Conceptual guidelines for the international expansion of SMEs from Curacao

By:

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Abstract

Internationalization and moving to new markets can create many opportunities for small businesses across the globe, but also presents a number of new challenges they will face, which may influence their competitive advantage in the global market. Present paper aims to provide an internationalization guide for SMEs from Curacao. Also the determinants that can impact internationalization will be discussed. In this paper, three widely researched internationalization models form the basis of the theoretical perspectives of this paper; the traditional Uppsala model, the Network model and the Linkage, Leverage and Learning model.

Key words: Internationalization; SMEs; Uppsala model; Networking; Linkage, Leverage and Learning, International Entrepreneurship; Developing Country, Curacao, Curacao

1. INTRODUCTION

Focusing on the international market has become an important firm strategy, since the global trade environment has been rapidly changing (Hitt, Ireland, Camp, & Sexton, 2001). Even though most firms from developing countries have relatively low resource bases and not much experience in foreign markets, it is noticeable that companies from developing countries are gaining an increased presence in the global economy (Aulakh, Kotabe, & Teegen, 2000). For SMEs to create a sustainable and competitive position in the international market, SMEs will have to use the right strategies in order to adapt to the constant changing global market place (Ocloo, Akaba, & Worwui-Brown, 2014), and change business models with new innovative capabilities (Lee, Shin, & Park, 2012). According to Eberhard (2013) internationalizing create substantial macroeconomic benefits such as reducing national deficit and increasing employment
as well as microeconomic benefits where which firms internationalize with as goal to achieve amongst others economies of scale and scope, gain access to foreign technology and marketing.

This study, uses the term internationalization as it was defined by Welch & Luostarinen (1988), as the process in which firm increasingly participate in international markets. In this paper, the terms emerging and developing countries have been used interchangeably, but nevertheless represent the countries that are less developed than the industrialized economies.

Present day, SMEs have been playing a vital role in contributing to the development, whether this is a random country or globally, of the modern world economy (Ali, 2013; Moore & Manring, 2009; OECD, 2015; Pandya, 2012). SMEs play a significant role, as they have been the main source of creating employment, improving income distribution, decreasing poverty, export growth and job growth (Criscuolo, Gal, & Menon, 2014; Pandya, 2012). Especially in the emerging economies, SMEs contribute to growth, employment, productivity, and investment (World Bank Group, 2014). The main reason why SMEs are the backbone of the economy is because they are dominantly present in the business organization, representing more than 95% of all companies and creating 60-70% of the jobs (Robu, 2013).

Internationalizing itself is a difficult process, which requires good strategy, for firms to undertake. The phenomenon of internationalization has been the focus of many studies, empirical as well as theoretical, documented in different countries (Fernández & Nieto, 2005). However, extant literature in international business has little addressed the internationalization process of SMEs from emerging markets (Kaynak, 2014). Therefore, the aim of the present paper is to highlight important factors that can facilitate the process of internationalization of SMEs from Curaçao. In tackling this topic, this study creates an interesting insight to the field of IB in how SMEs from Curaçao can achieve the former discussed microeconomic benefits through
internationalization as well as a guideline for entrepreneurs, from Curaçao, to expand their business in the international market.

This paper aims to answer the following research question by introducing several main concepts that will be further elaborated in the next paragraph: How are SMEs, from Curaçao, supported in establishing a sustainable position in the international market?

The paper is organized as follows. The first section explains the context and background for the research. The second section contains a review of three models, which have been widely discussed in the IB literature, for explaining the internationalization process. Namely the Uppsala model, Network approach and LLL framework. The Uppsala Internationalization model, Network approach and LLL framework have been useful by helping to shed some light on the internationalization process of firms. Also literature on international entrepreneurship approaches and therewith personal capabilities will be discussed in this section. This gave insight into determinants that can positively influence internationalization. In the following section, an internationalization guideline, for SMEs from Curaçao, is than provided together with concrete research hypothesis, with respect to the factors that influence the internationalization process of SMEs from Curaçao, for future studies. The purpose of the guideline is to form as a reference for SMEs in Curaçao, whom seek to cross national borders by exporting. The paper concludes with some final reflections and conclusion on the findings of the research and future research direction.

2. CONTEXT AND BACKGROUND OF THE STUDY

Curaçao

Curaçao, an island in the Caribbean Sea, is located to the north of Venezuela and the southwest of the Caribbean islands chain. The capital of the island, Willemstad, is the main financial center
and seat of the Government. With a population of 148,406 in 2015 (The World Factbook, 2016), the island has more than 50 nationalities, of which the Afro-Caribbean’s form the majority (Curaçao, 2016). The locals master a great amount of languages, whereof Dutch is the official language, while Papiamentu\(^1\) is the most spoken language and Spanish and English are well mastered and frequently spoken by the locals (The World Factbook, 2016; TravelGuide, 2016).

