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# Internationalization Strategies of Turkish SMEs - A Comparative Case Study Approach

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## **Abstract:**

Internationalization theories posit that emerging market enterprises utilize different entry modes than those in advanced economies. While research has explored various internationalization approaches, scant attention has been paid to how Turkish small and medium enterprises (TSMEs) internationalize and the factors influencing their entry mode. This study aims to fill this gap by investigating the internationalization strategies of Turkish SMEs, focusing on their entry mode. The study uses qualitative methods such as semi-structured interviews to identify correlations and applications of theoretical frameworks in the context of small firms. Additionally, it aims to uncover the challenges faced by these SMEs during internationalization. Interviews with business owners reveal that uncertainties, network conflicts, lack of cultural intelligence, and limited experienced management impede international expansion. The study also notes that recent changes in global trade policies and market dynamics may further impact TSMEs entering international markets.

Keywords: Internationalization, Exports, Entry Mode, Emerging Markets, Turkey, Türkiye

## **I. Background**

Business expansion abroad offers enterprises the opportunity to access a broader customer base. The decision to internationalize is complex and not uniform across firms. Recent years have seen significant changes in the global market for Foreign Direct Investment (FDI) due to the growing influence of multinational enterprises (EMMEs) from emerging economies (Sauvant et al., 2009; Paul & Feliciano-Cestero, 2021; Burlea-Schiopoiu et al., 2023). This trend has led to a heightened focus on small and medium enterprises (SMEs) from developing countries seeking to expand internationally, with a particular emphasis on how they manage global risks and navigate various challenges (Swoboda & Foscht, 2014; Adian et al., 2020; Asgary et al., 2020).

The rise of globalization has presented both opportunities and obstacles for SMEs, leading to a need for effective strategies to survive and thrive in the international market. Recent developments in international trade agreements and digital technologies have intensified competition, requiring proactive measures from SMEs (Goncalves & Smith, 2019; Naradda Gamage et al., 2020; Goncalves, 2022; Enaifoghe, 2023).

Internalization theory suggests that successful international expansion depends on a firm's ability to adapt its advantages to the conditions of host countries (Cerrato & Piva, 2015; Ahsan & Sinha, 2022). However, SMEs face challenges due to their limited resources, both financial and human, which can make international expansion more difficult (Charoensukmongkol, 2016). Digital business transformation also reshapes international business by emphasizing data and knowledge exchange, impacting the traditional understanding of international trade (Goncalves, 2022; Drori et al., 2023).

SMEs follow diverse internationalization patterns influenced by various factors such as entrepreneurial level, organizational capabilities, and external environment (Fakhreldin, 2018; Alinasab et al., 2022; Civelek & Krajčik, 2022). Developing skills and competencies is crucial for SMEs to compete globally (Swoboda & Foscht, 2014; Charoensukmongkol, 2016; Hu & Kee, 2022; Pratikto et al., 2023). Despite extensive research on SME internationalization, there is still a need to understand the factors affecting their development and behavior in the internationalization process (Ribau et al., 2018; Alinasab et al., 2022).

To advance the understanding of SME internationalization, it is essential to explore the differences in internationalization processes across the globe (Ribau et al., 2018; Aghazadeh & Zandi, 2023). It requires empirical research in diverse geographic areas, including emerging markets like Turkey, which has received relatively less attention in international business literature (Narooz & Child, 2017; Damoah, 2023).

This study focuses on SMEs in Turkey, aiming to contribute to understanding their international expansion and the role of entrepreneurs in this process. Turkey's unique position as an emerging Western Asian economy makes it an interesting case for studying SME internationalization. The research aims to provide insights that can benefit both academia and practitioners in the field.

## **II. Theory and Research Model**

The term internationalization has been defined differently in various studies. Calof and Beamish (1995, p. 116) define it as "the process of adapting firms' operations (strategy, structure, resources, etc.) to international environments." Chetty and Campbell-Hutt (2003) adopt this definition, which includes de-internationalization, actions that reduce a firm's exposure to international markets. Johanson and Vahlne (2009) emphasize that internationalization can lead to reduced exposure in foreign markets, in contrast to Welch and Luostarinen's (1988) definition, which focuses on increasing a firm's involvement. Consequently, internationalization also encompasses the decreasing participation of firms in international markets. According to Schweizer et al. (2010), internationalization involves how a firm enhances its position within various networks, primarily in foreign markets, and is characterized as an entrepreneurial endeavor.

### **2.1. Internationalization Frameworks**

Three primary frameworks exist for explaining the internationalization models adopted by firms: the gradual internationalization model, the rapid internationalization model, and the integrated internationalization approach model (IIAM) (Johanson & Vahlne, 1977; Oviatt & McDougall, 1994; Knight & Cavusgil, 2004; Johanson & Vahlne, 2009; Schweizer et al., 2010; Goncalves, 2022). They differ in their approaches to internationalization, considering factors like firm size, preferred entry methods into new foreign markets, and the strategies employed during internationalization (Glowik, 2020; Barnard, 2021). The Uppsala model represents gradual internationalization, the Born Global model illustrates rapid internationalization, and the IIAM depicts a holistic and integrated approach to internationalization, including digitalization processes (Pederson, 2000). The original Uppsala model emphasizes a firm's internal capabilities and incremental internationalization steps, while the revised network view focuses on the external environment of internationalizing firms (Johanson & Vahlne, 1977;

Johanson & Vahlne, 2009). However, Pedersen (2000) argues that the initial Uppsala model lacks consideration for external factors like market competitiveness and relevant economic data. Both Uppsala models depict internationalization as a gradual process involving step-by-step risk management, with the revised model emphasizing the importance of networking for internationalization (Figueira-de-Lemos et al., 2011; Wai & Noichangkid, 2012). Goncalves (2022) adds that digital business transformation, facilitated by technologies such as artificial intelligence (AI) and digital resources like social networks and omnichannel platforms, is augmenting internationalization, making it more holistic and pervasive.

## **2.2. The Role of International Entrepreneurship**

The globalization of the world economy has fueled a rapid increase in interest in international entrepreneurship (IE) over the past decade. A notable trend is the growing involvement of young entrepreneurial ventures in today's global economy. While earlier research focused on the motivations, patterns, and pace of internationalization of enterprises, recent studies have shifted towards examining the entrepreneurial activities of more established firms, such as SMEs, to uncover critical patterns of innovation linked to successful internationalization. These studies explain how IE can lead to superior financial performance among established firms (Zahra & George, 2017; Forcadell & Úbeda, 2022; Kusi et al., 2022). Despite existing research on born global firms, IE takes a broader approach by examining the internationalization process of established and newly emerged SMEs and even MNEs (Servantie et al., 2016; Etemad, 2022; Romyantseva & Welch, 2023).

