

MODULE: BUS2025 — International Business & Globalisation

The Impact of Globalisation on Small and Medium Enterprises (SMEs)

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Submission: [Month Year]

Learning Objectives

By the end of this presentation, the audience will be able to:

1

Define globalisation and critically evaluate its multidimensional implications — economic, technological, cultural, and regulatory — for SME performance (OECD, 2021).

2

Apply Porter's Diamond Model (1990) and the Uppsala Internationalisation Model (Johanson & Vahlne, 1977) to explain the conditions enabling SME participation in global markets.

3

Analyse the principal opportunities of globalisation for SMEs: access to new markets, global value chains, technology transfer, and economies of scale (Lu & Beamish, 2001).

4

Critically evaluate the barriers SMEs face when internationalising — financial constraints, regulatory complexity, cultural distance, and digital capability gaps (Leonidou et al., 2010).

5

Assess two contrasting case studies of SME globalisation — Fever-Tree and Brompton Bicycle — drawing out lessons for internationalisation strategy and risk management.

6

Evaluate the policy implications of SME globalisation for national competitiveness and propose evidence-based recommendations for supporting SME international growth.

Introduction: Globalisation and the SME Landscape

Defining Key Concepts

Globalisation is defined as "the process by which businesses or other organisations develop international influence or start operating on an international scale" (Held et al., 1999, p.2). For businesses, it encompasses the liberalisation of trade, the flow of capital, the mobility of labour, and the diffusion of technology across national borders.

The European Commission (2023) defines SMEs as enterprises with fewer than 250 employees and annual turnover not exceeding €50 million — a category representing 99% of all businesses in the EU and 60% of private-sector employment globally (OECD, 2021).

Historically viewed as domestic actors constrained by resource limitations, SMEs increasingly participate in global value chains (GVCs) as exporters, importers, subcontractors, and — since the emergence of digital commerce — as Born Global firms (Oviatt & McDougall, 1994) capable of international operations from inception.

However, globalisation presents SMEs with a dual imperative: it simultaneously expands the opportunity set while intensifying competitive pressures from larger multinational enterprises (MNEs) with superior resources, market intelligence, and regulatory capability.

99%

of all EU businesses are classified as SMEs (European Commission, 2023)

60%

of global private-sector employment provided by SMEs (OECD, 2021)

40%

of world merchandise trade attributable to SME participation in GVCs (WTO, 2022)

Theoretical Framework

Four theoretical lenses through which to analyse SME globalisation:

Porter's Diamond Model (Porter, 1990)

Porter's Diamond identifies four determinants of national competitive advantage: factor conditions (skilled labour, infrastructure), demand conditions (domestic market sophistication), related/supporting industries (supplier clusters), and firm strategy/rivalry (competitive pressure). For SMEs, the model explains why firms in certain clusters — Silicon Valley tech, Italian fashion, German engineering Mittelstand — develop internationally competitive advantages unavailable to isolated SMEs in weak ecosystems.

Uppsala Internationalisation Model (Johanson & Vahlne, 1977)

The Uppsala model proposes that firms internationalise incrementally — beginning with exports to psychically close markets (similar culture, language, regulation), gradually accumulating international knowledge, then progressing to higher-commitment entry modes (joint ventures, wholly-owned subsidiaries). For resource-constrained SMEs, this staged, risk-managed approach reflects real-world internationalisation patterns more accurately than rational economic optimisation models.

Transaction Cost Theory (Williamson, 1979)

Building on Coase (1937), transaction cost theory explains entry mode choice: firms internalise activities when market transactions are costly due to asset specificity, uncertainty, and opportunism. For SMEs considering foreign market entry, TCT predicts that high transaction costs (e.g., unreliable contract enforcement, IP theft risk) favour internalisation (FDI) over market-based entry (licensing/exporting), despite SMEs' resource constraints.

Born Global Theory (Oviatt & McDougall, 1994)

Born global firms are defined as companies that "from inception, seek to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries" (Oviatt & McDougall, 1994, p.49). Digital platforms (Shopify, Amazon, LinkedIn) have dramatically lowered internationalisation costs, enabling knowledge-intensive SMEs in software, professional services, and e-commerce to achieve global reach without the sequential stages predicted by the Uppsala model.

Literature Review: Key Academic Perspectives

Lu & Beamish (2001) — Academy of Management Journal, 44(3)

Examined the internationalisation-performance relationship for 164 Japanese SMEs over 10 years. Found an inverted U-shaped relationship: initial international expansion improves performance, but over-internationalisation depletes resources and reduces profitability. Critically, SMEs benefit from FDI-based internationalisation but must maintain strategic focus — resource-spreading across too many markets destroys value.

