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# **Enablers and barriers in the internationalization of professional service SMEs**

Internal and external factors of internationalization

School of Management  
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**UNIVERSITY OF VAASA****School of Management**

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**ABSTRACT:**

Pienten ja keskisuurten palveluyritysten (pk-yritysten) rooli kansainvälisillä markkinoilla on yhä merkittävämpi sekä kasvavampi ilmiö globaalissa liiketoimintaympäristössä. Näiden palveluja tuottavien konsulttiyritysten kansainvälistymistä ja kyseisen prosessin johtamista on tutkittu vähän verrattuna suuriin kansainvälisiin yrityksiin. Tässä tutkielmassa analysoidaan sisäisten ja ulkoisten tekijöiden vaikutusta pienten ja keskisuurten yritysten kansainvälistymiseen. Tavoitteena on löytää ja tunnistaa näiden yritysten mahdollistajia sekä esteitä, jotka vaikuttavat kansainvälistymiseen kasvunäkymien näkökulmasta. Miten nämä yritykset navigoivat ulkomaisilla markkinoilla ja miten niitä johdetaan?

Tutkielmassa hyödynnetään ja analysoidaan tieteellistä kirjallisuutta sekä tutkimustuloksia, joiden pohjalta pyritään löytämään ratkaisu tutkielman tutkimuskysymyksiin: Mitkä ovat keskeiset tekijät, jotka vaikuttavat asiantuntijapalvelualan pk-yritysten kansainvälistymisprosessiin? Pää-tutkimuskysymyksen lisäksi on muodostettu kaksi alakysymystä, joiden avulla pyritään tunnistamaan ilmiöitä sekä syy-seuraussuhteita: Mitkä sisäiset ja ulkoiset tekijät toimivat mahdollistajina tai ajureina, jotka vahvistavat asiantuntijapalveluyritysten kykyä päästä kansainvälisille markkinoille ja kilpailla niillä? Mitkä ovat keskeisimmät sisäiset ja ulkoiset esteet tai rajoittavat tekijät, jotka haittaavat asiantuntijapalveluyritysten kansainvälistä laajentumista?

Löydökset viittaavat siihen, että ammattimaisten palveluyritysten tietointensiivinen ja suhdeperusteinen luonne tekee johtamisosaamisesta, absorptiokyvystä ja verkostosuhteista erityisen ratkaisevia kansainvälisen menestyksen kannalta. Sisäiset ja ulkoiset tekijät voivat toimia joko mahdollistajina tai esteinä sen mukaan, kuinka tehokkaasti yritys kykenee hallitsemaan niitä. Pitkän aikavälin kansainvälinen kasvu riippuu siten yrityksen kyvystä yhdistää sisäinen asiantuntemus hyvin hallittuihin ulkoisiin suhteisiin.

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**KEYWORDS:** SME, professional service firm, internationalization, strategic management, networks

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## 1 Introduction

Seeking growth from international ventures has been the choice for a vast number of companies for decades. Initiated as a strategic endeavour by large multinational players, globalization has today led small and medium-sized enterprises (SMEs) to adopt the same strategy. Large multinational enterprises are more commonly found in the process of internationalization, since they hold the resources to do so effectively: leadership, networks and financial, and organizational capabilities (Brouthers and Nakos, 2004). The growing trend of expansion for SMEs to international markets has been a trend for almost two decades (Welch & Luostarinen, 1988). Today, internationalization is a key strategy for companies seeking to survive and grow in a highly competitive, globalised economy (Sánchez-Monterrosa et al., 2025). Brouthers and Nakos (2004) stated that SMEs differ greatly from multinational organizations. They stated that the differences can be seen especially in the style that they are managed and led, as well as their ownership structure and independence. They also emphasized the significance of SMEs for international trade. Even though the significance is high, the way that these companies choose entry modes for international expansion is still to be fully understood.

This study examines the challenges and opportunities professional service SMEs face in the process of internationalization. PSFs focuses on delivering professional services like interior design, architecture, consultancy, graphic design, strategic design, or branding. Since these companies offer services that don't require manufacturing for products, the strategy and process for expansion internationally differ. Recent innovations, globalization, and technological breakthroughs that are associated with reducing trade barriers have resulted in an exponential expansion of service firms (Javalgi et al., 2003).

