

THE DYNAMIC CAPABILITIES OF SUCCESSFUL INTERNATIONAL SMEs

ABSTRACT:

This paper investigates the booming phenomenon of small and medium sized (SME) multinational enterprises and their success on international markets. Namely, following some recent empirical studies, we maintain that the reason of this success relates to the ownership of dynamic capabilities, that allow SMEs to organize their activities to compete in the international arena.

In order to tackle this issue, we analyze the role of capabilities, referring to: marketing, supply chain management and organizational capabilities, which are expected to be particularly relevant for carrying out the international activities by SMEs. Then we go further and we maintain that capabilities, which have followed a dynamic process of evolution and improvement over the time, are the main determinants of the international success of SMEs. Preliminary findings, based on a survey study among manufacturing Italian firms concerning the period 2000-2008, seems to confirm these hypothesis.

1. INTRODUCTION

Internationalization has been traditionally related to large multinational enterprises (MNEs). However, especially in the last decades, the changes occurred in the international competitive context allowed small and medium enterprises (SMEs) to access the international market, overcoming financial, information, management and technological limits that in the past prevented them to compete with the large MNEs (Knight and Kim, 2009; Coviello and McAuley, 1999). Indeed, on one hand, the barriers limiting exchanges and protecting local markets have been rapidly knocked down in favor of the globalization process; on the other hand, the technological progresses in production, logistical and telecommunication fields, allowed small companies to access clients, suppliers and partners at a global level (Oviatt and McDougall, 1997; Bell, 1995).

Thus, since the 1980s the number of SMEs involved in international activities has been rapidly growing (OECD, 2008; OECD, 1997). It is estimated that SMEs actually contribute between 25% and 35% of manufactured exports in OECD countries and that approximately one-fifth of manufacturing SMEs in OECD countries draw between 10% to 40% of their turnover from cross-border activities (OECD, 2002). Concerning to the value of the Foreign Direct Investments (FDIs) in the OECD countries SMEs obviously account for a lower percentage (10%) of the total value, but again their weight is increasing in these last years (OECD, 2008).

This ongoing phenomenon of SMEs internationalization has seen growing policy and academic interest: several researchers have underlined that internationally-active SMEs are emerging in notably large numbers throughout the world, and that they tend to be more dynamic and grow faster than strictly domestic firms (e.g. Knight, 2001; OECD, 1997; Bell, 1995; Oviatt and McDougall, 1994; Rennie, 1993; United Nations, 1993).

However, the changes occurring in the competitive environment during last decades are not enough to explain this trend because they cannot explain how SMEs are able to overcome the limits in term of tangible resources they are subjected to, in order to compete in the more challenging international market. Indeed, for such firms, internationalizing represents an innovative act, and suggests the existence of processes that distinguish them from better-resourced, large MNEs (Knight and Kim, 2009; Knight and Cavusgil, 2004). Thus, SMEs which decide to internationalize should own some kind of competitive advantages, namely firm-specific intangible resources, competences and capabilities, that they can transfer to international markets.

Despite the growing salience of international SMEs, there has been little research to investigate the relationship existing between the ownership of certain capabilities and resources and the international performance. Indeed, some scholars have analyzed this phenomenon with respect to specific industries (Almor and Hashia, 2004; Hutchinson and Quinn, 2001) or focusing on few specific capabilities and resources (Westhead *et al.*, 2001; Andersen and Kheam, 1998). More recently, some studies have pointed out the relevance of certain business competences (e.g. international marketing competences, innovativeness, international orientation) in enhancing the performance of exporting SMEs (Camison and Villar-Lopez, 2010; Knight and Kim, 2009). However, little is known about the role that specific capabilities play in enhancing the international activities of SMEs neither about the dynamic dimension of those, that means understanding how those firms adapt their organization in order to respond to the international challenge over the time. Recently, some works are emerging in the area of dynamic capabilities, but they do not analyze the case of multinational SMEs (Fang and Zou, 2010; Lu *et al.*, 2010), thus there is still a need for further researches on these themes.