Per October 10, 2012, Curaçao is an autonomous country within the Kingdom of the Netherlands (CINEX, 2015). The form of government is a constitutional democracy with members of parliament elected to four-year terms (TravelGuide, 2016). The legal system of the island is mainly based on Dutch civil law system (OECD, 2015; The World Factbook, 2016). The islands main sectors include, tourism, trade and transport, petroleum refining, offshore finance and manufacturing (CINEX, 2015; UN-OHRLLS, 2015)

**Small and Medium Enterprises (SMEs)**

The definition of SMEs, standing for Small and Medium Enterprises, vary per country and are mostly defined based on the number of employees, the value of the assets of a company or the yearly revenue (ILO, 2015). According to International Labour Organization (2015), SMEs are mostly defined as micro enterprises when the number of employees is up to ten employees, small enterprises when the number of employee’s ranges from ten to 100 employees, and it is spoken of medium-sized enterprises when the total number of employees is between the 100 and 250. Dr. Emsley Tromp (2007), President of the Bank of the Netherlands Antilles aforesaid that SMEs provide the greater part of businesses, employment and job creation and contribute for a large

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\(^1\) Papiamento: a creole language that is a mixture of Portuguese, Spanish, Dutch, English, and, to a lesser extent, French, as well as elements of African languages and the language of the Arawak (The World Factbook, 2016)
part to the GDP. In emerging economies, formal SMEs account for up to 33% of GDP and 45% of total employment (The World Bank Group, 2015). In high income countries, these numbers are respectively 64% and 62% (Saleem, 2013). There are worldwide, approximately between 420 to 510 million SMEs of which a great share, namely between 80-95%, are in low- and middle-income countries (ILO, 2015). As SMEs in Curaçao produce 30% of the GDP, provide 50% of employment and represents more than 90% of all businesses on the island, these firms are seen as the backbone of the economy of Curaçao (Goede, 2015).

The definition of SMEs in Curaçao varies and is defined different by three different bodies. This issue is problematic for policy development, because it becomes difficult and unclear to form a uniform basic information file, which serves for further policy development, monitoring or evaluation (AEF, 2011).

The Chamber of Commerce of Curaçao, indicates companies as SMEs based on the asset at time of registration. Companies with an invested capital lower than ANG2 100.000,- ($56.000) are defined as SMEs by the Chamber of Commerce. The Ontwikkelingsbank Nederlandse Antillen3 (OBNA) and Korpodeko4 differentiate between micro and small enterprises and use the amount of employees and revenue as their main criteria to define SMEs. SMEs are defined as micro-enterprises when the number of employees is up to five employees and the revenue up to

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2 ANG: abbreviation for the Antillean guilder, is the currency of Curaçao, which has been pegged to the USD since 1946 (OECD, 2015). The currency is also called the florin which is abbreviated as NAFL (Curaçao, 2016). The exchange reference for this study is rated at April 30, 2016 in which 1 ANG = 0.56USD (XE Currency Converter, 2016).

3 OBNA: Development Corporation that provides financial support (Deltaworks, n.d.).

4 Korpodeko: Is the Development Corporation of Curaçao that promote a balanced autonomous sustainable development of Curaçao in the socio-economic, cultural and educational field. In doing so the corporation provides financing for projects of SMEs and Large firms in different industries and activities (Korpodeko, 2016).
ANG 50,000 ($27,933). Small enterprises ranges from five to ten employees with a maximum revenue of ANG 500,000 ($279,333) (AEF, 2011). Since 1998 The Central Bureau for Statistics (CBS) in Curaçao classifies SMEs in micro, small and medium enterprises based on employees and revenue. A company falls into the micro category when the number of employees is up to 5 and the revenue up to ANG 50,000. A small ranges between six and ten employees and a revenue up to ANG 500,000 ($280,000). Medium businesses have up to 50 employees and ANG 5 million ($2.8 million) revenue. See Table 1 for an overview of the definitions of SMEs in Curaçao (AEF, 2011).

**Table 1: SMEs definition Curaçao**

With an exchange rate, in which 1 ANG (Antillean Guilder) is 0.56 USD

<table>
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<tr>
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<th>Chamber of Commerce</th>
<th>OBNA/Korpodeko</th>
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<td>Micro enterprise</td>
<td>&lt; 5 employees</td>
<td>&lt; 5 employees</td>
<td>&lt; 5 employees</td>
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<td></td>
<td>&lt; ANG 50,000 revenue</td>
<td>&lt; ANG 50,000 revenue</td>
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<tr>
<td>Small enterprise</td>
<td>&lt; 10 employees</td>
<td>&lt; 10 employees</td>
<td>&lt; 10 employees</td>
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<td></td>
<td>&lt; ANG 500,000</td>
<td>&lt; ANG 500,000 revenue</td>
<td>&lt; ANG 500,000 revenue</td>
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<tr>
<td>Medium enterprise</td>
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<td>&lt; 50 employees</td>
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<td>&lt; ANG 5 million revenue</td>
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SME Invested capital < ANG 100,000

See above

See above

Source: (AEF, 2011), authors construction

Due to the small home market, 148,406 inhabitants, entrepreneurs in Curaçao have to consider international expansion, which involves larger investments, at a relatively early stage in the growth of the company. With this, the financial risk becomes greater. Nevertheless, at the same
time, international expansion is the only way to avoid the limitation of the home market to significantly grow revenues (AEF, 2011).