International expansion has also shaped the way management and leadership are executed today. Expansion into international markets contains various challenges and opportunities that require a discreet and careful approach from management and leadership teams. A company's ability to utilize and take advantage of opportunities

internationally are linked directly to the execution and effectiveness of the top management teams (Sánchez-Monterrosa et al, 2025).

According to Sánchez-Monterrosa and others (2025), leadership teams and top managerial teams face challenges through structural and strategic changes from external to internal. Market selection, entry mode, growth strategy, scaling, knowledge management, project coordination, remote management, partnerships, and networks bring a new set of obstacles for management teams to handle. In addition, cultural differences in law, work ethic, economy, people and regulations bring their own set of challenges.

### **1.1 Background of the study**

SMEs' and professional service firms (PSFs) growing significance to the economy proves that the subject is worth studying. According to Greenwood and others (2005), knowledge as a competitive advantage has seen a growth in interest for many professional service firms, suggesting the subject is worth studying. Furthermore, they underline that these companies' contribution to the economy is significant, either calculated by number, size, or relevance. International expansion operations have allowed some PSFs to grow from domestic service firms into globally recognized professional service organizations.

Management and leadership play a significant and highly influential role in the internationalization process. Strategic direction, decision-making, and the ability to manage cross-border growth largely depend on them. According to Ruzzier and others (2006), internationalization is a process where information gathering and market assessment through management determine the best approach for a company's successful expansion. To conclude, effective management and leadership are essential to successful internationalization, as they shape the strategic choices, market evaluations, and expansion decisions that determine a company's ability to grow across borders.

## **1.2 Research questions and objectives of the study**

The main research objective of this study is to identify and examine the key factors that affect the process of internationalization in professional service SMEs. The main research question is “What are the key internal and external factors that influence the internationalization process of professional service SMEs?” In addition to the main research question, two sub-questions have been formed to identify phenomena and cause-and-effect relationships.

1. Which internal and external factors act as enablers or drivers that enhance the ability of PSFs to enter and compete in international markets?
2. What are the primary internal and external barriers or limiting factors that hinder the international expansion of PSF?

## **1.3 Defining key terms**

Internationalization refers to the process by which a company expands its operations beyond its domestic market into foreign markets, typically through the gradual accumulation of knowledge and commitment to foreign environments (Johanson & Vahlne, 1977, p. 23). Small and medium-sized enterprises (SMEs) are defined by the European Union (2003) as independent firms that employ fewer than 250 people. The turnover can be no more than €50 million, or the balance sheet total has to be no more than €43 million. Professional service firms (PSFs) are organizations that provide specialized, knowledge-based services such as consulting, architecture, or legal advice, relying on intangible assets, specialized expertise, and close client interaction rather than manufactured products (Løwendahl, 2005; Skjølvik et al., 2007). Strategic management concerns the decisions through which firms align their internal resources and capabilities with external opportunities and constraints to achieve sustainable competitive advantage (Teece, 2009). Finally, networks are sets of interconnected business relationships between firms,

clients, partners, and other actors (Johanson & Mattsson, 1988, p. 291) that provide access to information, resources, and opportunities essential for identifying foreign market openings and reducing uncertainty in internationalization (Coviello & Munro, 1997).

#### **1.4 Structure of the thesis**

The thesis is structured into an introduction, theoretical framework, two main chapters on internal and external factors, and conclusions. The introduction sets out the objectives of the study, background, research questions, delimitations and the overall structure. It also introduces a number of key concepts that appear throughout the thesis.

The theoretical framework in chapter two explains the most used theories in internationalization as well as their main principles. Chapter two presents frameworks including the Uppsala model, network theory and born global, followed by a discussion of SME and professional service firm internationalization. After this, two main chapters examine the factors influencing the internationalization of PSFs and similar professional service SMEs. Chapter three aims to identify and examine the internal factors, such as managerial capabilities and firm-specific resources, that affect internationalization. Chapter four focuses on external factors such as market conditions, the institutional environment and networks and relationships. Lastly, the conclusion brings together the identified factors and their significance for PSFs.

AI (Claude, by Anthropic) was used during the initial planning process as a structuring assistant. Regarding the planning phase, AI was not used to generate new ideas or content independently. All topics and ideas were provided by the author, and AI was used only to support the discussion and development of those ideas. All ideas, arguments, source selection, analysis, and conclusions are the author's own. Every suggestion from the AI was also reviewed, verified and edited by the author.