According to researchers (Oviatt & McDougall, 2005; Rezvani et al., 2014; Nave & Ferreira, 2022; Buyukbalci & Dulger, 2023), IE involves identifying, implementing, evaluating, and exploiting opportunities across national borders to develop future goods and services. IE comprises two components: one focusing on the cross-national behavior of entrepreneurial actors and another on cross-national comparisons of entrepreneurs, their behaviors, and the circumstances in which they operate. IE challenges traditional internationalization process theories, leading to a fragmented field needing theoretical integration for future advancement (Servantie et al., 2016; Chaldun et al., 2022; Goncalves, 2022; Zahoor et al., 2023). Knowledge gaps, theoretical inconsistencies, and conflicting predictions hinder a comprehensive understanding of IE, which lacks a unified paradigm and exhibits diverse theoretical and methodological approaches (McDougall & Oviatt, 2000; Nave & Ferreira, 2022; Goncalves, 2022).

This phenomenological, rather than theoretical, approach to defining IE has prompted empirical and conceptual studies that form the majority of existing IE literature. With few exceptions, the empirical IE literature has predominantly focused on analyzing the following:

1. The tendency of SMEs to internationalize. This study defines Turkish SMEs as businesses that employ fewer than 250 individuals annually and have a net sales revenue or financial balance of no more than 125 million Turkish Liras (Turkstat, 2020).
2. The strategies internationalized SMEs employ to enter and survive in markets and how their international performance differs.
3. Entrepreneurs' or groups' demographic and cognitive characteristics and their associations and actions during internationalization.

Despite the well-established nature of international business (IB) research, which boasts relatively strong theoretical frameworks like Dunning's OLI framework (1979), Uppsala's U-Model (1977), Johanson & Mattsson's network theory (1988), Ghemawat's CAGE framework (2001), and more recently, Goncalves' IIAM framework (2022), theoretical explanations for international entrepreneurship are deemed inadequate and lack robustness (Eckhardt & Shane, 2003; Godwyn, 2009; Dau et al., 2022; Nave & Ferreira, 2022).

## **2.3. Internationalization of Turkish SMEs**

When discussing the internationalization of SMEs, classical international business literature initially focused on their export activities (Beamish, 1990; Hult et al., 2022; Verbeke & Yuan, 2022). It compared exporters and non-exporters, analyzed the determinants of exporting and export performance, and used mainly the stage models (e.g., the Uppsala model) of internationalization (Swoboda & Foscht, 2014; Bertrand & Brea-Solís, 2022; Kirjavainen, 2023). After that, it turned to network theories and

discussed foreign direct investment (FDI) (Narooz & Child, 2017; Schoeneman et al., 2022). More recently, there evolved three main classic views of the internationalization of SMEs (originating from the classical internationalization theories): the resource-based view (RBV), the market-based view (MBV), and the network-based view (NBV), all considering internal and external aspects that contribute – with varying degrees – to the internationalization of SMEs (Tinitis, 2023). Therefore, it is proposed that managers combine these aspects of their company to achieve sustainable competitive advantages and improve their market position (Kamakura et al., 2012; Tasheva & Nielsen, 2022; Okorie et al., 2023).

Internationalization theories suggest that enterprises from emerging and frontier markets will adopt different entry modes than those in advanced economies. The outward FDI (OFDI) increase from emerging economies is not new. For example, Hymer's (1976) groundbreaking internationalization study initiated extensive research examining advanced economies. Soon after, scholars noted that FDI from emerging economies sharply increased over the past three decades (Lall, 1983; Kumar, 1995; Page, 1998; Aykut & Ratha, 2003; UNCTAD, 1994, 2004, 2006, 2009, 2010, 2015; Demir & Lee, 2022; Zreik et al., 2022).

A set of antecedents of internationalization is identified in the literature; they incorporate the three views. Most studies adopted an RBV when examining SMEs' internationalization and proposed antecedents. The RBV suggests that internationalization occurs when the firm owns or possesses specific resources and capabilities (Kamakura et al., 2012; Bıçakcıoğlu-Peynirci & Morgan, 2022; Breuillot et al., 2022). Various resources, including human capital, technology, and managerial ties overseas, play a role. Researchers (Michael et al., 2016; Harnani et al., 2022; Sulisnaningrum et al., 2022) have analyzed the effect of human capital on SME's export intentions. They showed that the firms enter new markets where their resources match the market requirements. Therefore, the entrepreneur or the SME's management team plays an integral role in the internationalization process, choosing the strategy the SME should implement (Fakhreldin & Hattab, 2019; Alinasab et al., 2022; Franco & Martins, 2023). Internationalization depends on the entrepreneur's effectiveness. SMEs rely on specific characteristics of entrepreneurs to improve their performance, including international experience, international orientation, knowledge skills, leadership, and decision-making style (Crick, 2007; Charoensukmongkol, 2016; Leonelli et al., 2022; Ireta Sanchez, 2023). Thus, it is vital to identify and prepare the knowledge and competencies (i.e., the resources) required for internationalization; the entrepreneur's abilities and skills are essential components.

The MBV focuses on the national environment of the firm and suggests that firms internationalize as a reaction to the pressures they have in their home market (Kamakura et al., 2012; Tinitis, 2023), i.e., pressures in the external environment. These motivators or market conditions in domestic markets push firms to seek new (foreign) markets (Leonidou & Katsikeas, 1996; Crick, 2007; Leonelli et al., 2022; Ireta Sanchez, 2023). The third perspective, the NBV, advocates that firms expand to new markets, depending on network ties they have (with suppliers, clients, and contacts), i.e., information and knowledge of potential opportunities in foreign markets (Kamakura et al., 2012; Ireta Sanchez, 2023); it also includes the lowering of trade barriers and the better accessibility of foreign markets (Doole & Lowe, 2008; Dhingra et al., 2023). These are motivators, specific firms, and individual characteristics/information.