This study attempts to make some contributions by filling this gap in the literature. To address this gap we combine the RBV and the dynamic capabilities perspective (Makadok, 2001; Eisenhardt and Martin, 2000; Teece *et al.* 1997; Amit and Schoemaker, 1993) to examine which are the main relevant firm-specific capabilities that transform the ordinary resources of firms into successful internationalization.

We inspect the role that some specific capabilities have in enhancing the international performance of SMEs. We take into account a broad set of capabilities, namely supply chain management capabilities, marketing capabilities and organizational capabilities, because we want to identify which are the most significant in improving SMEs competitiveness.

Then we go further and we sustain that, as prerequisite for the internationalization, the international SMEs have to possess certain unique and at least some competitive advantages (Dunning, 2006), determined by the owning of firm-specific capabilities; however these, advantages have to be sustainable, which implies a continuous process of renewal and development of these capabilities in order to adapt them to the changing international context (“dynamic dimension”). Therefore, we propose that capabilities which show a dynamic pattern are the main determinants of the competitiveness of international SMEs.

Finally, most of previous studies about multinational SMEs consider sample of exporting firms (e.g. Knight and Kim, 2009; Knight, 2001; Westhead *et al.*, 2001; Andersen and Kheam, 1998), while, traditionally, the definition of MNEs refer to firms which are engaging in FDIs (McDougall and Oviatt, 2000; Zahra and Covin, 1995). To fill this gap, we collect primary data about FDIs of Italian SMEs, in that way we can extend the limit of the analysis by including capabilities related to the managing of widespread activities that go beyond the simpler transfer of products to the host countries.

In the following sections, we first expose the relevant literature on which is based our conceptual framework. Then we conceptualize our theoretical model stemming from the definition of dynamic capabilities. We develop a set of hypothesis intended to assess the validity of the proposed model. We next detail the implemented research method and explain our preliminary empirical findings. Finally, we discuss the main results of our analysis on which we draw our conclusions.

2. THE THEORETICAL BACKGROUND

The RBV literature (e.g. Teece and Pisano, 1994; Wernerfelt, 1984; Penrose, 1959) has recognized that the ability of SMEs to compete in international markets is largely function of their internal “resources” (e.g. Knight and Kim, 2009; Wu *et al.*, 2007; Zahra *et al.*, 2000). The RBV explains the success of multinational firms as result of the internal development of resources, competences and capabilities which provide a competitive advantage transferable to other markets (Camison and Villar-Lopez, 2010; Autio *et al.*, 2000; Zahra *et al.*, 2000; McDougall *et al.*, 1994). Therefore, the origin of the heterogeneity in the performance achieved by MNEs resides in the differences existing in the bundle of resources, capabilities and competences that each firm develops performing its activities (Makadok, 2001). When these resources are unique, valuable, rare and inimitable, their exploitation allows firms to achieve sustainable competitive advantages (Peng, 2001).

The concept of capability goes further and implies that competitive advantages of firms are not based on the endowment of internal resources, but mainly on the ability to better use those resources compared to the competitors by enhancing the productivity of them. As pointed out by Makadok (2001) capabilities are embedded in the organization and in its processes, thus they cannot be easily transferred from one organization to another.

Competitive advantage and disadvantage, determined by the stock of resources and capabilities owned, come about a period of time and also may shift over time. Therefore, the RBV must incorporate the evolution over time of the resources and capabilities which form the basis of competitive advantage (Helfat and Peteraf, 2003; Teece *et al.*, 1997; Amit and Schoemaker, 1993; Dierickx and Cool, 1989). A dynamic capability has been defined as “an MNE’s ability to create, deploy, and upgrade organizationally embedded and return-generating resources and competences in pursuit of sustained competitive advantages in the global uncertain marketplace” (Teece *et al.* 1997). This implies that resources by themselves are not sources of sustainable competitive advantages; they need to be translated into dynamic capabilities. Eisenhardt and Martin (2000) see dynamic capabilities as a set of identifiable processes through which managers can integrate, combine and use resources to develop value-creating strategies over the time.