## **2 Internationalization of firms**

Internationalization as a concept can be simplified as the geographical expansion of business operations and economic activities beyond a country's border (Ruzzier et al., 2006). Businesses internationalize for three key reasons. The first reason is that a service firm already has a homegrown competitive advantage that they want to exploit outside their home market (Hennart, 2007). Secondly, firms that have a homegrown advantage and want to retain it, seek growth from new international markets. This approach can be defined as follow-the-client strategy, and it is utilized by many existing professional service firms (Gaedeke, 1973). Thirdly, competitive advantage and getting closer to strategic assets through internationalization allow PSFs to scale their business (Hennart, 2007).

While the literature regarding firms' internationalization include several perspectives and theories, this study examines three key theories that are relevant especially for PSFs' internationalization. These key theories are the Uppsala model, the network approach, and the born global perspective. Each of the key theories provides a different perspective on PSFs' internationalization. Uppsala explains the learning logic of gradual market commitment. The network approach explains the relational logic of client-following as well as trust-based ties. The born global perspective explains the speed logic of rapid internationalization by small knowledge-intensive firms. Together, these theories provide a complementary frame for analyzing how PSFs enter as well as operate in international markets.

### **2.1 Internationalization theories**

Internationalization theories explain the way firms and organizations have managed to internationalize and scale their business model by penetrating and entering markets abroad. These theories explain the firm's process of internationalization and serve as important components that explain why multinational firms exist (Johanson & Vahlne, 1977). According to Kunday and Sengüler (2015, p. 975), literature has proposed three main Internationalization theories, which are the traditional theory, network theory,

and born global. The view on internationalization theories and models has evolved regarding PSFs, since they produce services that don't require exporting in the same sense as manufactured products.

### **2.1.1 Uppsala model**

The Uppsala model created in the mid-1970s at the University of Uppsala, Sweden by researchers Johanson and Vahlne, has become one of the most traditional and recognized internationalization theories (Oviatt & McDougall, 1994). In the Uppsala model, firms increase their international involvement gradually step-by-step through commitment decisions, balancing opportunities and market uncertainty against their own resources (Johanson & Vahlne, 1977, pp. 29–30). The Uppsala model suggests that firms should internationalize first into countries with similar characteristics and culture. After the decision to expand into a specific market, firms internationalize gradually, step by step, as they gain knowledge and reduce uncertainty (Johanson & Vahlne, 2009). After the models' first presentation in the mid-1970s, the Uppsala model has evolved from its original form by many authors.

### **2.1.2 Network theory**

The core principle of the network theory is that internationalization happens through relationships and networks. Johanson and Mattsson (1988) created the network model of internationalization, which examines firms internationalization and opportunities through networks and partnerships. The key idea of this model is that internationalization is driven and determined by the company's position in a larger set of business networks and relationships. They suggested that networks can act as a bridge to international ventures through key partners, clients, suppliers, and contacts (Johanson & Mattsson, 1988 p. 301). Coviello and Munro (1997) stated that network issues or poor relationships in firms are often identified as the cause of failed international ventures. They

also underlined that poor networking skills increase the chance of a failed international venture.

### **2.1.3 Born Global**

According to Kunday and Şengüler (2015, p. 976), born global companies penetrate international and often niche markets from the start, rather than internationalizing gradually. Born global companies initiate international operations often straight after founding with a niche and innovative product (Kunday & Şengüler, 2015, p. 976). Firms classified as born globals aren't driven by a single universal mechanism. Instead, the speed and motivations behind early international expansion are strongly shaped by the characteristics of the industry in which a firm operates. Taylor and Jack (2016) proposed that the pace of internationalization of born globals is determined by the industry's level of international competition and global integration. The key takeaway is that for born globals that seek to penetrate industries with a high level of international competition and integration, the pace of internationalization is primarily driven by the firm's need to survive. In contrast, in industries with a low level of global integration and limited international competition, the pace of born global internationalization is primarily driven by entrepreneurial aspirations.

## **2.2 Internationalization of Professional Service SMEs**

According to Bose (2016), internationalization of SMEs has become one of the most discussed topics in economic literature and research. The decision by SMEs to internationalize is not a new occurrence, especially among Western societies and business organizations. (Bose 2016). He also stated that the world's globalization and especially the tools such as better and faster communication and transportation have accelerated SMEs internationalization. In addition, Oviatt and McDougall (2005, p. 542) emphasized that the availability of new opportunities through globalization not only influences but also shape

the terms of SMEs internationalization. Unlike large multinational corporations, SMEs typically face resource constraints, which significantly influence their internationalization processes and strategic decisions.