As SMEs are the backbone of the economy of the island, the government of Curaçao is well aware of the importance of SMEs and has therefore created a National Development Plan Curaçao 2015-2030 in which goals are to reinforce and improve SMEs, by improving amongst others access to finance, incentives and knowledge (UNDP, 2015).

3. LITERATURE REVIEW

The term “internationalization” is a broad concept, which has, according to Milner & Keohane (1996), been used by a wide range of scholars in various ways.

In 1977, Johanson & Vahlne presented a model of internationalization process to explain all steps in the internationalization, in which developing knowledge is fundamental for a firm’s internationalization. In this model they believe that the act of internationalization is based on several incremental decisions and that firms gradually increase commitment to foreign markets. This model was revised in 2009 when Johanson & Vahlne concluded that the original model needed to put more emphasis on the importance of networks in the internationalization of firms. A firm´s success requires that it be an insider meaning that the firm is well established in one or more relevant networks. If a firm does not have relevant networks it is called an outsider and will suffer from the liability of outsidership and foreignness, making it difficult to become an insider and develop a business (Johanson & Vahlne, 2009). Andersen (1993) critically examined and illuminated the inherent weaknesses of two internationalization process models, namely the Uppsala Internationalization Model and the Innovation-Related Internationalization Models, to be able to secure future development and refinement in which the researcher made objections that both studies were not capable of accurately explaining the development process due to the
absence of a suitable design. Also Sullivan (1994) questioned the validation of theories of international business due to their unreliable measurement degree of internationalization of a firm, and proposed the Degree of Internationalization Scale\(^5\) (DOI\(_{\text{ints}}\)). Their research results let them to conclude that the DOI\(_{\text{ints}}\) method improves the reliability of the measurement degree of internationalization as well as the validity of interpretation. Malhotra & Hinings (2010) propose an organizational model for understanding internationalization process, and argued that the process of internationalization is depended on and varies according to the type of organization.

Explaining internationalization from a different angle, Oviatt & McDougall (2005) aimed their research at exploring firms that are the so called international new venture and defined them as organizations that from the initial phase, use resources and the sale of outputs in multiple countries in order to develop competitive advantages. These international new venture, also known as Born-Global (BG), have been attracting an increasingly interest in the literature (Fa & Phan, 2007).

Melin (1992) described internationalization as a strategy process, in which strategy making is about changing perspectives and/or positions. The author describes internationalization as an ongoing strategy process in which companies gradually increase their international involvement that encompasses a changed position as well as a changed perspective. Also Durmaz & Tasdemir (2014), whom state Chen & Messner (2010), focus on strategy and emphasize in their research that making the right internationalization decisions, and therewith choosing an attractive market and right entry mode, is crucial for the company’s sustainable growth and profit making. Thus since SMEs mostly and relatively have less resources, making

\(^5\) DOI\(_{\text{ints}}\) is a measurement method which provides a meaningful measure of the Degree of Internationalization (DOI) of a firm. With the DOI\(_{\text{ints}}\), measurement errors are being tackled and put across the validity of research findings preparatory to theory testing (Sullivan, 1994).
“the right decision” is of utmost importance (Lloyd-Reason, Deprey, & Ibeh, 2009). Companies considering international expansion have numerous entry mode options, such as exporting, licensing, franchising, joint ventures (JVs) and wholly owned subsidiaries (WOS) which can be Greenfield investments and/or acquisitions (Hill, Hwang, & Kim, 1990).

The first mode of internationalization of firms normally start by exporting to a country via an agent, in a later stage the firm will establish a sales subsidiary, and eventually, in some cases, begin production in the host country (Johanson & Vahlne, 1977). This so called Uppsala Internationalization model has later been revisited by Johanson & Vahlne (2009) in which the emphasise on the importance of relevant networking. According to Amal, Raboch, Awuah, & Andersson (2010), it seems as if the internationalization process of firms from developing as well as developed economies, is based on incremental experience, psychic distance criteria and networking. Three models, containing the criteria mentioned above, will form a basis as a theoretical framework, to explain the internationalization process of SMEs. In addition the LLL framework will be discussed as well as literature on the international entrepreneurship.