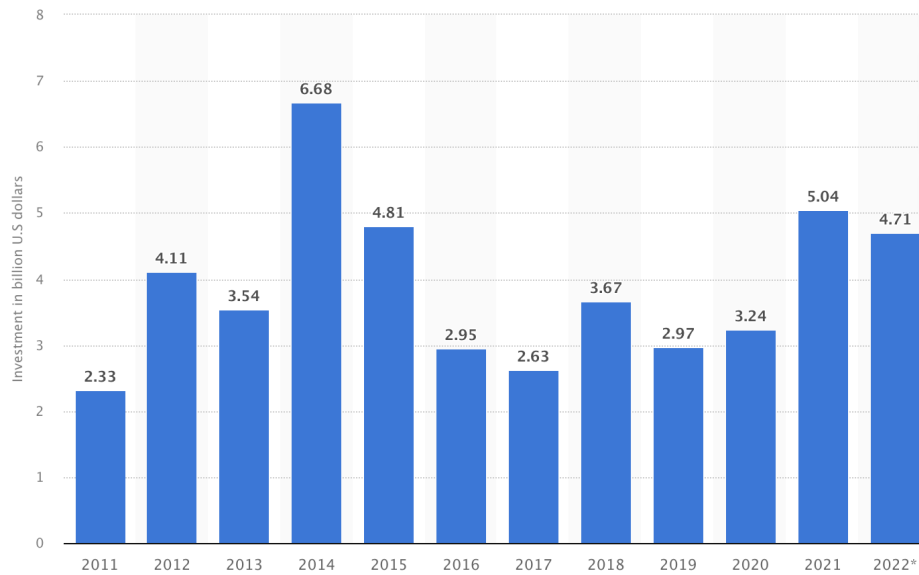
The internationalization of SMEs can be considered a natural form of entrepreneurial activity, aiming at growth and development (Şahin & Gürbüz, 2017; Chandra et al., 2020; Alinasab et al., 2022). SMEs internationalize to pursue improvement of performance and value creation through the expansion of their operations in foreign countries (Fakhreldin, 2018; Rissanen et al., 2020; Zahoor et al., 2020; Reim et al., 2022; Rahman et al., 2023). The literature regarding the relationship between SME internationalization and performance is still inconclusive, although there is a significant trend toward assuming a positive relationship between them (Cerrato & Piva, 2015; Denicolai et al., 2021). However, it can be affirmed that the internationalization of enterprises has positive implications (Bojnec & Tomšič, 2020; Foroudi et al., 2023).

While most FDI has been from Asian enterprises establishing a presence in other Asian economies, there has also been investment in advanced economies such as the European Union (EU) and the United States. Total investment by emerging countries began to rise steadily from about one percent

of total foreign investment flows in the late 1970s to six percent by 1990, peaking just before the Asian crisis (Page & Willem de Velde, 2004; Ragappagol, 2021). The rise in FDI outflows from Turkey had a different tone. Data on the value of outward flows shows that between 2011 and 2021, it fluctuated from over 2.3 billion U.S. dollars in 2011 to approximately 5 billion U.S. dollars in 2021 (Statistica, 2022). It also coincided with some reduction in the growth of FDI outflows to emerging countries, especially during and after the global COVID-19 pandemic, suggesting that the same influences affected flows in both directions.

Over the past few decades, investment by SMEs in emerging economies has been recognized as a significant contributor to economic progress, playing a vital role in the economies of various countries, especially those in the process of development and emergence (Obi et al., 2018; Ndiaye et al., 2018). They constitute 99% of all EU businesses and have been responsible for approximately 85% of new job opportunities, accounting for two-thirds of the total private sector participation in the region (European Commission, 2022). Unlike large corporations, SMEs possess a high degree of flexibility, enabling them to adapt swiftly to technological changes, the acceleration of digital transformations since the COVID-19 pandemic, promote income equality and respond effectively to market fluctuations and evolving customer demands, owing to their streamlined organizational structure and quicker decision-making processes (Perez-Gomez et al., 2018). Like other regions, Turkey's economy primarily comprises small and medium-sized businesses. They represent 99.8% of all registered entities in the country, account for 64.5% of all business turnover, and constitute 56.3% of the nation's exports (TOBB, 2020). SMEs are widely regarded as the backbone of Turkey's economy (Asgary et al., 2020; Arghashi & Okumuş, 2022), playing a pivotal role in poverty reduction and job creation through private sector development (Benbekhti et al., 2021; Satrovic et al., 2021), and the promotion of foreign trade and technological innovation (Amir, 2020; Aldalou & Migdad, 2023), thereby significantly contributing to the development of the country. Thus, Turkey's economy is directly impacted by SMEs.

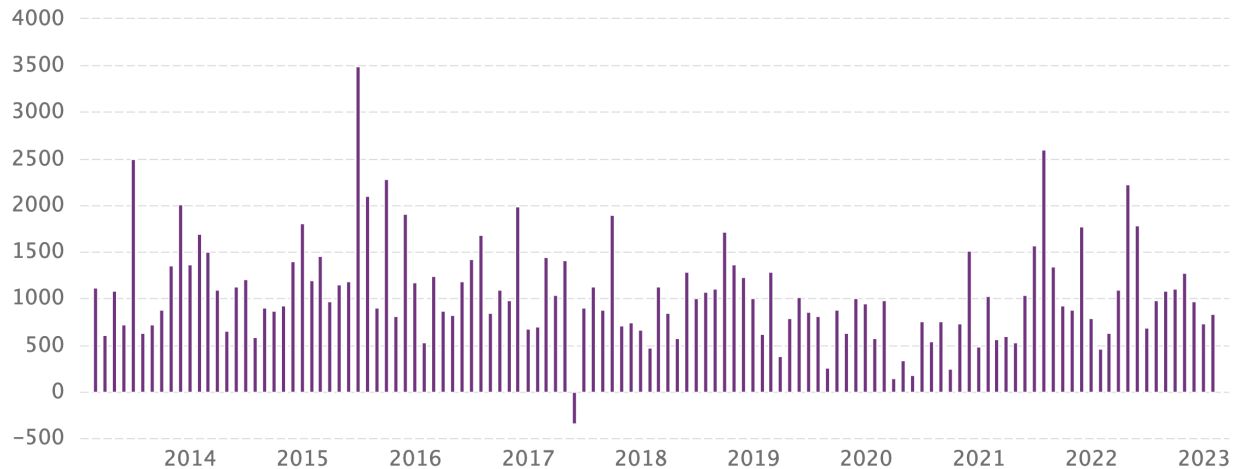
Over the past decade, emerging economies have witnessed a remarkable increase in outward foreign direct investment (OFDI) from advanced economies. As the Turkish economy becomes increasingly integrated into the global landscape, it has emerged as a significant foreign direct capital investor, becoming a considerable investor abroad, particularly in the Central and Eastern European (CEE) region (Szigetvári, 2020). The economic developments in the region, coupled with the ongoing process of EU integration, have opened new avenues for business expansion for Turkish firms. The geographical proximity and specific regulatory and cultural similarities have further facilitated this trend. Not only do CEE countries provide favorable brand management and technology enhancement conditions, but they also enable the establishment of strong ties with local political entities and engaging in partnerships with local businesses to enhance the competitive position of Turkish firms in these markets (Szigetvári, 2020; Ayden et al., 2021; Kleiner-Schaefer et al., 2022). The expansion of SMEs in many of these emerging countries has further increased the importance of OFDI in their global economies and overall growth, raising questions about its overall impact. In recent years, the substantial growth in OFDI outflows from Turkey, a newly emerged investor country, has prompted an investigation into the influence of OFDI by such countries. In Turkey, OFDI has demonstrated a consistent upward trend, as depicted in Figure 1, following a rise in 2014, a decline in 2017, and subsequent growth up to 2020 (Kurul, 2020; Gürel & Kozluca, 2022).