According to Boussebaa (2015), the internationalization of PSFs has increased immensely in the last three decades. It has also been natural that this process and phenomena have attracted increasing attention in the International Business and Strategic Management literature. PSFs, such as design consultancies, differ greatly from manufacturing firms. According to Skjølsvik and others (2007), knowledge-intensive firms rely on intangible assets, specialized knowledge, and human capital. They also state that these characteristics shape their internationalization processes as well as managerial approaches.

The importance of networks regarding SMEs' internationalization has been emphasized in the literature. Often described as a necessity and requirement for successful internationalization and market penetration. Elg and others (2008) argued that networks in themselves are crucial, but also the firm's personnel managing those networks and contacts play an extremely important role in a successful entry to foreign markets. It has also been identified that SMEs rely more on networks and relationships when internationalizing compared to multinational corporations (Coviello & Cox, 2006). The requirement for financial resources when internationalizing has led SMEs to rely more on networks (Ruzzier et al., 2006). On the other hand, Coviello and Munro (2026) highlighted the risks that come when relying too much on networks or, more specifically, on one partner. They stressed that expanding networks create new opportunities, but still require ongoing reassessment from firms to avoid new constraints.

Networks and relationships play a central role in the internationalization of PSFs. According to Majkgård and Sharma (1998), networks can help a firm in the process of internationalization in many different ways. The network can support a firm's international expansion in various ways, such as providing information about foreign markets, assisting

in finding international customers, and creating business opportunities abroad. Johanson and Mattsson (1988, pp. 301–302) added that useful networks allow firms to go international more easily and quickly. Unlike product-based firms, PSFs often internationalise through client-following behaviour, expanding into new markets in response to existing client needs (Majkgård & Sharma 1998). According to Greenwood and others (2005), this leads to a more opportunity-driven and less linear internationalization process compared to traditional stage models. In addition, Smets and others (2012) implied that PSFs typically rely on project-based work, which enables them to operate across borders without substantial physical presence, reducing the need for heavy investments in foreign markets.

The importance of managerial factors in a successful internationalization process is emphasized in the literature. It is also argued that management and leadership have been the main causes for SMEs' successful internationalization because of the direct responsibility and involvement in strategic decision-making (Zou & Stan, 1998). In SMEs, it is also systematic that the decision-making power is concentrated in just one or a few key people in the management team (Reid, 1981). Therefore, the management team of the firm can be held directly responsible for the company's international success or failure (Chandler & Hanks, 1994). According to Suseno and Pinnington (2017) managerial challenges in PSFs are closely tied to the management of knowledge and expertise that employees of the company hold. Løwendahl (2005, p. 69) described the difficulty of managing these kinds of high-knowledge PSFs as "herding wild cats". Given the knowledge-intensive nature of PSFs, difficulties that managers have to face only increase when adding the process of internationalization. Suseno and Pinnington (2017) highlighted that the importance of human and social capital plays a crucial role in successful internationalization in PSFs. They also emphasized that managing these kinds of professionals across borders brings its own difficulties.

Furthermore, the internationalization of PSFs is influenced by their need to balance global integration with local responsiveness. Managers must navigate cultural

differences, client expectations, and varying regulatory environments while preserving the firm's core competencies and brand identity.

Overall, SME internationalization is characterized by a dynamic interplay between resource limitations, managerial capabilities, and network relationships, distinguishing it from the more structured internationalization processes of larger firms. Internationalization of SMEs was simplified as follows: "Many Businesses have potentialities, many firms possess competencies, but ultimately international success goes to those who have proper strategies for implementation and control." (Bose, 2016, p. 99)

The characteristics of PSFs examined in this chapter also demonstrate the difference between PSFs and manufacturing firms. Three key differences can be found between them. Firstly, the value in PSFs is based on immaterial and knowledge-based services rather than physical products. Because of this aspect managerial expertise, absorptive capacity and a firm's internal capabilities act as a more crucial aspect for PSFs internationalization than firms that manufacture products or goods. Secondly, networks and relationships are described to have more influence in pushing professional service SMEs towards internationalization. Networks and relationships tend to drive PSFs towards internationalization even more than structured and strategic market-entry decisions. The external and environmental aspects can be seen as a decisive aspect especially for PSFs international expansion. Thirdly, the lack of resources can act differently for PSFs than for manufacturing firms. Since PSFs don't require financial resources for large warehouses or factories to manufacture products, the need for financial resources of PSFs is considered to focus more on employees and technology. For these reasons, the following chapters analyze the internationalization of professional service SMEs from the perspective of internal factors (Chapter 3) and external factors (Chapter 4). The following chapters examine how each can act as either an enabler or a barrier to international expansion for PSFs.