Oviatt & McDougall (1994) — Journal of International Business Studies, 25(1)

Established the "international new ventures" / born global paradigm — challenging the Uppsala model by demonstrating that some SMEs internationalise from inception rather than incrementally. Particularly prevalent in knowledge-intensive sectors (software, biotech, professional services), born globals leverage unique knowledge assets and network relationships rather than physical resources to compete globally.

Leonidou, Katsikeas & Piercy (2010) — Journal of International Marketing, 18(4)

Conducted a systematic meta-analysis of 32 studies on SME export barriers. Identified three barrier clusters: internal (limited financial resources, insufficient managerial commitment, lack of market knowledge), external (tariff and non-tariff barriers, regulatory complexity, intense foreign competition), and experiential (cultural distance, language barriers, difficulty adapting products). Internal barriers ranked most inhibiting for micro-firms.

Prashantham & Young (2011) — Entrepreneurship Theory and Practice, 35(1)

Extended the Uppsala model for born global SMEs by demonstrating that social capital — the relational networks and trust embedded in entrepreneur-level personal connections — is a critical asset enabling rapid internationalisation despite resource constraints. Social capital substitutes for financial capital, enabling network-mediated market entry without sequential psychic distance progression.

Opportunities of Globalisation for SMEs

Market Expansion

Access to 195+ international markets dramatically increases the total addressable market for SMEs. Digital commerce platforms (Shopify, Amazon Marketplace) reduce market entry costs, enabling even micro-firms to sell internationally. Cross-border e-commerce reached \$6.3T in 2023 (Statista, 2024), with SMEs capturing a growing share.

Global Value Chain Integration

SMEs can specialise in niche activities within global value chains — components manufacturing, professional services, R&D — without full internalisation. OECD (2021) data shows GVC-integrated SMEs demonstrate 15-20% higher productivity than domestically focused peers, driven by technology transfer and knowledge spillovers from MNE partners.

Technology & Knowledge Transfer

International partnerships expose SMEs to frontier technologies, management practices, and quality standards. The EU Horizon 2024 programme specifically funds cross-border SME R&D collaboration. Imported knowledge frequently becomes a source of competitive advantage — upgrading domestic production capabilities (Buckley, 2020).

Economies of Scale

Internationalisation enables SMEs to spread fixed costs (R&D, production tooling, brand investment) over larger sales volumes, reducing unit costs. Lu & Beamish (2001) find that initial international expansion improves ROA for resource-constrained SMEs — the scale effects of export markets compensate for the investment costs of market entry.

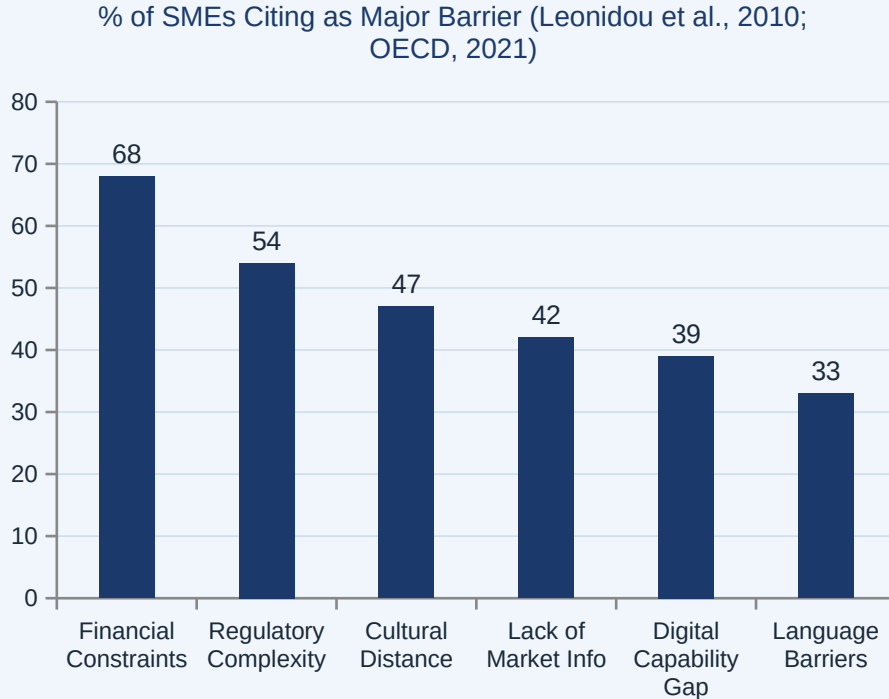
Digital-First Globalisation

Cloud computing, AI-powered translation, and digital payment rails (Stripe, PayPal) have fundamentally reduced the barriers to SME internationalisation. Oviatt & McDougall's born global model is now accessible to any knowledge-intensive SME. Digital services (SaaS, consulting, education) globalise at near-zero marginal cost.