**Figure 1 – Turkey OFDI net outflow from 2011-2022. (SOURCE: Statista, 2022).**

Turkey has experienced a decline in foreign direct investment (FDI) inflows (Aldalou & Sarsour, 2022; Ozocakli & Khanalizadeh, 2022). In 2011, the country attracted approximately \$16 billion in FDI, a notable increase from previous years, reflecting growing investor confidence in its economy. FDI inflows rose, reaching around \$22 billion in 2013 due to sustained interest from foreign investors across various sectors (Investment Office of the Presidency of the Republic of Turkey, 2021). However, FDI inflows started to decrease in subsequent years, dropping to approximately \$13 billion in 2018 due to domestic political uncertainties and global economic challenges (Investment Office of the Presidency of the Republic of Turkey, 2021; Orhangazi & Yeldan, 2021; Ozocakli & Khanalizadeh, 2022). By 2018, Turkey was facing a new economic downturn and an extended recession period, unlike previous crises characterized by sudden contractions, asset devaluations, and output declines. Instead, the 2018 crisis featured persistently low (negative) growth rates, declining investment activity, debt repayment challenges, rising unemployment, steep currency devaluation, and high inflation, attributed to the post-2001 neoliberal economic model relying heavily on speculative growth fueled by volatile capital inflows and increasing external debt (Orhangazi & Yeldan, 2021).

FDI inflows into Turkey further decreased to approximately \$7 billion by 2020, reflecting a continued downward trajectory, compounded by the impact of the COVID-19 pandemic on FDI activity both in Turkey and globally (Investment Office of the Presidency of the Republic of Turkey, 2021). This trend stands in direct contrast to the pattern of FDI inflows, as illustrated in Figure 2, which peaked in mid-2015 and has been declining ever since.



**Figure 2 – Turkey's FDI inflows from 1992 to Sep 2023. (SOURCE: CEIC, 2023)**

The internationalization of SMEs from advanced economies has been extensively studied, with theories like Dunning's OLI paradigm and the Uppsala school providing frameworks for analysis. Similarly, researchers have explored the internationalization of SMEs from emerging economies, with some focusing on the various entry modes used by these firms (Ramamurti, 2008; Peng, 2008; Eden & Dai, 2008). However, there is limited research on how Turkish SMEs internationalize and the factors influencing their entry into global markets. Little is known about their entry modes and strategies. For example, Dunning's OLI investment development path suggests that FDI from advanced economies to emerging economies aims to access resources or benefit from lower production costs, leading to a prevalence of vertical FDI (Mesquita & Lazzarini, 2008; Cieřlik, 2021). However, Turkish SMEs may deviate from this pattern as cost advantages still exist in their domestic market. While resource-seeking was a significant motivation for Chinese investors in Africa in the 1990s, market-seeking became prominent in the 2000s, leading to increased diversity in MNE actors in Africa and other emerging economies (Goncalves, 2017; Goncalves & Smith, 2017, 2019). Resource-seeking remains essential for FDI in resource-rich countries like Brazil, Russia, Angola, Zambia, and Turkey. However, there has also been an increase in consumer product manufacturing companies in Turkey, which has implications for local enterprises and host economies' integration into foreign MNE value chains. The rise of emerging economies, global economic crises, and geopolitical shifts are contributing to a multipolar world and accelerating the internationalization of SMEs from these markets (O'Sullivan, 2015; Lin & Park, 2023). However, the geopolitical risks of this trend, such as regional conflicts and cyber wars, are also a concern. In this context, it is crucial to understand the internationalization strategies of Turkish SMEs, including their entry modes and the challenges they face. While internationalization theories suggest that institutional factors determine the attractiveness of a location for FDI and the efficiency of entry modes (Miller, 1988; Meyer & Estrin, 2001; James et al., 2020; Correa da Cunha et al., 2023), SMEs have historically navigated uncertain institutional environments through mergers, acquisitions, and joint ventures instead of wholly owned subsidiaries (Melin, 1992; Meyer et al., 2005, 2009; Wang et al., 2023). Overall, internationalization is a crucial aspect of globalization, driven by technological advancements, reduced trade barriers, and other factors that enable SMEs to internationalize more rapidly and effectively (Goncalves, 2022; Ma & Dang, 2023). Therefore, understanding the internationalization process of Turkish SMEs, particularly their entry modes, and how well existing theories can explain them is essential for both academic research and practical implications.

### **III. Research Design and Methods**

This study employed a qualitative approach with an experimental and reflexive method (Alvesson & Sköldberg, 2017) to achieve deeper cross-cultural understanding (Wutich et al., 2021). While the extant



literature on SME internationalization has predominantly used a quantitative approach, which may limit the comprehension of SME internationalization, especially from emerging markets, our methodology enables a broader perspective on our research questions. It fills a gap in qualitative SME studies (Dabić et al., 2020). The methodology involved a qualitative online survey, semi-structured interviews, and a descriptive case study method to address the central research questions (Yin, 2003). Invitations were sent to 653 prospective Turkish SME officials, senior management, and decision-makers via email, LinkedIn, WhatsApp, WeChat, Signal, Telegram, and corporate email, resulting in 75 survey responses and eight interview participants.

It is important to note that the earthquake in Turkey on February 6, 2023, significantly disrupted the semi-structured interview phase of this research, affecting businesses and the ability of SME managers to participate in interviews. Despite this challenge, the researchers proceeded with the study due to the time-sensitive nature of the collected data and the valuable insights obtained from the surveys and analysis. While the results may not be generalizable, they provide substantial insights into the field with implications for the theory and management of Turkish SMEs that have internationalized or plan to do so.

### **3.1. Overview of the Turkish SME Population**

SMEs are crucial for Turkey's economic development, contributing 42.8% of the country's GDP in 2020, according to TurkStat (2021), although this was a slight decrease from 2019. They also play a significant role in employment generation (Taraki, 2019). However, like many SMEs in emerging economies, Turkish SMEs face challenges related to weak institutional contexts, including inefficient laws, corruption, bureaucracy, and limited educational support and infrastructure (Narooz & Child, 2017). Moreover, SME owners and managers in Turkey often lack the necessary skills and knowledge to operate effectively in the market (Bandara et al., 2020; Eddleston et al., 2020; Hermanto & Mas Aryani, 2021).