### **3 Internal Factors Influencing Internationalization**

This chapter examines the internal factors that affect the internationalization of SMEs in professional service sectors. Internal factors relate to resources, capabilities, and characteristics that belong to the firm and are under the influence of its management (Belniak, 2015). Literature regarding international business and internationalization confirms that internal factors are crucial as they shape a firm's ability to initiate, manage and sustain international activities and operations.

Especially for SMEs, internal factors play a significant role since smaller companies tend to have limited resources as well as a central role of managers' decision-making. Internal factors can often be the decisive factor in why some SMEs internationalize successfully, while others fail. Internal factors such as managerial capabilities, access to resources, knowledge and experience influence the speed and success of international expansion. Internal factors can act either as enablers that push for internationalization or as barriers that constrain it. Whether an internal factor acts as an enabler or barrier is strongly based on the firm's ability to develop and manage it. As it is discovered in this chapter, managerial capabilities, sufficient resources and knowledge combined with experience play a crucial role when shaping these internal factors into enablers. Weak organizational capabilities, lack of resources and inexperienced staff can be identified to shape internal factors into significant barriers for internationalization. In this chapter, these factors are examined in terms of how do they affect international expansion and how they can become an enabler or a barrier for professional service SMEs.

#### **3.1 Managerial capabilities**

Managerial capabilities and leadership are highlighted as crucial aspects in the success of professional service firms. In addition, the internationalization of these firms adds more challenges and questions for the management team. In addition to managerial capabilities and leadership, the characteristics of top management teams are considered as an important aspect of the company. Managerial capabilities should be seen and

treated as a crucial resource and driver for a company's growth and longevity (Kor et al., 2016; Penrose, 1959, p. 5). In addition, managerial capabilities have been identified as internal factors that influence internationalization. Pla-Barber and Escribá-Esteve (2006) underlined that active and committed management is required in order for a company to internationalize. According to Fernández-Ortiz & Lombardo (2009), managers' age, education, experience, and language knowledge have a direct impact on the firm's success through international diversification.

### **3.1.1 Knowledge, education, and experience of management teams**

Managers' international and professional experience has been identified as a driver when internationalizing a company. Individuals in managerial roles with experience in export activities or international work are likely to develop a deeper understanding of foreign markets and increased cultural awareness. (Simmonds and Smith, 1968). A management team with international experience creates an environment that also encourages the whole organization to think and act internationally. As a result, internationally experienced directors are more likely to identify opportunities abroad, demonstrate greater risk tolerance, and commit more strongly to foreign market expansion (Casillas et al., 2009). Also, according to Stoian and others (2017), increased international exposure contributes to the development of a global mindset, which allows managers to recognize and respond to changes and opportunities in international environments more effectively.

### **3.1.2 Strategic Decision-making**

In the literature, strategic decision-making has been naturally identified as a key aspect of successful internationalization. Amason and others (2006) underlined that top management teams and especially their demographic characteristics have a great effect on strategic decision-making and therefore act as a determining factor in a successful market penetration. According to Reuber & Fischer (1997) a certain pool of characteristics acts as an internal driver in strategic decision-making and, therefore,

successful internationalization: activeness, attitude toward innovation, and the willingness to take sometimes necessary risks act as enabling characteristics. According to Elbanna and others (2020), choosing an entry mode is a decisive part of a successful international expansion, which is directly linked to strategic decision-making.

### **3.1.3 Risk and resource management**

Risk management and resource management are highlighted in literature as critical internal factors influencing the internationalization of SMEs as well as PSFs. According to Stulz (2008), effective risk management allows firms to identify, assess, and lower uncertainties associated with foreign market entry. According to him, some of the most decisive uncertainties relate to political instability, cultural differences, and currency fluctuations. In this context, top management teams are responsible for developing and implementing appropriate risk management strategies, which support more knowledge-based decision-making in international expansion. Firms equipped with strong risk management practices are better positioned to navigate complex international environments, which can act as a significant enabler of internationalization (Alshirah & Alshira'h, 2026). On the other hand, insufficient risk assessment capabilities may increase uncertainty and lead to cautious or delayed market entry, thereby functioning as a barrier.