Diversification of Risk

Operating across multiple geographies diversifies SMEs' exposure to domestic economic downturns, seasonal demand cycles, and sector-specific shocks. Post-COVID evidence showed that SMEs with pre-established export markets recovered faster than purely domestic peers (World Bank, 2022) — international diversification provided demand-side resilience.

Challenges & Barriers to SME Globalisation



Note: Figures are indicative composites from OECD SME Outlook 2021 and Leonidou et al. (2010) meta-analysis.

Financial Constraints

Limited access to export finance, currency risk (FX), high upfront market entry costs (market research, legal, regulatory). World Bank (2022): 72% of SMEs cite lack of trade finance as a binding internationalisation barrier.

Regulatory & Legal Complexity

Tariff and non-tariff barriers, product standard compliance (CE marking, FDA approval), IP protection variability across jurisdictions. SMEs lack the legal departments of MNEs to navigate multi-jurisdiction compliance.

Cultural & Knowledge Distance

Language barriers, cultural norms in negotiation and consumer preferences, and limited international market intelligence. Johanson & Vahlne (1977) identify psychic distance as the key determinant of incremental internationalisation sequencing.

Competitive Intensity

SMEs compete with well-resourced MNEs that benefit from economies of scale, established brand equity, and preferential supplier/retailer relationships in target markets — particularly in commodity-adjacent industries.

SME Internationalisation Strategies

SMEs choose international entry modes based on resource availability, risk tolerance, and market conditions (Root, 1994):

Mode	Commitment	Risk	Control	SME Application & Example
Direct Exporting	Low	Low	Low	UK food & drink SMEs selling through foreign distributors (e.g., Fever-Tree initial US market entry via bartender networks)
Licensing / Franchising	Low-Med	Medium	Medium	Knowledge-intensive SMEs (software, training, professional services) licensing IP — avoids capital commitment while generating international revenue
Strategic Alliance / JV	Medium	Medium	High	Brompton Bicycle partnership with Asian distributors; technology SMEs co-developing products with foreign partners for market access
E-Commerce / Digital Export	Very Low	Very Low	High	Born global SaaS and D2C brands achieving global reach through digital channels (Shopify, Amazon, LinkedIn) — the defining SME internationalisation route of the 2020s
Foreign Direct Investment	Very High	Very High	Very High	Typically beyond SME resource capacity; reserved for firms post-profitable export/licensing stages (Uppsala sequential approach). Exposes SMEs to full political and currency risk.

Case Study 1: Fever-Tree — Export-Led Global Growth

Sector: Premium Beverages (UK SME) | Focus: Export-Led Internationalisation & Premium Positioning | Founded: 2004

Background

Fever-Tree was founded in 2004 by Charles Rolls and Tim Warrillow as a premium mixer drinks brand targeting the premium gin and spirits market. Starting from a single product (tonic water), it operated as an asset-light SME — outsourcing production while investing primarily in brand, distribution partnerships, and product development.

Intl. Strategy

Fever-Tree pursued an incremental export strategy aligned with the Uppsala model — beginning with the UK on-trade (premium bars and restaurants), then expanding to psychically close markets (Republic of Ireland, Australia, USA) through strategic partnerships with premium spirits distributors and hotels. Social capital (Prashantham & Young, 2011) — the founder's hospitality sector networks — was the primary internationalisation mechanism.

Measured Outcomes

By 2023, Fever-Tree generated £344M in revenue, with the USA representing its single largest market (37% of revenue). Available in 75+ countries, it achieved international revenue of 60%+ of total sales — an extraordinary outcome for a firm that began as a two-person SME. Its 2014 AIM IPO at £0.97/share peaked above £37/share in 2018.

Critical Analysis

Fever-Tree's success reflects Porter's Diamond conditions: strong UK on-trade demand (demand conditions), sophisticated premium drinks distribution ecosystem (related industries), and category-creating brand investment. However, post-2022 cost inflation (ingredient and shipping costs) and US retail saturation challenges illustrate that export-dependent SMEs remain exposed to supply chain and competitive risks that domestic-focused peers avoid.

Case Study 2: Brompton Bicycle — IP Risks in Global Markets

Sector: Premium Manufacturing (UK SME) | Focus: Global Expansion & IP Protection Barriers | Founded: 1975

Background

Brompton Bicycle manufactures premium folding bicycles in Brentford, London. A classic SME success — manufacturing 50,000+ bicycles annually at 45,000+ units by 2023, sold in 44+ countries. Brompton retains UK manufacturing as a core brand value proposition ("Made in London"), premium pricing at £1,000–£3,500, and distributes through authorised dealers.

Intl. Challenges

Brompton's Chinese market expansion exposed critical IP vulnerabilities. A Chinese manufacturer produced a near-identical folding bicycle under the "Tian Yan" brand — capitalising on the complexity and cost of IP litigation across Chinese jurisdiction. Brompton pursued legal action, but the case highlighted that Williamson's (1979) transaction cost framework applies directly: SMEs lack MNE-level legal resource to protect IP in high-risk markets.

