs such as South African Development Corporation or the Economic Community of West African States are likely the most important vehicles for investment promotion.
Ensure that relationship building is a key part of a foreign investment promotion strategy	<p>SMEs operate informally and often identify opportunities through interpersonal relationships.</p> <p>Relationships with other local SMEs are useful for helping local SMEs identify challenges and solutions when internationalizing.</p> <p>Relationships with SMEs in neighboring countries are useful when a local partner is needed.</p> <p>Relationships with advanced MNEs are particularly productive. MNEs often need proof that local SMEs can deliver, but are also involved in helping with capability development.</p>

Source: Authors' compilation.

both among SMEs in the region and also with MNEs from elsewhere. Perhaps the most important international partners for the SMEs from low-income countries were advanced MNEs. MNEs from high-income countries have increasingly organized themselves as differentiated networks with quite specific subsidiary mandates (Birkinshaw, 1996; Ghoshal and Bartlett, 1990).

Our work suggests that especially in low-income countries, not even the sales and service mandate is given to local subsidiaries. Instead, it is outsourced to local SMEs. When those providers prove to be competent, the MNE often facilitates the internationalization of SMEs. This symbiotic relationship is potentially an important pathway for MNE-enabled development and deserves much more attention.

References

- Barnard, Helena (2020). "The Africa we want and the Africa we see: How scholarship from Africa stands to enrich global scholarship", *Africa Journal of Management*, 6(2), pp. 132–143.
- _____ (2021). "Host countries' level of development and internationalization from emerging markets: A typology of firm strategies." *Journal of International Management*, 27(3), art. 100828.
- Barnard, Helena, Alvaro Cuervo-Cazurra and Stephan Manning (2017). "Africa business research as a laboratory for theory-building: Extreme conditions, new phenomena, and alternative paradigms of social relationships", *Management and Organization Review*, 13(3), pp. 467–495.
- Barnard, Helena, and John M. Luiz (2018). "Escape FDI and the dynamics of a cumulative process of institutional misalignment and contestation: Stress, strain and failure", *Journal of World Business*, 53(5), pp. 605–619.
- Birkinshaw, Julian (1996). "How multinational subsidiary mandates are gained and lost", *Journal of International Business Studies*, 27(3), pp. 467–495.
- Cuervo-Cazurra, Alvaro, Rajneesh Narula and C. Annique Un (2015). "Internationalization motives: sell more, buy better, upgrade and escape", *Multinational Business Review*, 23(1), pp. 25–35.
- Dimitratos, Pavlos, José E. Amorós, María S. Etchebarne and Christian Felzensztein (2014). "Micro-multinational or not? International entrepreneurship, networking and learning effects", *Journal of Business Research*, 67(5), pp. 908–915.
- Dimitratos, Pavlos, Jeffrey Johnson, Jonathan Slow and Stephen Young (2003). "Micro multinationals: new types of firms for the global competitive landscape", *European Management Journal*, 21(2), pp. 164–174.
- Dunning, John H. (1980). "Toward an Eclectic Theory of International Production: Some Empirical Tests", *Journal of International Business Studies*, 11, pp. 9–31.
- _____ (1993). *Multinational Enterprises and the Global Economy* (New York: Addison-Wesley).
- Ghoshal, Sumantra, and Christopher A. Bartlett (1990). "The multinational corporation as an interorganizational network", *Academy of Management Review*, 15(4), pp. 603–626.
- Hillemann, Jenny, and Michael Gestrin. (2016). "The limits of firm-level globalization: Revisiting the FSA/CSA matrix", *International Business Review*, 25(3), pp. 767–775.
- Ibeh, Kevin (2015). "Rising Africa and its nascent multinational corporations", in Ifedapo Adeleye, Lyal White, Kevin Ibeh and Abel Kinoti, eds., *The Changing Dynamics of International Business in Africa* (Palgrave-MacMillan), pp. 123–147.
- Knight, Gary A., and S. Tamar Cavusgil (2004). "Innovation, organizational capabilities, and the born-global firm", *Journal of International Business Studies*, 35(2), pp. 124–141.
- Luiz, John M., and Helena Barnard (2022). "Home country (in)stability and the locational portfolio construction of emerging market multinational enterprises", *Journal of Business Research*, 151, pp. 17–32.