In addition to risk management, resource management is a fundamental factor of SMEs' internationalization processes (Shen & Badulescu, 2025). They also stated, that since SMEs typically operate with limited financial resources, human resources, and knowledge-based resources, the firms ability to exploit and use these resources efficiently is essential for successful international expansion.

While effective and well-organized resource management allows firms to support international operations, limited resources as well as their ineffective management can constrain the firms ability to scale and respond to market demands. Therefore, both risk management and resource management can be taken as critical internal factors that may

either enable or hinder the internationalization of SMEs. In the end, it all comes down to how effectively they are managed. To conclude, the study made by Shen and Badulescu (2025) suggests that managers should aim to concentrate on three main fields: Improved risk management through structured frameworks and extensive research on markets, Optimized resource allocation through strategic planning and managerial training and development through improved decision-making.

#### **3.1.4 Managing knowledge-intensive firms**

Managing professionals as well as knowledge is a crucial part in PSFs management. The knowledge-intensive nature of PSFs dictates that managers balance the effective utilization of specialized expertise with the coordination of complex, client-driven projects across diverse international contexts. (O'Higgins et al., 2022). In addition, managers need to adjust and understand the characteristics that shape the way professional service firms operate internationally. According to Fernández-Ortiz and Lombardo (2009), the human capital of the founders and top management teams serves as a crucial internal resource for SMEs' internationalization. They also found that firms where the management team is equipped with educational knowledge, experience and language knowledge have a better opportunity to thrive in international markets.

### **3.2 Firm resources**

Firm resources are widely recognised as a central internal factor influencing the internationalization of SMEs. Through the resource-based view (RBV), firms differ in their ability to expand internationally based on the resources and capabilities they possess (Barney, 1991). Ørberg & Jensen (2014) outlined that in the context of SMEs within professional service sectors, resource availability plays a particularly critical role because of the limitations in financial, human, and technological capacity. They also implied that these constraints shape not only the firm's strategic options but also its ability to enter, compete, and sustain operations in foreign markets. According to McQuillan and others (2018), firm resources can act as enablers that support internationalization and as

barriers that restrict growth. The main aspect regarding resources is their availability and effective management.

### **3.2.1 Types of resources**

In literature, financial resources are described as an important element of a firm's ability to internationalise. Capital constraints and the constant need for financial resources are common, especially for smaller firms (Rao & Drazin, 2002). For example, abundant financial resources enable firms to invest in market research, establish operations abroad, and absorb the costs and risks associated with operations regarding internationalization. From an enabler perspective, a strong financial base allows firms to seek international opportunities more proactively. It also allows firms to sustain operations during the actual stages of market entry. On the other hand, limited access to financial resources can act as a significant internal barrier. According to Rao and Drazin (2002), the lack of financial resources can act as a significant barrier to innovation. They also underlined that the lack of financial resources also prevents firms from hiring the required professionals (Rao & Drazin, 2002). This aspect can be a significant barrier especially for PSFs, considering their knowledge-intensive nature and the need for talented professionals. In addition, financial resources play a critical role in determining both the execution and pace of internationalization.

Human resources are highlighted as a key internal enabler, especially for professional service SMEs. According to Maister (1982), the services that these companies provide and the value that they create are largely dependent on expertise and knowledge. He also argued, that skilled and experienced employees contribute especially to a firm's capability to deliver services across different markets and adapt to changing client needs. He also underlined that from an enabling perspective, a competent workforce with international experience and cross-cultural skills enhances a firm's ability to operate effectively in foreign environments and build strong client relationships. A high level of knowledge and expertise can be used to acquire a competitive advantage in international markets. However, limitations in human resources, like the lack of skilled

personnel or limited international experience, can worsen internationalization efforts. Small and medium-sized PSFs can face challenges in recruiting and keeping talented people committed. This can hinder a firm's ability to scale operations and manage international projects effectively.

Technological capabilities as an enabler for SMEs and PSFs have been identified as an increasingly important aspect for SMEs in studies and research. According to Salisu and Bakar (2020), in firms where digital tools and platforms operate cross-border operations, the importance of technological capabilities only increases. They also found statistical proof that technological as well as learning capabilities are strongly tied to SMEs' performance and success. According to Kyläheiko and others (2011), advanced and efficient technological capabilities allow firms to coordinate activities across countries, deliver services remotely, and maintain communication with international clients. Rammal and Rose (2014) argued that technological capabilities also allow companies to internationalize without physical presence in foreign markets and with lower resource commitments. They also underlined that technological capabilities also create better efficiency, knowledge sharing, and project management especially in difficult international environments.