Accordingly, we define dynamic capabilities as “the firm’s abilities to absorb, integrate, and transform internal and external sources into sustainable competitive advantages that, in turn, drive superior performance” (Sirmon *et al.*, 2007; Teece *et al.*, 1997; Amit and Schoemaker, 1993). In particular, the ability to replicate and continuously adapt the firm’s capabilities helps SMEs to attenuate their liabilities of foreignness and newness (Oviatt and McDougall, 1994). Several empirical studies investigating the relationship between capabilities and SMEs performance find a positive relationship (e.g. Camison and Villar-Lopez, 2010; Knight and Kim, 2009; Almor and Hashia, 2004; Knight, 2001; Westhead et al, 2001; Andersen and Kheam, 1998). In particular, Almor and Hashia (2004) find that knowledge-intensive international SMEs rely more on the ownership of superior R&D capabilities compared to production and marketing capabilities in building their competitive advantages. Andersen and Kheam (1998) investigate the role that some capabilities – international product and production, international marketing and international management - have in affecting the growth strategy implement by exporting SMEs. They identify a positive relationship between the superior development of these capabilities and the implementation of aggressive international growth strategies. Knight and Kim (2009) define the International Business Competences construct as “well-defined routines that are combined with assets to enable distinctive functions to be carried out”. They prove that SMEs that are equipped with superior competences – international marketing skills, international marketing orientation, innovativeness, international orientation – achieve better export growth performance. More recently, the empirical findings of Camison and Villar-Lopez (2010) consolidate internationally exploitable assets, namely commercial and innovation capabilities, as determining factors of the economic performance of international SMEs.

Accordingly, our first hypothesis is the following:

HPI: SMEs’ superior capabilities positively affect their international performance.

Specifically, we refer to marketing capabilities, organizational capabilities and supply chain management capabilities.

Marketing capabilities are broadly recognized in the international business literature as positively related to the achievement of superior international performance (e.g. Camison and Villar-Lopez, 2010; Knight e Kim 2009; Blesa and Ripolless, 2008; Tseng *et al.* 2007; Almor and Hashia, 2004; Kotabe *et al.* 2002; Knight 2001; Westhead *et al.*, 2001; Andersen and Kheam 1998).

These capabilities might be defined as “firms ability to create value for foreign customers through effective segmentation and targeting, and through integrated international marketing activities by planning, controlling, and evaluating how marketing tools are recognized to differentiate offerings from those of competitors” (Knight and Kim, 2009; Johnson *et al.*, 2006; Knight and Cavusgil, 2004; Cavusgil and Zou, 1994).

SMEs that internationalize should not only possess products that are suitable for international customers, but they also need to effectively reach customers (Knight and Kim, 2009). Thus, the ownership of superior marketing capabilities is a necessary prerequisite to reach and serve customers in different foreign markets. Thus, SMEs with superior marketing capability can reach more effectively and efficiently the clients and therefore achieve and improve their international results.

HP1a: SMEs' superior marketing capabilities positively affect their international performance.

Organizational capabilities refer to the ability of firms to effectively manage the activities within their own network of subsidiaries. This definition takes into account different issues. First of all, the capacity of managing widespread human resources, as the literature has already underlined the relevance of this aspect in enhancing firm performance especially for firms operating in the global arena (Yiu *et al.*, 2007)¹. However, organizational capabilities include also the coordination mechanisms and the knowledge-management procedures that SMEs need to implement to effectively manage their international activities.

Thus, HP1b is the following:

HP1b: SMEs' superior organizational capabilities positively affect their international performance.

Finally, supply chain management (SCM) capabilities refer to the ability to establish and manage relationships with suppliers and customers through the sharing of information and the development of partnerships.

Several studies recognize the importance that network relationships among the supply chain have for SMEs (e.g. Bell, 1995; Coviello and Munro, 1995; Kauffman 1995; McDougall *et al.*, 1994). McDougall *et al.* (1994) highlight the potential impact of network relationships on small firms internationalization. Bell (1995) maintains that inter-firm relationships with clients and suppliers influence the market selection and the mode of entry of small firms². These considerations lead to the formulation of the third hypothesis:

HP1c: SMEs' superior SCM capabilities positively affect their international performance.