**Uppsala Internationalization Model**

The Uppsala Internationalization Model was first published in 1975 (Joanson & Wiedersheim-Paul). The model has later been revised several times (Johanson & Vahlne, 1975; Johanson & Vahlne, 1992; Johanson & Vahlne, 2006; Johanson & Vahlne, 2009). The Uppsala Model explains how firms adopt an incremental and sequential approach to internationalization (Osarenkhoe, 2008). According to the Uppsala Model, firms normally start internationalizing to psychic nearby markets, via exporting, because of the enhanced knowledge of the market and better control over resources (Kontinen & Ojala, 2010). Afterwards, when firms gain more
experience and acquire better resources, they gradually expand to more distant markets, and often establish foreign sales subsidiaries or foreign productions (Zohari, 2008). By psychic distance it is referred to both cultural distance, as well as language, political, geographical and business differences between the home and foreign country, and specifically the individuals perception of these differences (Zhang, 2014).

Findings on psychic distance have been twofold since some researchers found evidence that psychic distance has an impact on the internationalization, whereas others have not (Evans, Mavondo, & Bridson, 2008). Crick & Jones (2000) for one, argue that choosing a market is more related to growth opportunities of a company than the psychic distance. Other studies argue that market selection is more related to the network relationships (Coviello & Martin, 1999; Ojala & Tyrväinen, 2009). According to Kontinen & Ojala (2010), whom compared the different views of scholars concerning the investigation on psychic distance, it seems that there are several important factors for SMEs to choose their market, which are network relationships, cultural knowledge and language skills.

**Business Network Approach**

According to Coviello & Munro (1997) whom quoted (Axelsson & Easton (1992), a network involves sets of two or more connected exchange relationships. Many studies have shown that the role of networks is important for internationalization, (Coeurderoy & Falize, 2012; Fernhaber & Li, 2013; Johanson & Vahlne, 2009; Patel, Pankaj C., et al, 2014). Musteen, Datta, & Butts (2014) concluded in their research that strong and diverse network ties in the country abroad are of utmost importance for SMEs in transition economies, due to the gain of foreign market knowledge. Similar are the research results of Fernhaber & Li (2013) in which the researchers emphasize that network contacts as well as international work and educational experience can
create international exposure. Milanov & Fernhaber (2014) demonstrate the importance of the role of domestic alliance partners, with international experience, in the internationalization process. According to their results, a firm can cooperate with a domestic partner, with international experience, as an external learning source and create opportunities to internationalize and operate abroad by applying the knowledge of the domestic alliance, with international experience.

SMEs, that faced problems regarding their small size, are now able to improve their competitiveness through networking (Ceglie & Dini, 1999). For the SMEs, networking has been important by creating intelligence, leading to internationalization (Senik, Scott-Ladd, Entrekin, & Adham, 2011). According to Daszkiewicz & Wach (2012) the network approach is seen as a process in which a firm achieve its goals by continuously creating, maintaining and dissolving external relationships.

Eberhard (2013) shows in his research that networking can be divided into two principal categories. One is inter-firm networks, providing firms to achieve economies of scale and acquire greater knowledge and capabilities, in which networks exist through formally contracted arrangements, such as logistics, contract manufacturing or R&D. Inter-personal networks on the other hand, comprises everybody with whom the manager has a direct relationship with, that can be a group of people of a person, that provide service, advice and moral support.

A firm that does not have a position in relevant networks is an outsider (Johanson & Vahlne, 2009). When a firms enters a foreign market, without any relevant networks, the firm will suffer from the liability of outsidership and liability of foreignness (Daszkiewicz & Wach, 2012). Firms facing problems arising from the newness of the environment due to differences on a cultural, political, environmental and economic level, suffer from the liability of foreignness,
whereas with the liability of outsidership, firms face difficulties associated with being an outsider, because they don’t have a certain relevant business network in the foreign market (Guercini & Milanesi, 2013).

**Linkage, Leverage and Learning**

According to Mathews (2006) the international success of companies is related with the linkage-leverage-learning (LLL) framework. In his work Mathews (2006) presents an analysis of how Dragon Multinationals or firms from emerging economies overcome resource disadvantages. Mathews (2006) defines dragon multinationals as firms from the Asia-Pacific region, that started from behind and have nevertheless, without any of the advantages of incumbent industry leaders, intital resources, skills and knowledge, successfully internationalized and sometimes even became leading companies. Even though the focus of international expansion of Chinese firms was based on large companies, some characteristics found in prior studies can, in some extent, also be applied to SMEs (Cardoza & Fornes, 2011). With the LLL framework, firms focus their internationalization strategy and process on firstly inter-firm linkages, secondly leverage external resources for internal use and thirdly improve the linkage and leverage skills through experiential learning (Jensen, Ørberg, & Petersen, 2013).

The extended LLL framework of Mathews (2006) in which organizational learning is the center of the framework is supported by the idea that the internationalization of EE-based firms is based on the leveraging capability of the firm, rather than owning numerous resources (Yamakawa, Peng, & Deeds, 2008). Firms from emerging markets, try to overcome their latecomer disadvantages via aggressive, risk-taking measures by using international expansion to acquire
strategic resources and reduce certain market constraints they face in the home market (Luo & Tung, 2007).