According to previous literature presented regarding technological capabilities in internationalization, the lack of technological knowledge can act as a significant barrier for small and medium-sized PSFs. Limited technological capabilities may act as a barrier by restricting a firm's ability to operate effectively across countries, manage distributed teams, or compete in increasingly digitalised markets. Therefore, technological capabilities play a crucial role in enabling professional service SMEs to overcome geographical constraints and participate in international markets.

### **3.3 Knowledge, experience, and organizational capabilities**

Knowledge, experience, and organizational capabilities have been identified as critical internal factors that affect the internationalization of SMEs. Especially in knowledge-intensive firms where operations depend on expertise and unique professionalism, these factors play a significant role in international expansion (Grant, 1996; Nonaka & Takeuchi, 1995). According to Eriksson and others (1997) firms accumulate knowledge through experience. Strategic decision-making as well as managing international operations are affected significantly by the company's ability to utilize and process information. This chapter focuses on knowledge, experience, and organizational experience as internal enablers in internationalization.

#### **3.3.1 Knowledge and experience**

According to Eriksson and others (1997), international expansion requires companies to acquire, process and connect different types of information and knowledge. For example, local market knowledge, institutional understanding, and client-specific needs are highlighted as key sectors from which companies should have a high level of understanding. The experiential knowledge of a company and its people is directly tied to the costs and complexity of international operations. (Eriksson et al., 1997). In addition, companies that have previous experiential knowledge are better equipped to navigate the complex field of international markets.

The perspective of knowledge and experience can be associated closely with the Uppsala model, where learning through experience is emphasized as a key factor (Johanson & Vahlne, 1977, p. 28). In the context of professional service SMEs, this kind of experiential learning process is especially decisive since the services that PSFs offer are immaterial and often dependent on understanding specific client needs, cultural norms and institutional frameworks. Cohen and Levinthal (1990) presented the concept of absorptive capacity, which can be defined as the firm's ability to recognize, embrace, and adapt information and then use it in commercial operations. For professional service SMEs that aim

to internationalize, the core principle of this concept means that the competitiveness of the company doesn't depend on what the company already knows, but on how efficiently it can integrate and learn new information. Zahra and George (2002) expanded this concept further by separating potential absorptive capacity from realized absorptive capacity. In their version, potential absorptive capacity refers more to the acquisition and accumulation of knowledge, and the realized absorptive capacity refers more to the adaptation and integration of knowledge. The ability to transfer from potential to realized absorptive capacity is a decisive factor in international expansion and competitiveness for PSFs.

Autio and others (2000) discovered that knowledge intensity influences positively to international growth of firms. They underlined that knowledge-intensive firms have an advantage when exporting their expertise across borders, since their competitiveness as well as differentiation is based on immaterial resources. Unlike material resources, immaterial resources can be transferred more quickly and easily.

### **3.3.2 Organizational capabilities**

Organizational capabilities refer to a firm's capability to utilize and coordinate internal resources and processes effectively to meet strategic objectives or goals (Grant, 1996, p. 116). In the context of internationalization, these capabilities determine how well a company can adapt and integrate to new market environments, lead operations across borders, and produce necessary services for customers. Building on Penrose (1959), Kor and others (2016) explain that a firm's potential to expand and scale up is not only determined by the resources it has, but also by the capability to actually utilize and combine them effectively. From a PSF perspective, organizational capabilities are especially important because they tend to rely more on information, flexibility and efficient coordination, rather than a big scale.

Teece (2009, p. 75) developed further his own concept of dynamic capabilities. The concept refers to a firm's capability to build, develop and adjust internal as well as external competences in rapidly changing environments. In order to have a response to rapidly changing international market environments and client needs, a firm has to have the capability to dynamically adjust its strategies, routines and organizational structures. It is common for a professional service SME to operate in an environment where services need to be adjusted to cultural preferences and institutional changes. Therefore, the capabilities to integrate and adjust dynamically to rapid changes are a crucial aspect for PSFs.