Turkish SMEs are vital for the country's economy, providing employment and driving innovation and entrepreneurship, contributing to economic growth, and the development of new industries and sectors (Benbekhti et al., 2021; Aygün & Satı, 2022). According to the Small and Medium Enterprises Development Organization of Turkey (KOSGEB), there were approximately 3.9 million registered SMEs in Turkey as of December 2021, accounting for 73.8% of the labor force (TOBB, 2020). These SMEs operate in various sectors, including manufacturing, trade, and services, and play a significant role in supporting the economy (Sipahi Dongul & Artantaş, 2022). They are major job providers, creating added value and offering affordable goods and services to a large portion of the population (Atasü-Topcuoğlu, 2019; Sipahi Dongul & Artantaş, 2022). The study focused exclusively on SMEs and did not include large companies or foreign multinationals.

### **3.2. Sample and Data Collection**

Semi-structured interviews, available to all survey participants, were digitally recorded and conducted in person or using platforms like Zoom and MS Teams, resulting in eight interviews. These interviews aimed to delve deeper into respondents' perspectives and experiences, allowing them to elaborate beyond the limitations of the structured survey. Participants discussed their views on the internationalization mode and process of their TSMEs during these interviews.

The in-depth and phenomenological nature of these interviews provided a richer understanding of the language, data, and narratives within the surveyed population (Seidman, 2006; Osborne & Grant-Smith, 2021). They offered insights into how interviewees perceived and categorized the world, particularly regarding target market selection for international expansion and its alignment with existing internationalization frameworks such as the Uppsala model, CAGE framework, and Dunning's OLI paradigm.

The interviews were structured around three main themes. First, participants discussed their life histories, professional backgrounds, and how they became involved with their firms, including their initial considerations about international expansion. Second, they shared their experiences, advantages, and disadvantages encountered during internationalization. Finally, they reflected on internationalization's personal and organizational implications for themselves, their staff, and their companies.

While this method offers in-depth qualitative insights, it has some limitations:

1. The study exclusively focused on SMEs in Turkey, which may restrict the generalizability of the findings.
2. The research did not aim to capture the personal perspectives of senior management in Turkish SMEs regarding ongoing geopolitical issues that could influence internationalization strategies and daily operations. Instead, it sought to analyze and reflect the experiences and viewpoints of the surveyed population regarding the internationalization process, its drivers, and challenges.
3. Although the internationalization of TSMEs is influenced by geopolitical and socio-economic factors, including economic, political, and trade policies in target countries that can impact internationalization at both macro and micro levels, the data collection was limited to the surveyed population.

## IV. Data Analysis and Results

### 4.1 Analysis of Survey Results

A confirmatory factor analysis (CFA) to examine the validity of the constructs was conducted following de Barros Ahrens et al. (2020) assertion that the loading of items on their theoretically defined factors should be greater than 0.5 or if more than 75% of hypotheses are correct for acceptable convergent validity (Cheung et al., 2023). A non-response bias check was also performed by comparing the results of respondents who completed the survey using a t-test. The analysis did not identify significant differences in any of the measured variables at a  $p = 0.05$  level, which aligns with Kűfne et al.'s (2022) recommendations on understanding non-response bias in organizations. Additionally, the internal consistency estimates of the observed items were calculated using Cronbach's alpha t-value-based scale reliability as part of the basic process for any quantitative research design.

Harman's single factor score test was employed for common method bias (CMB), which uses exploratory factor analysis (EFA) to load all items measuring latent variables into one single construct. If this construct explains more than 50% of the variance, then CMB exists; otherwise, it does not (Podsakoff et al., 2003; Hadi, 2022; Mustafa & Zhang, 2022). The analysis found that only 11.03% of the total variance was explained, indicating that CMB did not substantially influence the current findings. The standard method latent factor technique (Podsakoff et al., 2012; Kock et al., 2021) was also used to test for CMB existence, which involves constructing two models, one with all latent factors (non-internationalization (NI), internationalization (I), multiple internationalization (MI), and planned internationalization (PI)) and the other without these factors. The difference between the loadings of the first and second models was then calculated. As none of the differences exceeded 0.2, the absence of CMB was assured.

A multivariate normality (MVN) check was conducted using the "MVN" package in the R-program. The analysis showed that skewness and kurtosis P-values were less than 0.05, indicating that the data was abnormal. Additionally, the quartile-quartile (Q-Q) plot drawn was not on the line, confirming that the dataset did not satisfy the MVN assumption. To detect outliers, the sample was split vertically into *internationalization intentions (II)* items and motivator items, and outliers were detected separately using the "showOutliers" argument embedded in the "MVN" function available in the "MVN" package. The results showed *two* outlier cases among the II items, and only *one* was an outlier among the motivators items. There were *two* common cases, with *one* additional case among motivators. As deviations from multivariate normality and outliers were detected, the diagonally weighted least squares (DWLS) estimation method was used (Míndrila, 2010; Bandalos, 2014; Li, 2021), especially as the data deviates

from multivariate normality and is not measured on a continuous scale but a categorical/Likert scale. Examining these cases closely, the responses were mainly deviant in the questions targeting the metacognitive II.

To ensure the validity of the constructs, CFA was conducted on both samples, one with and one without the six outliers. The KMO measure of sampling adequacy, which determines if the distribution of values is appropriate for conducting factor analysis, was also conducted for both samples, along with Bartlett's test of sphericity. The analysis was performed using IBM SPSS 27. Comparing the CFA results, sample 1 (with outliers) had critical ratios (CRs) ranging from 0.74 to 0.97, while sample 2 (without outliers) had CRs ranging from 0.89 to 0.96. The average variance extracted (AVE) in sample 1 ranged from 0.52 to 0.87, while in sample 2, it ranged from 0.60 to 0.70. Cronbach alpha in sample 1 ranged from 0.61 to 0.96, while in sample 2, it ranged from 0.70 to 0.96. Although it was a significant elimination, it was made after a careful analysis of the demographics of both samples. The discrepancy was also mainly in the II statements, particularly the one on "Does your firm have a presence outside the country, or is it in the process of doing so next year? If so, please check all that apply; if not, please check No." and "Can you list the countries you currently have a presence?"

#### 4.2. Descriptive Statistics After Removing Outliers

The descriptive statistics of the data reveal that 43% of the respondents (31 out of 75) did not have plans to internationalize, while approximately 40% (29 out of 75) were either planning or actively pursuing internationalization. Bartlett's test of sphericity yielded a statistically significant result. Furthermore, the variance accounted for by the constructs ranged from 51.03% for II to 69.05% for the Motivators construct. These findings, supported by reliability testing (Cronbach's alpha) and validity measures, indicate that the questions designed to measure each construct can effectively represent a single variable.