Dynamic evolution of capabilities

In order to assess the existence of a “dynamic pattern” in the development of capabilities and its effect on firm's growth, we identify a further set of hypothesis based on the assumption that capabilities, which have followed a dynamic process of evolution and improvement over the time, are the main determinants of the international success of SMEs. This means that the ability to continuously adjust and improve the capabilities while the firm competes in international markets positively influences its international growth.

Thus, the general hypothesis is:

HP2: SMEs' capabilities which show a positive dynamic evolution over the time positively affect their international performance.

This hypothesis is declined considering the three different capabilities previously identifies as follows:

HP2a: SMEs' marketing capabilities which show a positive dynamic evolution over the time positively affect their international performance.

HP2b: SMEs' organizational capabilities which show a positive dynamic evolution over the time positively affect their international performance.

HP2c: SMEs' SCM capabilities which show a positive dynamic evolution over the time positively affect their international performance.

This second set of hypothesis extends what stated in the first one by sustaining that SMEs, in order to successfully compete in the international arena, should not only own some superior firm-specific capabilities, but should be able to continuously adapt their endowment of capabilities to the changes and the specific features of the competitive environment. Thus, firms which are able to develop this ability achieve higher performance.

3. DATA AND METHODOLOGY

3.1 Data

In order to test the hypothesis developed in the previous section, we refer to Italian SMEs that have undertaken FDIs³.

Specifically, we adopted a research design to collect primary data from Italian international SMEs.

Our sample is extracted from the database REPRINT⁴ that offers a census of Italian firms, which have shareholding in foreign firms, since 1986.

For the purposes of this work, we consider Italian firms that have undertaken at least an FDI and employed less than 1000 employees as a whole as at 1.1.2000⁵.

We have then identified 3.304 firms that match our requirements. In order to collect information about the internal activities of these firms, we prepared a questionnaire relying on an extensive literature review (Khandwall, 1977; Covin and Slevin, 1989; McKee *et al.*, 1992; Cavusgil and Zou, 1994; Knight and Kim, 2009).

Most of the questions requires an answer on Likert scale from 1 to 5. This method of response was chosen because it allows to assess qualitative aspects and to easily compare both answers of different respondents and answers concerning different topics. Other questions, however, require respondents to provide specific data or choose from several options provided in the text.

The questionnaire has been preliminarily tested by conducting three pilot interviews. The interviews were conducted with the CEOs or managing directors of three companies and lasted about 45 minutes, during which the responders were not only asked to complete the questionnaire and to indicate parts where there could be misunderstandings and ambiguities, but also to discuss about the issues addressed in the research. Drawing on their experience, issues such as evolution of the internationalization process, position and attitude towards foreign markets, corporate culture, success factors and weaknesses of international activities were examined.

Before sending the questionnaire, the sample firms have been contacted by telephone, to preliminary identify and inform the person within the company which is the most suitable for the compilation. Due to the breadth of topics covered, the following business figures have been considered ideal recipients of this questionnaire: the owner, the CEO, the general manager, the sales manager or the responsible of foreign activities. Respondents were offered a summary copy of the aggregated results and customized analysis for their participation in return.

In the second phase, the questionnaires have been sent by e-mail with a cover letter explaining the research project, the objectives and the themes. Finally, a long phase of reminder phone has been undertaken to maximize the response rate.

We carried out two rounds of phone contact and following mailing to the targeted firms. The first one was carried out between April 2009 and September 2009, while the second one, started in March 2010, is still ongoing.

So far, 55 usable surveys were returned. The 55 surveyed firms operate in the manufacturing industry; namely, the 38% of them belongs to industries with relevant economies of scale⁶, while the rest is almost equally divided between traditional sectors (29%) and specialized ones (33%).

The number of foreign subsidiaries owned by the SMEs considered ranges from a minimum of 1 up to a maximum of 12, corresponding to an average of about 4 subsidiaries per firm. Moreover, 16 firms own only commercial activities abroad, 19 only productive activities, while the remaining 20 firms hold both commercial and productive subsidiaries.