**International entrepreneurship**

Few researchers have examined the behavior of internationalization by identifying management characteristics and attitudes, such as cultural orientation and risk-taking, and firm characteristics, such as the size of the firm or international experience (Aulakh, Kotabe, & Teegen, 2000). There has been a rapidly increased interest in international entrepreneurship over the past decade, with the emergence of globalization (Peiris, Akoorie, & Sinha, 2012). As shown in figure 1, the domain of international entrepreneurship (IE) can be considered to be at the intersection of the domain of entrepreneurship and international business (McDougall & Oviatt, 2000; Wach & Wehrman, 2014).

**Figure 1: International Entrepreneurship as the Intersection of International Business and Entrepreneurship**

Source: Author construction based on Wach & Wehrman (2014) research

According to Zahra & George (2002), the term international entrepreneurship was introduced in a short article by (Morrow, 1988), in which the untapped foreign markets new ventures faced reflecting a new cultural awareness and technological advances was highlighted. Soon after
International entrepreneurship (IE) has become a increasingly popular research field (Gil-Pechuán, Expósito-Langa, & Tomás-Miquel, 2013).

Hisrich (2010), states in his work that the moment an entrepreneur has a business in more than one country, you can speak of entrepreneurship and defines international entrepreneurship as the process in which an entrepreneur conducts business abroad, which can be in the form of something simplistic as placing an advertisement in in foreign magazine to something more complicated such as exporting, licensing or even opening a sales office in another country. Operating abroad requires creativity, ingenuity and pre-calculated risk taking, which will determine the success of your global business, because domestic strengths does not necessarily guarantee success abroad (Gil-Pechuán, Expósito-Langa, & Tomás-Miquel, 2013).

Companies, mostly broaden their international scope through entrepreneurial actions (McDougall & Oviatt, 2000). These entrepreneurial actions refer to a set of behaviors, which are defined as the determinants of internationalization in this paper, such as innovativeness, pro-activeness, risk-taking etc, that have been proven to influence international learning and therewith positively influence internationalization process (Dai, Maksimov, Gilbert, & Fernhaber, 2014). To provide a clear overview of the determinants of internationalization, a chronicle overview, derived from Kosala (2015), which in turn was adapted from Wach & Wehrman (2014), of the development of the definition of international entrepreneurship will be presented in Table 2. Table 3 provides a concrete overview of the identified determinants that are related to the framework of international entrepreneurship from the different authors.
Table 2: Chronicle development of the definition of international entrepreneurship by different authors

<table>
<thead>
<tr>
<th>Definition</th>
<th>Author</th>
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<tbody>
<tr>
<td>International Entrepreneurship is the development of international new ventures or start-up firms that, from the beginning perform in foreign markets, viewing their operating domain as international from the initial stages of the firm’s operation</td>
<td>McDougall (1989)</td>
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<td>The study of the nature and consequences of a firm’s risk-taking behavior as it ventures into international markets</td>
<td>Zahra (1993)</td>
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<td>IE is a business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and sale of outputs in multiple countries</td>
<td>Oviatt &amp; McDougall (1994)</td>
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<td>International entrepreneurship is any activity of an entrepreneur that crosses national borders</td>
<td>Hisrich, Honig-Haftel, McDougall, &amp; Oviatt (1996)</td>
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<tr>
<td>New and innovative activities with as goal to create value and growth in international business organization</td>
<td>McDougall &amp; Oviatt (1997)</td>
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<tr>
<td>A combination of innovative, proactive, and risk-seeking behavior that crosses national borders with the aim to create value in business organizations</td>
<td>McDougall &amp; Oviatt (2000)</td>
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<td>IE is associated with opportunity seeking, risk taking, and decision action catalyzed by a strong leader or an organization</td>
<td>Knight G. (2000)</td>
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<tr>
<td>IE is the scholarly analyses of how, by whom, and with what effects opportunities are discovered, evaluated and exploited to create future goods and services</td>
<td>Shane &amp; Venkataraman (2000, p. 128)</td>
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<tr>
<td>International entrepreneurial orientation reflects the firm’s overall proactiveness and aggressiveness in its pursuit of international markets</td>
<td>Knight G. A. (2001)</td>
</tr>
<tr>
<td>The process of creatively discovering as well as exploiting opportunities in foreign markets in order to benefit from competitive advantages</td>
<td>Zahra &amp; George (2002)</td>
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</table>
IE includes the discovery, evaluation and exploitation of market opportunities that take place in foreign markets, as well as cross-national comparisons of these three entrepreneurial processes.