- Luo, Yadong, and Rosalie Tung (2007). "International expansion of emerging market enterprises: A springboard perspective", *Journal of International Business Studies*, 38, pp. 481–498.
- Madimu, Tapiwa (2020). "Food imports, hunger and state making in Zimbabwe, 2000–2009", *Journal of Asian and African Studies*, 55(1), pp. 128–144.
- Mathews, John A. (2006). "Dragon multinationals: New players in 21st century globalization", *Asia Pacific Journal of Management*, 23, pp. 5–27.
- Oviatt, Benjamin M., and Patricia P. McDougall (2005). "The internationalization of entrepreneurship", *Journal of International Business Studies*, 36, pp. 2–8.
- Park, Sang H., Amelia U. Santos-Paulino and Claudia Trentini (2022). "Fourth Industrial Revolution and FDI from SMEs: The case of the Republic of Korea", *Transnational Corporations*, 29(3), pp. 137–160.
- Prashantham, Shameen (2011). "Social capital and Indian micromultinationals", *British Journal of Management*, 22(1), pp. 4–20.
- Rugman, Alan M., and Alain Verbeke (2001). "Subsidiary-specific advantages in multinational enterprise", *Strategic Management Journal*, 22(3), pp. 237–250.
- Shin, Joonho, Xavier Mendoza, Matthew A. Hawkins and Changbum Choi (2017). "The relationship between multinationality and performance: Knowledge-intensive vs. capital-intensive service micro-multinational enterprises", *International Business Review*, 26(5), pp. 867–880.
- Stoian, Maria-Christina, Pavlos Dimitratos and Emmanuella Plakoyiannaki (2018). "SME internationalization beyond exporting: A knowledge-based perspective across managers and advisers", *Journal of World Business*, 53(5), pp. 768–79.
- Teece, David J. (2014). "A dynamic capabilities-based entrepreneurial theory of the multinational enterprise", *Journal of International Business Studies*, 45, pp. 8–37.
- UNCTAD (United Nations Conference on Trade and Development) (2022). *World Investment Report 2022: International Tax Reforms and Sustainable investment* (New York and Geneva: United Nations).
- UNCTAD Secretariat (1998). "Foreign direct investment by SMEs: Lessons from Asia", *Foreign Trade Review*, 33(1–2), pp. 78–96.
- Vanninen, Heini, Joon Keränen and Olli Kuivalainen (2022). "Becoming a small multinational enterprise: Four multinationalization strategies for SMEs", *International Business Review*, 31(1), art. 101917.

Appendix table A1. Countries to which SMEs internationalized

Home country	Employees	Founded	First internationalized	First host country	Second host country	Subsequent host countries
Malawi	10	2012	2015	Botswana	Zambia	Ghana
	25	2013	2016	Rwanda	Zambia	..
	16	2010	2014	United Kingdom	..	..
	40–50	1995	2008	Zambia	..	..
	16	2004	2011	South Africa	Zambia	Ghana, Kenya
	10	2011	2019	Zambia	Rwanda	..
Zambia	10	2013	2015	South Africa	Zimbabwe	Malawi, Kenya, United States, United Kingdom, United Arab Emirates
	40	2009	2012	Malawi	Zimbabwe	Mozambique
Zimbabwe	40	1998	2006	Malawi	Zambia	..
	40	2012	2018	Zambia	Malawi	..
	35	2009	2011	Zambia	Malawi	Mozambique, Nigeria, South Africa
	50	2000	2015	Botswana	Zambia	Malawi
	50+	1996	2004	South Africa	Zambia	Mozambique
South Africa	24	2014	2023	Europe (planning phase)	..	..
	139	1991	2019	Mauritius	..	..
	75	1998	2020	Australia	Philippines	..
	60	2020	2021	United Kingdom	Uganda	Other emerging markets (planning phase)
	19	2021	2022	United Kingdom	..	..
	83	2015	2017	Zimbabwe	Kenya	..
	51	2000	2006	Nigeria	Zambia	Mozambique
	5	2022	2022	United Kingdom	..	..
15	2016	2016	United States	..	..

Source: Authors' interviews.

Appendix table A2. Risk and opportunities for SMEs internationalization: Qualitative evidence from Malawi, South Africa, Zambia and Zimbabwe