The average size of the firms at the beginning of the observation period is 296 employees corresponding to an average turnover of 67 million Euros. It is worth noting that the same variables observed at 2008 show a substantial increase: the firms, on average, employ 371 employees with an average turnover of about 94 million Euros. Distinguishing between the results obtained in the domestic Italian market and in foreign markets, it emerges that the growth rates have been much higher in the second case (+ 67% in the average number of employees abroad and +70% in average foreign revenue, compared to the corresponding results in the Italian market, respectively 12% and 20%).

It worth noting that the sample is characterized by a success bias, because the respondents are, in average, successful firms, which have experienced in last 8 years a growth in the activities both in Italy and abroad.

3.2 Variables and measures

Dependent variables

Following previous studies (Bouquet et al., 2009; Knight and Kim, 2009; Knight and Cavusgil, 2004; Kotabe et al., 2002; Hult and Ketchen, 2001; Westhead et al., 2001; Calatone and Knight, 2000; Cavusgil and Zou, 1994) we use both quantitative and qualitative measures for international performance.

Namely, we consider the following dependent variables:

- INTERNATIONAL_GROWTH: measured as the growth of employees in foreign subsidiaries in the period 2000-2008 (**quantitative measure**).
- PERFORMANCE_ASSESSMENT: this indicator measures what is the level of economic and financial performance achieved in period 2000-2008 as perceived by the respondents based on a 5 points Likert scale (1- not-satisfied performance, 3 - satisfied performance, 5 - excellent performance) (**qualitative measure**).

Independent variables

Similarly to previous studies (Fang and Zou, 2010; Lu *et al.*, 2010; Knight and Kim, 2009; Knight, 2001) we use qualitative measures to capture the perception of participants about their capabilities. Specially, we asked the respondents to indicate, on a five-point Likert-scale, the extent to which they own certain capabilities (1- lower than industry average; 3 - approximately equal to the industry average; 5 - higher than the industry average).

We use a 10-items measurement scale for assessing marketing capabilities (MARKETING). In particular we refer to the firm's capacity of:

- developing integrated and coordinated international marketing strategies;
- understanding strategies, strengths and weaknesses of competitors in international markets;
- understanding needs and preferences of customers in foreign markets;
- systematically measuring customer satisfaction;
- integrating different business functions (marketing/sales, R&D, manufacturing, etc.);

- developing specific marketing strategies for international markets;
- customizing offers for international markets;
- managing relationships with local customers and distributors;
- managing relationships with international customers and distributors;
- developing effective logistics, sales and service network to serve the customer.

We use a 6-items measurement scales for identifying organizational capabilities (ORGANIZATION), which regard the ability of:

- understanding and adapting to locale cultures;
- effectively using formal and informal coordination mechanisms for communicating with subsidiaries;
- effectively use of ICT tools for coordination with subsidiaries;
- assigning to subsidiaries a degree of autonomy consistent with their local competences;
- encouraging generation and transfer of knowledge inside the company;
- recruiting locally skilled personnel.

As far as the SCM capabilities, we refer to the following 4-items, namely the ability to:

- share best practices within the network;
- develop global partnerships;
- develop local partnerships by the subsidiaries;
- structure an effective network (to better serve customers at the cost of duplication of activities).

To capture the dynamic dimension of these capabilities, we also asked the respondents to assess the evolution that each of the above items has had in the period 2000-2008, giving the possibility to choose among “increasing”, “constant”, “decreasing”. Therefore, we develop the following three variables which represent the dynamic evolution of the relevant capabilities defined above:

- DYNAMIC_MARKETING
- DYNAMIC_ORGANIZATION
- DYNAMIC_SCM.

Scale validity and reliability

We performed three separated confirmatory factor analysis (CFA) for verifying the validity and the reliability of each group of measurement scale identified in the questionnaire (marketing capabilities, SCM capabilities and organizational capabilities).