IE is an evolutionary and potentially discontinuous process determined by innovation, and influenced by environmental change and human volition, action or decision

International Entrepreneurship comprises the discovery, enactment, evaluation, and exploitation of opportunities, across national borders, to create future goods and services

IE is a behavioral processes creates value through identifying and exploiting opportunities across national borders

Consumers as international entrepreneurs are individual consumers and online communities of consumers who identify, evaluate and exploit opportunities across national borders to create and distribute products for both financial and non-financial reasons

International entrepreneurship involves identifying and exploiting opportunities for international exchange

IE is the cognitive as well as behavioral processes related with the creation and exchange of value through the identification and exploitation of opportunities that in foreign markets

International Entrepreneurship is the process of an entrepreneur conducting business activities across national borders

IE is establishing new subsidiaries in foreign markets, the product lines of which are beyond the spectrum of the existing product lines in the firm’s domestic market and the locations of which are beyond the spectrum of the existing host countries

Source: Adapted and extended from Kosala (2015, p.77, Table 4).
Table 3: Concrete overview of the determinants that influence international entrepreneurship according to different authors specified in Table 2.

<table>
<thead>
<tr>
<th>Authors</th>
<th>Internationalize from inception</th>
<th>Risk propensity</th>
<th>Derive competitive advantages</th>
<th>Innovative activities</th>
<th>Proactive behavior</th>
<th>Decision action</th>
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<td>Baker, Gedajlovic, &amp; Lubatkin (2005)</td>
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4. METHODOLOGY

The goal of this paper, is to assist as a guideline for SMEs from Curacao to cross borders by providing an insight into several aspects/factors that can facilitate their internationalization process. The focus of the guideline to internationalization is based on the support and advantages SMEs from Curacao can benefit from, creating an interesting starting point for SMEs from Curacao to start operating abroad. These guidelines were formed based on the findings, presented in the literature review in which information from different sources was gathered.

In order to collect rigorous data and to create reliable and validate findings, this study identified and reviewed articles, concerning the internationalization, from different journals,
official websites, news, magazines, annual reports etc. The following four journals were reviewed to acquire information and different theories concerning this research: *The Journal of International Business Studies* (IBS), *International Business Review* (IBR), *Journal of World Business* (JWB) and *Management International Review* (MIR). These journals are considered to be the top peer-reviewed journals in international business and management/strategy (Coviello & Jones, 2004). Studies that were suitable for this research where those integrating theory and concepts from ‘internationalization’ and ‘international entrepreneurship.’ More specifically, this study focused on the internationalization and therewith its process of SMEs.

5. **GUIDELINE TO INTERNATIONALIZATION FOR FIRMS FROM CURAÇAO**

**Governmental support**

Governments play a significant role in providing support and stimulating firms to take the first step of internationalization (Hoskisson, Wright, Filatotchev, & Peng, 2013). Open government information is one example, in which local as well as national governments provide more information to the public through channels such as websites, news and conferences, in which firms subsequently can obtain reliable information, which in turn leads to efficient strategic decision making (Zhou & Delios, 2012). Inter-government agreements is another example, wherein government can directly assist exports and outward foreign direct investment (OFDI) (Hoskisson, Wright, Filatotchev, & Peng, 2013). Moreover, incentives, such as financial support, provided by the government encourages a firm’s internationalization (Bannò, Piscitello, & Varum, 2014).

From the perspective of governmental support, Curaçao has numerous fiscal initiatives as well as tax incentives, for its priority sectors (which include hotel, manufacturing, land
development and e-commerce) to foster entrepreneurship, investment and innovation within the country (Watson, 2013). The focus of the government is also on the SMEs in Curaçao, as they are significant for the economy of the island. As previously indicated, the government has developed a National Development Plan Curaçao 2015-2030 to foster SMEs, by improving amongst others access to finance, incentives and knowledge (UNDP, 2015). Financial assistance for SMEs as well as Large firms in different sectors is available through OBNA (Deltaworks, n.d.) and Korpodeko (Korpodeko, 2016). Incentives for SMEs, that focus on providing services to foreign markets, is amongst others provided through the Free (Economic) Zones to stimulate private investments and entrepreneurship (Ruta-Curaçao, n.d.). Curaçao has two of such zones (one located adjacent to the international airport Hato and one at the Industrial Park (The European Times, 2011)) where goods for export to the Caribbean, Americas and the EU, can be stored, manufactured, processed, assembled, packed, and exported, while firms are completely free from any duties, customs fees and benefit from special tax incentives (Curinde, 2016). The special tax incentive include a reduction of profit tax to 2%, including surtax, until January 1, 2025, instead of taxation at the standard Curaçao profit tax rate of 25% (2015) and no turnover tax (E-Zone, 2016). Companies operating within the free (economic) zone are only allowed to make up to 25% of sales from the local market (The European Times, 2011). It is important to mention that all these fiscal facilities are established and approved by the Netherlands and internationally (E-Zone, 2016).

Knowledge, the third mentioned factor by the government in the National Development Plan Curaçao 2015-2030, is provided within the government’s main SME policy principle which include amongst others, reduced bureaucracy and barriers to trade for SMEs, easier and additional access to financial resources, business support and personal coaching services and a
Small Business Administration Office, which acts as the central coordination office in dealing with and helping SME entrepreneurs (Watson, 2013).