**Table 1.** Firms' Intention to Internationalize

Whether firm has a presence outside the country or is it in the process of doing so in the next year.			
	Frequency	Percent	Valid Percent
No intention	4	5%	6%
In a country in Eastern Europe	7	9%	10%
In a country in Western Europe	4	5%	6%
More than one country In Eastern or Western Europe	6	8%	9%
In several countries across Europe (more than 3)	8	11%	12%
North America (the U.S. and/or Canada)	6	8%	9%
Central and or South America	5	7%	7%
Middle East	8	11%	12%
Far East	5	7%	7%
Asia	8	11%	12%
Africa Continent	5	7%	7%
Other	3	4%	4%
Total	69	92%	100%
Missing/Reject Responses/Outliers	6	8%	
Grand Total	75	100%	

### 4.3. Online Survey Results

The following is an itemized summary of the survey results:

- Number of Employees—A review of 46 Turkish SMEs revealed that the majority (more than two-thirds) employed 0-200 individuals, with 11% having 201-500 employees. A significant proportion (over 20%) had over 500 employees, with a few exceeding 10,000. The average company size was 2.63, indicating a prevalence of small firms, although a substantial dispersion around this mean was observed.
- Industry - The surveyed SMEs were diverse, with manufacturing (32%) and professional services (20%) being prominent. The remaining 44% operated in various fields such as media, technology, real estate, and telecommunications.
- Turkey Region - The distribution of TSMEs across Turkey showed concentration in the Marmara area (30%), followed by the Aegean (15%) and southern Mediterranean regions. Other regions, including eastern and southeastern Anatolia, central Anatolia, and the Black Sea coast, also had active SMEs.
- Personal Experience with International Markets - An impressive 84% of respondents had experience with foreign markets, indicating extensive knowledge and competence in global business.
- Presence in Foreign Markets - Most respondents had business involvement in various regions worldwide, with strong participation in Europe, North America, Central and South America, the Far East, Asia, Africa, and the Middle East.
- Countries with Presence—TSMEs had a significant presence in Eastern and Western Europe, the Middle East, North America, Central and South America, the Far East, Asia, and Africa, with some companies having a global reach.
- Years since Internationalization - A sizable group (21 enterprises) had been internationalized for over ten years, indicating a seasoned approach to global markets.
- International Growth Objectives - Participants had diverse goals for global expansion, with 20 aiming for significant growth, 14 pursuing moderate development, and five preferring to maintain their current global footprint.
- Future Presence Plans - Intended expansion over the next 3-5 years included Spain, France, Italy, the United States, Germany, East Asia, the Middle East, and several African nations.
- Factors Considered in Market Entry - When evaluating new markets, factors included global competition, human resource shortages, industry competition, market dynamics, pricing, service needs, sectoral potential, and demographics.
- Additional Factors in Internationalization Strategy - Some respondents mentioned global competition, human resource shortages, industry competition, market dynamics, pricing, service needs, sectoral potential, demographics, product variances, government assistance, industry potential, working policies, access, and visa regulations as factors in internationalization strategy.
- Motivation for Internationalization - The main motivations for internationalization were development and growth, export of value-added goods, innovation, increased output, production efficiency, foreign exchange input, market expansion, sector-related gaps, profitability, and revenue generation.
- Mode of Entry - Entry modes included direct export, indirect export, Internet B2B platforms, and foreign direct investment, demonstrating strategic flexibility in matching methods with market needs.

### 4.4. Semi-structured Interviews

This investigation reveals that the TSMEs examined pursue any of four internationalization strategies that are not necessarily exclusive to each other: infiltration, catch-up, extender, and challenger. These strategies are chosen based on the perceived level of competition in the target markets and the underlying motives for internationalization. Despite facing challenges in establishing a solid market

presence abroad, the TSMES reported significant opportunities and advantages regarding market scope and export potential. These findings suggest that the internationalization process of TSMES is dynamic and evolutionary, which aligns with existing research (Fortwengel, 2021; Velez-Ocampo & Gonzalez-Perez, 2022):

*The biggest breakthrough was moving into production, and then, of course, significant achievements were made with exports. Initially, they were strong in the domestic market, but with exports, the company expanded and grew even more. (Interviewee 1)*

*...about 40% of our production goes to the Arab Peninsula, specifically to the Arab region. We work with companies that speak Arabic and operate in these regions, both in the export market and the domestic market. So, we can say that almost 50% is in the Arab region, 30% is in the domestic market, and the rest is distributed in regions such as Russia, the Balkans, and Europe. (Interviewee 2)*

*... we started by exporting. Other instruments have never existed in our lives.... approximately 25% of our business volume consists of exports. England, Switzerland, and UAE are in the top 3. (Interviewee 7)*

*...venturing into exports, and I can say this quite comfortably as my profession is related to exports, which means entering a much larger world than Turkey. (Interviewee 3)*

*... we worked on websites on the internet that the government supported for a while, and we started by becoming members there. This happened with the chambers of commerce and, of course, with the ongoing work established and carried out together. Of course, apart from this, the international footprint of the dealers we know or have been in contact with was also very effective for us (Interviewee 8).*

*... the export rate in our company is low, maybe 3 or 5 percent... but there are still buyers from abroad, especially from China. So we call these "piecework". They come, and the poses they like are especially for the pipe... the stone is scarce, and meerschaum pipes are the most popular. We are trying to do both retail and export in an amateur manner. (Interviewee 5)*

In response to inquiries about their primary foreign competitors, participants highlighted the necessity of developing and utilizing dynamic capabilities to execute their internationalization strategies. The specific behaviors and actions required to cultivate these capabilities varied depending on the strategic approach adopted in response to foreign competition. While the empirical evidence from the study's limited sample size cannot be generalized, it provides valuable insights into the significant role of dynamic capabilities in the international expansion of SMEs. It illustrates how these capabilities manifest in diverse forms (such as adaptation, partnership, and reconfiguration) at different stages of the internationalization process (Jafari-Sadeghi et al., 2021; Chebbi et al., 2023):

*...price-based competition is our main challenge. Our competitors are often Chinese products because China is considered the best in the world, and their prices are very competitive in the markets. It might not be a threat as much as a challenge, but some customers may choose Chinese products over Turkish ones due to their lower prices. Especially in the Russian region, where China is more active, this can be a consideration. However, in terms of leather products, which I know well, when we consider the top three products - one European, one Turkish, and one Chinese - in this segment, Europe is always in everyone's consciousness as it is perceived to be very high quality. (Interviewee 1)*

*One of the strongest aspects of our company is the quality of the products. This allows us to sell products at more advantageous prices compared to our competitors. We conduct domestic sales through our dealers, ensuring continuous sales rather than seasonal sales. (Interviewee 2)*

*... we discovered saffron because it is a different business, with little raw material but high returns, and one that will create added value for our country... this actually originates from Iran, but it is produced in Turkey, in Safranbolu... Our biggest chance is that we are the only ones doing it on a single large land... the product is already niche. We made the product selection accordingly and found the company... it is very valuable and scarce like gold. (Interviewee 6)*