The CFA results, reported in the second column of the table 1, show that almost all the factor loadings are higher than 0.5 (except for two items of the organizational capabilities measurement that are really close to the threshold). Moreover, the variance extracted for each construct is quite good (almost 45%), and the reliability coefficient (Cronbach's alpha) always exceeds the threshold (0.6). These results reveal that an acceptable level of construct validity was achieved.

To define the three variables which identify the dynamic evolution of the capabilities (DYNAMIC_MARKETING, DYNAMIC_ORGANIZATION, DYNAMIC_SCM) we firstly converted the linguistic scale in ordinal scale (assigning 1 to the answer “decreasing”, 2 to “constant”, 3 to “increasing”). Then we perform three separated CFA to check their validity and reliability. The results confirm the fitness of the groupings of items (Cronbach's alpha and variance extracted).

Table 1 – CFA Results

MEASURES	FACTOR LOADING FACTOR	
	Capability	Dynamic evolution
MARKETING CAPABILITIES		
Developing integrated and coordinated international marketing strategies	0.705	0.539
Understanding strategies, strengths and weaknesses of competitors in international markets	0.656	0.476
Understanding needs and preferences of customers in foreign markets	0.623	0.567
Systematically measuring customer satisfaction	0.697	0.651
Integrating different business functions (marketing/sales, R & D, manufacturing, etc..)	0.599	0.423
Developing specific marketing strategies for international markets	0.705	0.485
Customizing offers for international markets	0.738	0.481
Managing relationships with local customers and distributors	0.634	0.685
Managing relationships with international customers and distributors;	0.692	0.622
Developing effective logistics, sales and service network to serve the customer.	0.521	0.519
<i>Total variance extracted</i>	43.558%	30.356%
<i>Cronbach's Alpha</i>	0.849	0.735
ORGANIZATIONAL CAPABILITIES		
Understanding and adapting to locale cultures	0.554	0.672
Effectively using of formal and informal coordination mechanisms for communications with subsidiaries	0.482	0.581
Effectively using of ICT tools for coordination with subsidiaries	0.480	0.625
Assigning to subsidiaries a degree of autonomy consistent with their local competences	0.447	0.649
Encouraging generation and transfer of knowledge inside the company	0.503	0.700
Recruiting locally skilled personnel	0.434	0.619
<i>Total explained variance</i>	48.345%	41.277%
<i>Cronbach's Alpha</i>	0.783	0.712
SCM CAPABILITIES		
Sharing best practices within the network	0.707	0.517
Developing global partnerships	0.846	0.822
Developing local partnerships by the subsidiaries	0.683	0.755
Structuring an effective network	0.557	0.541
<i>Total explained variance</i>	49.786%	45.168%
<i>Cronbach's Alpha</i>	0.654	0.690

4. EMPIRICAL FINDINGS

Based on the data gathered we performed some preliminary analysis in order to verify the hypothesis on the small sample that is available at this moment. Further econometric analysis will be carried out when the size of the sample will allow to implement them in a reliable way.

First of all we analyze the correlation matrix among the variables defined in the previous section. As shown in the table 2, there is a positive correlation among the INTERNATIONAL_GROWTH and all the capabilities suggesting the existence of a positive relationship between the ownership of these capabilities and the international growth of the sample firms during the period 2000-2008. Moreover, this positive correlation is also confirmed for the relationship between the dynamic variables and the international growth.

Considering the variable *PERFORMANCE_ASSESSMENT*, instead, this correlation is not always verified. It worth noting that this is a qualitative variable, thus there could a bias caused by the subjectivity of the answers. Therefore, the results could be more reliable considering larger sample.

Table 2 – Correlation Matrix

	1	2	3	4	5	6	7	8
<i>ORGANIZATION</i>	1							
<i>MARKETING</i>	0.5524	1						
<i>SCM</i>	0.5338	0.5133	1					
<i>DYNAMIC_ORGANIZATION</i>	0.0631	0.1104	0.012	1				
<i>DYNAMIC_MARKETING</i>	0.0379	0.2361	-0.0714	0.545	1			
<i>DYNAMIC_SCM</i>	0.1911	0.2574	0.3718	0.3602	0.3931	1		
<i>INTERNATIONAL GROWTH</i>	0.0594	0.1641	0.1116	0.0793	0.2914	0.3595	1	
<i>PERFORMANCE_ASSESSMENT</i>	0.0129	0.3276	-0.0253	-0.0445	0.3194	0.1255	0.088	1

In order to provide a summary description of sample SMEs, firms can be divided into 3 groups:

- A. firms that have achieved a level above average for all three categories of capabilities (MARKETING, ORGANIZATION, SCM);
- B. firms that show levels of capabilities above the average for one or two categories;
- C. firms that are below the sample average for all three categories.