Outcomes

Brompton won key elements of the legal challenge in UK courts, but enforcement in China proved practically limited. The case prompted Brompton — and UK government agencies — to strengthen SME IP support programmes. Brompton now generates 80%+ of revenues internationally and employs 700+ staff in its UK factory, demonstrating that successful globalisation is possible despite IP barriers through premium positioning and authorised channel control.

Critical Analysis

The Brompton case illustrates transaction cost theory (Williamson, 1979) in action: where contract enforcement is weak and opportunism is high, SMEs face disproportionate IP risks relative to MNEs. Critically, it challenges the born global model's optimism about digital globalisation — physical product SMEs face fundamentally different risk profiles to knowledge-intensive born globals. Policy implications: government-funded IP insurance for SME exporters.

Critical Analysis: Opportunities vs. Risks of SME Globalisation

Strategic Opportunities

- Market diversification reducing domestic demand dependence
- GVC integration driving productivity growth (OECD, 2021)
- Born global digital-first internationalisation (Oviatt & McDougall)
- Knowledge transfer and innovation from international exposure

Structural Risks

- Over-internationalisation destroying value (Lu & Beamish, 2001)
- IP theft and weak contract enforcement in emerging markets
- SME resource depletion from simultaneous multi-market entry
- Currency volatility exposing asset-light exporters (Fever-Tree, 2022)

Policy Opportunities

- UKTI / UK Export Finance SME-targeted trade finance instruments
- EU Enterprise Europe Network cross-border partnership facilitation
- Government-funded IP protection programmes for SME exporters
- Digital trade corridors reducing e-commerce regulatory friction

Ethical & Sustainability Challenges

- Extended supply chains reducing sustainability visibility (ESG reporting)
- Tax planning via international structures — legal but reputationally costly
- Cultural homogenisation concerns from globalisation of SME brands
- Labour standards in lower-cost manufacturing markets

Seminar Discussion Questions

Q1

The Uppsala Internationalisation Model (Johanson & Vahlne, 1977) proposes that firms internationalise incrementally through psychically close markets. To what extent does the emergence of Born Global firms (Oviatt & McDougall, 1994) and digital commerce platforms fundamentally invalidate this model for SMEs in knowledge-intensive industries?

Q2

Applying Porter's Diamond Model (1990), critically evaluate the extent to which a strong national innovation ecosystem is a necessary condition for SME globalisation success — using the UK's premium food & beverage sector or German Mittelstand as illustrative examples.

Q3

Lu & Beamish (2001) identify an inverted U-shaped relationship between internationalisation and SME performance. What strategic, financial, and managerial factors determine at what point international expansion becomes value-destroying for resource-constrained SMEs?

Q4

The Brompton Bicycle case illustrates that IP theft is a systemic barrier to SME globalisation in emerging markets. Critically evaluate whether government-funded IP insurance and trade finance schemes are sufficient to address these structural barriers, or whether fundamental reforms to international trade law are required.

Conclusion

Globalisation presents SMEs with a fundamentally dual reality — simultaneously expanding opportunities and intensifying competitive, financial, and regulatory risks. The theoretical frameworks examined in this presentation provide complementary analytical lenses: Porter's Diamond (1990) explains the national conditions enabling SME global competitiveness; the Uppsala model (Johanson & Vahlne, 1977) describes the incremental knowledge-building process through which most resource-constrained SMEs approach international markets; Transaction Cost Theory (Williamson, 1979) explains entry mode selection and the IP vulnerability exposed in the Brompton case; and the Born Global model (Oviatt & McDougall, 1994) captures the transformative impact of digital platforms on SME internationalisation. Fever-Tree's export-led global success and Brompton's IP challenges together illustrate that globalisation outcomes for SMEs are not determined by size but by strategic positioning, network capital, entry mode choice, and risk management quality. The policy imperative — stronger trade finance, IP protection, and digital infrastructure support for SME internationalisation — emerges clearly from both the academic evidence and case study analysis.

1

Globalisation creates significant market expansion and productivity growth opportunities for SMEs, but resource constraints mean that over-internationalisation can be value-destroying (Lu & Beamish, 2001).

2

Digital platforms have fundamentally disrupted the Uppsala model's sequential logic, enabling knowledge-intensive born global SMEs to achieve international scale from inception (Oviatt & McDougall, 1994).

3

IP protection and contract enforcement remain the most structurally significant barrier for physical product SMEs in emerging markets — a risk amplified by the transaction cost asymmetry between SMEs and MNEs (Williamson, 1979).

4

Social capital — the relational networks and trust embedded in entrepreneur-level connections — is the critical resource enabling SME internationalisation in the absence of financial capital (Prashantham & Young, 2011).

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