*Our target customers are predominantly local. Approximately 85% of our sales are made to customers in Turkey, while 15% are exported to international customers. (Interviewee 4)*

*The strength of our company is our dealer network, since we are a very old company, and our experience in the sector. These two are very important because when we first got into this business, new manufacturing companies had to find market share, spend a lot of money and advertise to enter the market... No matter what product we produce today, we have an existing market share structure. Our market is ready in Turkey and it is useful for abroad too (Interviewee 8)*

*... frankly, I haven't made much progress in internationalization... I can say that maybe I couldn't show enough interest or support... I started this job as an apprentice. I started in the workshop by learning and getting to know the stone (meerschaum). Afterward, I established my shop with support from the KOSGEB women's initiative. I trust my entrepreneurial personality. But frankly, we don't know how to reach international markets... we have a foreign language barrier. (Interviewee 5)*

The combined forces of globalization, shorter product life cycles, fluctuating demand, supply uncertainty, cost pressures, the need for lean and agile operations, increased reliance on external resources, and complex international networks have heightened supply chains' vulnerability and increased susceptibility to risks. Among the most significant threats TSMEs face during internationalization is the disruption of supply chains among their partners. Supply chain risk management involves the coordinated efforts of supply chain members to mitigate risks and ensure the profitability and continuity of operations. Effective collaboration strategies are crucial for minimizing adverse outcomes in this context (Chaudhuri et al., 2020; Gurtu & Johny, 2021). The findings of this study indicate that the inhibitors of such risks can be categorized into three main groups: those related to risk planning and mitigation, organizational factors, and financial, logistical, political, and management aspects (Can Saglam et al., 2020; Erboz et al., 2022).

*The biggest risks were related to the reliability of payments for new materials. Negotiating with customers in the early stages and finding ways to guarantee at least a portion of the payments by using advance payments were the solutions. (Interviewee 3)*

*Uncertainties persist throughout the export process. However, once the export is completed, uncertainties are resolved. These uncertainties can be related to payment or the transportation process. The most significant risk is the possibility of products being returned. To avoid this problem, a good understanding of the customs and import regulations in the respective country is crucial, which requires a considerable amount of time for each new country's export. (Interviewee 4)*

*...initially, payment terms were a significant challenge. Companies often face difficulties reaching payment terms agreements with their sales channels and distributors. If there is no*

*agreement, no matter how much you want to sell, you cannot. This requires finding powerful individuals who can either pay upfront or use a letter of credit for transactions. However, finding these individuals takes time, and sometimes you need to either find them or let them find you. If they find us, we are fortunate, but finding them can be challenging, especially in target countries. (Interviewee 2)*

*For example, we couldn't export to Russia for about a year and a half due to a political incident. This poses risks, as we need to maintain good relations with neighboring and other countries to secure sales. Another uncertainty is related to certain countries, like Iran, where we'd like to work, but due to sanctions and global dynamics, we are unable to make sales to these countries. (Interviewee 1)*

*...we can summarize it as the increase in foreign exchange rates, the high inflation in the country, and the constant change in input costs. (Interviewee 7)*

Another challenge faced by TSMEs is the economic difficulties in the domestic market. Increased competition has reduced their primary source of revenue, leading to decreased profits due to rising overhead costs and narrower profit margins. As a result, financial constraints have limited their ability to make substantial investments in the current economic environment. Additionally, their cash flow liquidity has decreased, especially after the 2023 earthquake, as the time to collect income has extended, requiring a more conservative approach to spending. Economic challenges like high inflation and political disruptions in Turkey have forced these SMEs to adopt a highly risk-averse position.

*...we do get state support in terms of fair incentives and other aspects... We haven't made new investments in international expansion at the moment; our production is entirely in Turkey. If you meant this, we haven't done that yet. We are focusing on fueling our growth through fairs. (Interviewee 1)*

*In simple terms, the company needed international sales to financially sustain itself during market downturns caused by economic and political fluctuations in Turkey... This was considered a necessity for the company to stand firm and stable amidst economic uncertainties. (Interviewee 2)*

*The pandemic, the war in Russia, and the resulting economic transformation. We are a three-year-old company, and during the establishment process, the pandemic, increases in freight costs from the Far East, supply constraints leading to a shortage of raw materials, and the economic uncertainties and excessive inflation resulting from the Russia-Ukraine war have been crucial. Also, the high costs due to the excessive demand during the pandemic. (Interviewee 3)*

*The increase in financial challenges, pandemics, wars, and sales figures in the relevant markets were the biggest obstacles to increasing our sales in both national and our country's private markets. (Interviewee 4)*

*The major source of problems in our exports is generally political situations. For example, due to the political crisis between Turkey and Saudi Arabia, all Turkish producers were blacklisted, and imports were banned. Similarly, in the past, due to the crisis between Russia and Turkey, exports to Russia were halted. (Interviewee 5)*

In 2020, the Türkiye Odalar ve Borsalar Birliği (TOBB) bulletin reported that exporting is the most common international entry mode for micro and small enterprises in Turkey. According to the bulletin, 84,000 firms in Turkey engaged in exporting in 2019, with 60.8% being micro, 27.1% small, and 9.5%

medium-sized firms (TOBB, 2020). Our study's findings align with these statistics, as most firms interviewed rely on exporting as their primary entry mode strategy into foreign markets.

*...well, I can say it is 60 or 70%. We are also so dominant in domestic markets. In recent months, some foreign markets' share in our sales drastically decreased, and Turkish market sales increased considerably. Our monthly sales are 50% for foreign and 50% for domestic markets. Turkey's sales amount also surprised us. However, our exports contribute 60 or 70% of our general sales. (Interviewee 1)*

*...We have to have a 35% export level to be an independent and competent firm from Turkey. (Interviewee 2)*

*Our export level is approximately 70%. 50% UK, 10% Germany, 5% Belgium, 5% Spain. (Interviewee 3)*

*Our yearly export amount is 15% of our annual total sales. Ten years ago, our main export markets were Iraq, Tajikistan, and Georgia. We are now exporting in 40 different countries... (Interviewee 4).*

According to the findings of this study, exporting has emerged as the primary internationalization strategy for Turkish SMEs due to factors like a saturated domestic market and economic recession, which motivate them to seek foreign markets. Exporting is favored as a first-entry strategy due to its low-risk nature, requiring minimal resources and easy exit. Turkish SMEs are known for offering high-quality products at competitive prices, contributing to their success in international markets. Exporting serves as a crucial strategic step for expansion and accessing global markets. The study also reveals that Turkish SMEs benefit from internationalization by acquiring new skills from foreign partners and developing innovative products for new customer segments. Resource- and product-based advantages significantly facilitate the internationalization of Turkish micro-scale SMEs, especially for niche products with existing global demand.