To draw some preliminary considerations on the relationship between the capabilities developed by SMEs and their international growth, table 3 shows the growth rate of the number of employees in foreign subsidiaries in the period 2000-2008 for the three groups of firms previously identified (A, B and C). In particular, a clear difference in the performance achieved between the group C e the others (A and B) emerges. Namely, firms that show the lowest level of capabilities (C) are those which have reached the worst average performance among the sample⁷. The same difference could not be found between the other two groups of firms (A and B); in this case the average performance are really close and are higher for the group B.

Considering the average value of the variable *PERFORMANCE_ASSESSMENT* among the 3 groups, the firms which have developed superior capabilities in all the three categories (A) have the highest average *PERFORMANCE_ASSESSMENT* value, while the lowest is found for the firms which have developed inferior capabilities (C), finally for the firms of the group B this value is intermediate.

This preliminary results seem partially confirm the general hypothesis HP1, because we find differences in the growth performance among the group C and the others two, but we could not find the same evidence between groups A and B.

Table 3 – Comparison of Groups A-B-C

Groups\ Variables	N. FIRMS	INTERNATI ONAL_ GROWTH	PERFORM ANCE_ ASSESSME NT	ORGANIZ ATION	MARKETI NG	SCM
A	12	2.3835	3.6364	1.2943	0.9298	1.0618
B	26	2.4278	3.500	-0.1221	0.1623	0.0392
C	17	0.9689	3.3077	-0.7269	-0.9046	-0.8095
Total	55	1.9672	3.4340	0.0000	0.0000	0.0000

The same groups defined for the capabilities have been identified for the dynamic evolution of the capabilities. In particular:

A'. firms that have had a dynamic evolution above average for all three categories of capabilities (DYNAMIC_MARKETING, DYNAMIC_ORGANIZATION, DYNAMIC_SCM);

B'. firms that show a dynamic evolution above average for one or two categories;

C'. firms that are below the sample average for all three categories.

Carrying out the same analysis as in table 3, it emerges that there is a strong difference in the performance achieved among the groups A' and B' and the group C' (table C). In this case there is an evidence that the firms which have been able to develop and adapt all the capabilities considered during the period 2000-2008 are those who in average have achieved superior international performance. This result is not so clear-cut if we consider the qualitative variable, in this case we find again a positive relationship between the development of superior capabilities and the performance assessment, however, for this qualitative variable the average difference among the groups are not wide.

These last results seem to confirm the general hypothesis HP2 according to which SMEs, that have been able to continuously develop and adapt their capabilities during the period 2000-2008, are those who achieved the best international performance (in average).

It worth noting that due to the shortage of data it is not possible to further detail the analysis in order to check the specific hypothesis HP1a,b,c and HP2a, b, c, nor it is possible to strongly support the general hypothesis HP1 and HP2 for which we have found a simple evidence of reason and plausibility. Further analysis will allow to deepen the different sub-hypothesis and to test the causality and the reliability of the assumed relationships.