As Curaçao is an autonomous country within the Kingdom of the Netherlands, the island obtains close juridical and political ties with the Netherlands (Curaçao Chronicle, n.d.). Curaçao has established trade agreements with the EU and USA (Watson, 2013). The government continuously attempts to diversify its industry and trade and has signed an Association Agreement with the EU in order to develop business there (The World Factbook, 2016). In addition, the island has a trade agreement with the EU under the Council Decision of the Association of the Overseas Countries and Territories, in which a wide range of products can be exported duty free to the EU and a tariff treatment granted by the US under the Caribbean Basin Initiative. In both cases the product have to meet certain criteria to qualify (Ruta-Curaçao, n.d.).

Alongside the trade agreements, the island also has a broad tax treaties network. Being a part of the Kingdom of the Netherlands, the island subsequently benefit from access to many Dutch tax treaties and good withholding tax regime. The country has been seeking to broaden their tax treaty network next to the Tax Information Exchange Agreement (TIEA) it has with the United States and has settled a number of TIEAs with other countries (Lowtax, n.d.). In 2015, Curaçao has exchange of information relationships with 28 jurisdictions through 5 DTCs (Double Tax Convention) and 23 TIEAs (eoi-tax, 2015).

*Hypothesis 1: Support from the government is positively related to international expansion of SMEs in Curaçao*

**Infrastructure building**
Governmental support is necessary for the internationalization of SMEs as mentioned in the former paragraph. Nevertheless, this support does not only include financial support, as infrastructure building and maintenance, such as enabling technology, for instance via Internet, also impact the internationalization of SMEs, since these type of technologies reduce barriers of information gathering as well as approaching customers in foreign markets (He, 2011). Poor internet infrastructures could hold a country and its SMEs back in terms of innovation and competitiveness (Kumar, Mudambi, & Gray, 2013). Upgrading the infrastructure, such as a well-developed airport and increase in the capacity of hotels also creates an incentive factor for business tourism internationalization (Morozova, 2013). For Curacao this is an important factor as tourism is one of the most important sectors of the economy (UN-OHRLLS, 2015). According to Taylor (2013), business environments, in general in developing countries, with amongst others low technology level and poor state of local infrastructure, lead to poor export performance.

Curacao has an excellent business infrastructure and has for a long time been a center of trade (Ruta-Curacao, n.d.). The island, is a leading transshipment point in the Caribbean (Caribbean Export Development Agency, 2007), and is at the crossroad of major shipping routes and provides easy access throughout the Caribbean, North, Central and South American markets (The European Times, 2011). Its well-developed infrastructure include the region’s largest deepwater port, a full service international airport, with direct flights to several international destinations in the Caribbean, Latin America, north America and Europe (Caribbean Export Development Agency, 2007), outstanding telecommunication, with stable telephone and broadband internet connections and state-of-the-art container transshipment terminal, with at
least four major seaports (Caribbean Export Development Agency, 2007), including two natural
harbors (Curaçao Chronicle, n.d.).

**Hypothesis 2:** Curaçao’s well developed infrastructure lead to good international performances
of SMEs in Curaçao

**Language, Culture & Networks**

Previous literature studies have found that gradual internationalization, wherein firms normally
start internationalizing to psychic nearby markets and gradually expand to more distant markets,
is a method performed by many international firms (Johanson & Vahlne, 2006; Kontinen &
Ojala, 2010). Examples of such psychic distance factors include differences between home and
host country in, inter alia, language, culture, political systems, level of education, level of
industrial development, etc (He, 2011). For this section, an in-depth focus is solely on the factors
language and culture.

Mastering foreign languages contributes to the internationalization process, as it
facilitates social contacts, improves communication between the person or firm in question and
the foreign market and creates a better understanding in the ethos and business practices of the
market in the host country (Serra, Pointon, & Abdou, 2012). Sui, Morgan, & Baum (2015) also
suggest that language impacts internationalization process and specifically researched the
correlation between language and the decision to pursue either a regional internationalization
strategy, where firms only export to the regional market, or global internationalization strategy,
in which firms also export beyond the regional market, and found that firms that have the same
native language as their surroundings tend to internationalize nationally, whereas a language
mismatch between the native language of the firm and its regional markets lead to global internationalization.

Culture on the other hand, as another psychic distance factor is defined by Hofstede, Minkov, & Hofstede (1991, p. 3) as “the collective programming of the mind which distinguishes the members of one group or category of people from those of another.” Also culture plays a significant role in internationalization as firms are more likely to internationalize to a host country that depicts similar cultural characteristics and where ethnically based social networks are present (Deng, 2012). According to Kraus, Ambos, Eggers, & Cesinger (2015), the greater the cultural distance between home and foreign country, the greater the risk in making proper internationalization decisions, due to the lack of, amongst others, understanding the foreign cultural norms and values and miscommunications.