Regarding financing, the challenges faced by TSMEs differ based on the economic development level of countries. While SMEs in OECD nations generally face fewer obstacles in obtaining external financing, TSMEs encounter difficulties due to financial management practices, informality, limited financial products and services, information asymmetry, monitoring issues, transparency, and collateral constraints. TSMEs primarily rely on internal resources to meet their financing needs, aligning with the pecking order theory. However, the study did not find a correlation between financial debt and liquidity strength, risk, and asset structure of TSMEs. This suggests that TSMEs do not consider financial stress or agency costs, deviating from the trade-off theory. Accessing external financing sources in imperfect markets can hinder TSMEs' growth due to financing costs and availability issues. In Turkey, problems related to collateral, personal matters, financial statements, and low equity levels contribute to the limited credit availability for TSMEs, affecting their technological capacity and investment in technology and innovation. Additionally, alternative sources of finance, such as angel investors, credit guarantee funds, and venture capital firms, are insufficient and often inaccessible to TSMEs.

## **V. Discussions, Conclusions, Recommendations, Limitations and Further Research**

This study conducted a comprehensive analysis of the internationalization strategies and activities of Turkish small and medium-sized enterprises (TSMEs), offering valuable insights for firms aiming to enhance their international presence. While existing literature predominantly focuses on SMEs in advanced economies, this study addresses the gap by providing an in-depth evaluation of internationalization aspects specific to small firms in an emerging economy like Turkey. The research highlights differences between the perceived challenges of Turkish SMEs during internationalization and



those commonly reported in the literature. Data collection involved semi-structured interviews with multiple entrepreneurs, supplemented by detailed memoing observations, revealing diverse perspectives on internationalization challenges, the strategies employed to address them, and how these strategies are communicated within the firms, from management to employees.

Cultural intelligence has been identified as a significant factor influencing the intention and actual process of internationalization for Turkish SMEs, aligning with similar findings in emerging economies (Cabral et al., 2020; Şahin & Gürbüz, 2020; Fakhreldin, 2021). Cultural judgment, decision-making skills, leadership capabilities, and understanding of internationalization processes are crucial (Niittymies, 2020; Goncalves, 2022). Additionally, adapting to different cultures and interactions is essential (Sasaki et al., 2021; Egitim, 2022). Factors like age, international exposure, and entrepreneurial experience are also significant, suggesting that older and more experienced entrepreneurs may display more initiative and confidence in initiating and sustaining international expansion efforts. While motivation is essential, it is not the sole determinant of the intention to internationalize.

### **Conclusion and Recommendations**

The study identified numerous barriers to the internationalization of Turkish small and medium-sized enterprises (TSMEs), including limited capital, information, and resources, challenges in partner selection, trust issues, legal risks, and insufficient demand in foreign markets. These findings align with previous research (Uner et al., 2013; Randa, 2020; Goncalves, 2022). Most surveyed SMEs have engaged in or plan to engage in exporting activities but have faced challenges, including a lack of managerial commitment, limited knowledge of international marketing, trust issues, and perceived costs associated with internationalization, as Johanson and Vahlne (2009) outlined. The study expands existing theories, which primarily focus on predictors of internationalization, by emphasizing internationalization drivers as predictors. It suggests that TSMEs lacking specific attributes, such as managerial competency and cultural intelligence, are less likely to consider internationalization a viable growth strategy. While the findings may not be generalizable due to the small sample size, the study emphasizes the importance of examining distinct stages of internationalization and proposes a comprehensive approach to the internationalization process (Ruzzier et al., 2020; Breuillot et al., 2022; Goncalves, 2022).

Cultural intelligence is identified as a critical competency for TSME managers, influencing the initiation and sustenance of internationalization efforts (Gundlach & Sammartino, 2020; Vanderstraeten et al., 2020). It encompasses metacognitive and motivational skills crucial for identifying internationalization opportunities. The study suggests that the characteristics of the entrepreneur and top manager play a significant role in initiating and sustaining internationalization efforts. At the same time, communication barriers, such as language and market knowledge, may hinder internationalization processes.

In Turkey, few government agencies officially support SME internationalization, indicating the need for increased recognition of the importance of cultural intelligence in internationalization efforts. The study contributes to existing knowledge by exploring the drivers of internationalization and the cultural intelligence of TSME managers. It adopts a qualitative research approach based on the Resource-Based View (RBV) while integrating other relevant theoretical frameworks (Zahra et al., 2000; Goncalves, 2022). It emphasizes the significance of cultural intelligence in SME internationalization and recommends further investigation into its specific components.

Furthermore, the study analyzes the influence of various variables, distinguishing between the pre-internationalization and internationalization stages and providing insights into the factors influencing TSME internationalization at different phases. While motivators may not significantly influence the intention to internationalize, cultural intelligence plays a pivotal role in the early stages of internationalization. As TSMEs become actively involved in international activities, other internal and external variables assume greater importance.

Given the critical role of SMEs in Turkey's economy, understanding and addressing the challenges of internationalization is essential for their growth and success, particularly in the current economic context. Adopting a holistic framework like the Internationalization Integrated Approach Model (IIAM) (Goncalves, 2022) could provide valuable insights for research and analysis focusing on SMEs in Turkey and similar emerging economies.

### **Limitations and Further Research**

This study's limitations arise from the specific contextual attributes of the Turkish SME entrepreneurs interviewed, the small sample size, and the challenges of making inductive generalizations from qualitative field data (Levitt, 2021; Fischer & Guzel, 2023). Despite these constraints, this methodological approach addresses research gaps in studying SME internationalization within specific contexts. However, similar to many qualitative studies, the understanding of Turkish SME internationalization, especially after the 2023 earthquake, is limited due to the scarcity of relevant research beyond the conventional framework (Panteli & Urquhart, 2022). Future research should address these limitations by accumulating evidence from Turkey and similar economies to validate and expand on this study's findings and outcomes (i.e., emic themes).

The study's reliance on self-reported data may introduce social desirability bias, potentially impacting the findings' accuracy. Not considering the specific export countries or the scale of international operations limits the understanding of drivers of internationalization effectiveness. Additionally, access-related issues due to the earthquake disrupted the snowball sampling process, impacting the researchers' ability to conduct interviews or expand the sample size promptly.

The study's insights contribute to understanding international entrepreneurship and SME internationalization, particularly regarding Turkish entrepreneurs' perceptions and experiences shaped by individual and contextual factors. Future research could focus on other TSME sectors, particularly the service sector, and explore specific geographic regions within Turkey and the central trading countries of these SMEs. Furthermore, enhancing the generalizability of research findings by examining various stages of internationalization and influential variables at each stage can contribute to a comprehensive framework for understanding SME internationalization (Ahimbisibwe et al., 2020; Elbanna et al., 2023).

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