Table 4 – Comparison of Groups A'-B'-C'

Groups\ Variables	N. FIRMS	INTERNAT IONA_L GROWTH	PERFORM ANCE_ ASSESSME NT	DYNAMIC_ MARKETIN G	DYNAMIC_ ORGANIZA TION	DYNAMIC_ SCM
A'	11	3.3008	3.6000	1.0509	0.8563	0.9957
B'	34	1.6370	3.4545	-0.0167	0.0771	-0.0128
C'	10	1.6227	3.2000	-1.0991	-1.2039	-1.0519
Total	55	1.9672	3.4340	0.0000	0.0000	0.0000

5. CONCLUSION

Our findings suggest that some specific capabilities can support superior international performance in multinational SMEs. In particular, although SMEs tend to lack substantial financial and physical resources, those that succeed in the international competition seems to be the ones who are able to leverage a collection of relevant, intangible capabilities, which allow them to overcome this gap. Namely, marketing capabilities, organizational capabilities and supply chain management capabilities have been considered, based on the existent literature, as the most relevant determinants of SMEs' competitiveness. According to our results, the SMEs which have developed superior capabilities, at least for one of the three dimensions considered, have reached superior average international growth rate compared to firms which have not.

Moreover, we go further and we try to fill the gap in literature by combining the RBV and the dynamic capabilities view. Therefore, we maintain that the ability of SMEs to successful compete in the international arena, depends also on the ability to continuously develop, adjust and adapt these capabilities to the international context. Thus, we investigate on the dynamic dimension of the capabilities, that means evaluate if, during the international experience of the multinational SMEs, they have increased their endowment of marketing, SCM and organizational capabilities and what is the effect of this process on their international performance. Our preliminary results seem to confirm this assumption; namely SMEs which have experienced a growth in their marketing, SCM and organizational capabilities have achieved, in average, superior performance compared to firms which have not experienced this dynamic evolution.

We acknowledge several limitation of this current study. First of all, our assumptions need to be tested on a larger sample, on which econometric analysis could be applied in order to achieve more reliable evidences and deepen all the hypothesis developed. Second, further studies should investigate additional dimension of firms capabilities, which have not been taken into account hereto. Finally, concerning to the dynamic dimension of the capabilities, we implement a very preliminary analysis of this topic that should be deeply explored in future researches.

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Notes

[1] Indeed, the capacity of selecting human resources with necessary job skills and developing good communications among subsidiaries and people inside the organization, has been recognized as relevant enabling factor of the success of FDIs (Wei and Lau, 2005; Lall and Siddharthan, 1982).

[2] However, these studies investigate the role that establishing network relationships have in fostering, facilitating and motivating SMEs to become international. In the present work, we have a different purpose, we propose that the ability to develop and manage good SCM relationships positively affect the international growth of firms. This ability could be particularly critical for multinational SMEs which can rely on these relationships for leveraging their limits especially regarding the access to information about international markets (customer needs, competitors profile, etc.).

[3] Limiting our investigation to a single country allow to control for country-level effects. Moreover, the Italian economic system is mainly populated by small and medium-sized companies that, starting from the beginning of the 90s, have rapidly increased their initiatives abroad (Mariotti and Mutinelli, 2009).

[4] Developed by the Politecnico di Milano in collaboration with ICE (Foreign Trade Institute - Istituto del Commercio Estero).

[5] The limit of 1.000 employees is assumed because the universally accepted definition of SMEs (fewer than 500 employees) adopted in other studies (e.g. Knight and Kim, 2009, Coviello and Mc Auley, 1999; Gomes-Casseres, 1997), concerns to employees employed in the born country, while in this research we refer to the total number of employees (employed in Italy and abroad).

We consider firms that at 2000 have already internationalized because we are interesting in evaluating the dynamic evolution of firms capabilities, thus it is necessary to monitoring a wider period of time for catching the effect of capabilities augmentation and adjustment processes.

[6] According to the Pavitt classification (1984), sectors with relevant economies of scale include: derived foods, beverages, paper and paper products, petroleum and other energy products, basic chemicals, soaps, detergents and cosmetics, synthetic and artificial fibers, tires and rubber products, plastic products, non-metallic mineral products, basic metals manufacturing metal products, electrical appliances, wire and cable insulation, electrical components, car components and other electrical products, motor vehicles, motorcycles and bicycles, car mechanical components.

Traditional sectors include: basic food products, textiles, clothing, leather goods and footwear, wood and wood products, publishing and printing, various manufacturing industries.

Specialized sectors include: machinery and mechanical appliances, electromechanical instruments.

[7] However, these firms are successful: their growth results is in average positive (+96%).