Theme	Comments by interviewees
Risky business conditions in the region	
Personal danger deters business	<p>Mozambique has constantly been a political problem for us... We have written it off completely because there are some amazing beaches and places there that I would love to send clients in the future. But certainly at the moment, northern Mozambique, we wouldn't touch because it's not safe for...for clients at the moment. (Malawian tourism SME)</p> <p>It was criminality rather than market fundamentals that made us exit. It was just that we weren't willing to put our employees at risk with having to operate in a market where you had drug lords now entering the cigarette market and wanting to impose the rules of the drug trade in cigarettes. (Zimbabwean SME)</p>
Risks in the region shape the business and/or internationalization	<p>When it comes to the Congo... You know Congo has too much corruption. If you go through the proper way, they give you a hard time... So we were planning initially to start in Kinshasa but now we said we will start the other part of DRC, like you know, near the Zambian border. Then someone from Zambia, they can drive there. (Malawian SME)</p> <p>I mean our vision as a company is to create a world where everyone is safe. We've created a platform that democratizes access to safety services and from Day One we always said that we are going to do this globally... And I think that's definitely the driving reason why not only me, my staff and my investors are all geared to export this in regions where people are unsafe or where we can add value. (South African SME)</p>
Business risks seen as almost secondary	<p>And I had to make a decision to put Nigeria on hold irrespective of its attractiveness. Because [it is] a very attractive market. Tough, but the setup cost was getting a bit too much. And there was also a lot of structural changes on the ground. (Zimbabwean SME)</p>
Risks in home country	
Home-country conditions problematic	<p>You know the goal was for the group to have an offshore income, like US dollar income. So, they wanted to diversify the group's income because if you look at the main activity... everything is earned in rand. Which is not a good thing, given the economic situation in South Africa. (South African SME)</p> <p>From an international perspective, is trust. Government isn't going to, like, come and just like, take everything from you, on some level, as the fear goes in South Africa and a couple of other African countries. (South African SME)</p> <p>Zimbabwe was already on the decline as an economy. But by about 2005, 2006, that decline really accelerated. And it became visible and clear to me that we would not be able to continue with the same path in Zimbabwe... So, I said well, we need to find ways of accelerating our international ideas, because that can diversify our income streams and can reduce our risk. (Zimbabwean SME)</p>

Appendix table A2. Risk and opportunities for SMEs internationalization: Qualitative evidence from Malawi, South Africa, Zambia and Zimbabwe (Concluded)

Theme	Comments by interviewees
Home-country restrictions on foreign exchange	<p>With Malawi you can't make such payments because of forex restrictions, whereas in Botswana or Ghana I just log in and make a payment. I don't have to call the bank; I don't have to apply for forex. So, when the business reaches a certain level you have no choice but to leave the country. (Malawian SME)</p> <p>The reason why we're moving to the US and not any other market is: the US banks in dollars... the dollar is... easier to move it around, and they don't have that much forex controls when it comes to moving money out of their jurisdictions. (Zambian SME)</p>
Benefits of reduced competition	
Familiarity with often-overlooked host locations	<p>When you speak about Africa in certain boardrooms, internationally, they're going to think of South Africa, Nigeria and Kenya... No one thinks of Zambia. (Zambian SME)</p> <p>As others like to say, there is no economy in the Zimbabwe, it means there's still opportunity in that space. (Zambian SME)</p>
Awareness of opportunities in underserved markets	<p>Nigeria seems to be a no-brainer. It's a tough market... But I think you can use that as an advantage to grow in there. (Zimbabwean SME)</p> <p>The sort of areas I'm going to be going after is potentially Nigeria and Kenya, to start, because there's quite a big opportunity in African markets. (South African SME)</p> <p>We specifically want to focus on the sort of places where other people in our space don't necessarily want to go. So, it'll be sort of more emerging markets kind of destinations. That's why South-east Asia is really interesting to us and Eastern Europe. (South African fintech SME)</p>
The symbiotic relationship between SMEs from low-income countries and advanced MNEs	
Relationships of SMEs with advanced MNEs	<p>It's an insurance company, we did some work for them, and they needed the same work done in their Zambia office.... So, if you look at the size of the deal, and how availability to the client would be affected for the fact that we're based in Malawi, and some things needed to be done locally. So that was the main drive that took us to Zambia. (Malawian SME)</p> <p>That was the thinking for [global software MNE] by the way of needing to have a specialist provider because they needed someone who had enough muscle to be able to do the large projects. And they knew they couldn't find that in-country. So [global software MNE] was very supportive of our moves when I first went. The first couple of meetings that I had in Kenya, [global software MNE] came along. They were very supportive of the move.... I went to Uganda and [global software MNE] representative came along with me. So, there was a lot of support from [global software MNE's] point of view, because they wanted to introduce stronger partners into those markets. (Zimbabwean SME)</p> <p>[Global distribution MNE] was on a very aggressive, aggressive geographical expansion plan into Africa, which was largely driven through the relationship that they had with [global fast-moving consumer goods MNE], [which] then passed on our name to [global distribution company]. And we got discussing, and what had been found is that... we operated in the same manner. So that obviously was... the foundation to bringing the companies together. (Zambian SME)</p>

Source: Authors' interviews.