Curaçao, an island in the Caribbean, has an educated multilingual population (Caribbean Export Development Agency, 2007). Dutch is the official language but the inhabitants speak English and Spanish very well along with Papiamento (CINEX, 2015), which is the local Creole language that is also predominately spoken in its surrounding island’s Bonaire and Aruba (Narin, 2003). Not only does Curaçao have a multilingual population, but the island is also multicultural with an ethnically mixed population representing 50 countries (The European Times, 2011). The Caribbean, consisting of more than 7,000 islands is located in the Caribbean Sea and the southeast of the Gulf of Mexico, east of Central America and Mexico, and the north of South America (Worldatlas, 2015). The Caribbean includes islands and countries as diverse as Cuba, Curaçao, Dominica, Aruba, Bonaire, Dominican Republic, Haiti, Jamaica and Trinidad and Tobago (Globalgourmet, 2007). Due to several similar characteristics between the nations, one
can say that geographic borders and differences between the islands appear to be erased (Puerto Rico Encyclopedia, n.d.).

Present day, networking seems to be an interesting topic in the international business and industry practice as it can have a significant effect on the internationalization of SMEs (Iskanius & Lamminsaarlo, 2005). When a firm’s ability to successfully internationalize may be impeded by limited access to networks, they may face the liability of outsidership which in turn can be caused by the liability of foreignness that is closely related to the psychic distance, since the liability of foreignness, increases with psychic distance (Sui, Morgan, & Baum, 2015). As the surrounding islands of Curaçao are psychical relatively the same, as aforementioned, the liability of foreignness is less likely, making it easier for firms from Curaçao to connect with foreign markets, reducing the likelihood of the liability of outsidership.

**Hypothesis 3:** Due to Curaçao’s multilingual culture, SMEs are more likely to pursue global internationalization

**Hypothesis 4:** Curaçao’s multicultural culture creates a beneficial position in internationalizing in the Caribbean.

**Hypothesis 5:** Regionally internationalizing with the use of networks, which is facilitated by the low psychic distance and there with liability of foreignness and subsequently the liability of outsidership, is preferred by SMEs from Curaçao

4. CONCLUSION AND FUTURE RESEARCH

It is undeniably that SMEs play a significant role in the economic development of developing countries. SMEs in developing countries are often referred to as the backbone of the country,
nevertheless often constrained by lack of resources, know-how and experience to successfully participate international activities. This study sought to provide an understanding of the factors that can influence internationalization and therewith a guideline for entrepreneurs seeking to operate abroad. The purpose of the guideline is to form as a reference for SMEs in Curaçao, whom seek to cross national borders by exporting. With the guideline entrepreneurs gain first hand basic information and suggestion of where and how to start internationalizing, important determinants of internationalization, as well as how firms can use existing resources, such as the government support, incentives and well organized infrastructure provided by the island.

As choosing the right market is one step within the internationalization process, this paper discussed several important factors for SMEs to choose their foreign market, which are network relationships, cultural knowledge and language skills. Another step within the internationalization process is choosing the right entry mode. The Uppsala model, in which firms start internationalizing to psychic nearby markets, via exporting and gradually expand to more distant markets, is highlighted in this paper. Mastering different languages and a multicultural population, leaves SMEs from Curaçao in a beneficial position in doing business with its surrounding markets that are found to possesses similar cultural characteristics as well as language. In addition, SMEs from Curaçao can benefit from several appealing incentives, provided by the government, when exporting to foreign markets and the extensive tax treaty network of the island. Furthermore, financial support and information is provided, for the SMEs, by different institutions. In this study, the belief that governmental support and the development and maintenance of infrastructure are fundamental factors for prospering the international business of SMEs. Well-developed infrastructure allows for easier access to the foreign markets and easier access to gathering information online.
This study have found that firms from emerging markets deal with latecomer disadvantages, and try to overcome these by taking amongst others aggressive and risk-taking measures. In addition to these measures, firms mostly widen their international presence through entrepreneurial actions, which refer to a set of behaviors, to positively influence their internationalization process. These set of behaviors, which are firm as well as entrepreneur related, include internationalizing from inception, identifying and exploiting opportunities across national borders, derive significant competitive advantage by using the provided resources, able to make decision and put it into action, constantly be innovative and have a proactive behavior. Since this paper is conceptual, further research, both empirical and non-empirical, must be done in order to uncover more information regarding the internationalization process of SMEs of Curaçao. This paper has developed some concrete research hypotheses, for future studies, which can be tested. This research could also be expanded in performing a qualitative research to test the theories in regard with the internationalization process of SMEs from Curaçao and include SMEs in different sectors, with international experience or SMEs that are in the process of internationalizing. It would be interesting to understand which resources and determinants are commonly used, more significant to the SMEs and have influence on their internationalization. In addition this paper only acknowledges the support and advantages SMEs have when expanding abroad, whereas in further research also limitations should be presented.

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