Key organizational capabilities identified in the literature include flexibility, the ability to innovate and the ability to operate across different locations. According to Grant (1996, p. 116), the primary role of organizational capabilities in knowledge-intensive firms is especially the integration of specialized knowledge. For professional service SMEs, individual employees tend to be the ones who hold the majority of specialized knowledge. It is essential for international PSFs to operate coordinately and manage projects and teams that are dispersed geographically. Therefore, PSFs need to be equipped with strong organizational capabilities. In addition, Nonaka and Takeuchi (1995) highlighted the significant importance of knowledge creation processes in organizations. They stated that organizations that have the ability to transfer valuable knowledge held by one into an explicit organizational form can achieve a significant competitive advantage.

## **4 External factors influencing internationalization**

In addition to internal factors, which are closely in control of the whole organization as well as management, external factors hold a significant importance in the internationalization of professional service SMEs. Factors affecting the whole organization from outside bring a totally new set of challenges for professional service SMEs. According to Belniak (2015), external factors are closely tied to institutional organizations, which are also often hard to control. She also underline that they have a significant impact on business operations, performance, and affect strategic decision-making. Smaller PSFs may find external factors difficult to control, because of their size and limited resources. This chapter examines the key external factors affecting the internationalization of PSFs through literature regarding international business and strategic management. This chapter focuses on the key external factors concerning market conditions, institutional environments, networks and relationships and cultural distance which may act as enablers or as barriers.

### **4.1 Market conditions**

Market conditions are represented in literature as a key external factor that has a significant influence on the internationalization decisions as well as strategic decision-making in SMEs. According to Porter (1990), market conditions including the level of demand, market size, competition and scaling potential, affect directly the attractiveness as well as the possibilities for a company to expand to them. For a professional service SME, understanding market conditions is crucial since they often have to expand to a single market at a time because of limited resources. Therefore, they have to choose their market where to expand carefully.

The level of demand in foreign markets affects directly to the decision to expand into foreign markets. Markets where specialized services meet strong or growing demand present opportunities for specialized companies to supply their services and find new

clients (Porter, 1990). He also underlined, that the market size of a foreign country naturally dictates how many potential clients and projects can be found from that specific region. In addition, the growth potential of the chosen foreign market is found to be another crucial aspect for PSFs' that seek to obtain a longer presence in the chosen market. According to Oviatt and McDougall (2005), entering a market in an early stage of growth can provide advantages for companies by being one of the first to provide new services or products. If the process of internationalization to this kind of market is done properly, the opportunity to gain a strong market position also increases.

Another key market condition and external factor is related to the intensity of competition in the market. According to Porter (1990), the level of intensity in competition shapes the way expanding firms strategize and choose to compete in that specific market. The competitors already in that specific market shape the opportunities to differentiate and access the chosen market. The competition environment for PSFs in foreign markets is significantly different from competition based on products and manufacturing. In PSFs, the competition is usually based on reputation, professionalism, and client relationships instead of on product type and price. Oviatt and McDougall (2005, p. 547) highlighted that market opportunities act as a key driver for internationalization for knowledge-intensive firms, which can benefit from the strong demand for specialized services. On the other hand, markets with a high level of competition and a high cost of market entry create barriers (Porter, 1990). In addition, high market entry costs, like market research, client acquisition, and establishing credibility, can further challenge the ability of SMEs to expand effectively. Smaller firms with a lower level of resources as well as brand recognition can face great barriers due to these aspects.

## **4.2 Institutional Environment**

The institutional environment of a foreign market has been widely recognized as a critical external factor for firms that wish to expand into that specific market. North (1990, pp. 3–6) described institutional environments as formal and informal rules and

regulations that shape the economic and social behavior in that specific country. He also underlined that, in addition to the behaviors, these rules and regulations dictate the conditions where firms compete and operate overall. Formal institutions include laws, official regulations, property rights, trade policies, and political structures as well as tariffs. Informal institutions include, for example, norms, customs, values, and socially accepted practices. Understanding and adjusting to these complex environments is crucial for the internationalization of professional service SMEs.

Peng and others (2008, pp. 922–923) highlighted the importance of navigating these complex institutional environments effectively. They argued that these institutional environments should be considered as a significant factor for business strategy, along with industry-based and resource-based aspects. Their institution-based view suggests that strategic choices as well as opportunities for firms are not only shaped by internal capabilities or resources but also by the institutional environment where they operate. The view presented by Peng and others (2008) can be expected to have a significant meaning also for SMEs. In the case of SMEs with limited resources, these challenges are likely to be even bigger.

The regulatory environment of the chosen foreign market plays a significant role in the international expansion of professional service SMEs. According to Meyer and others (2009), institutional regulations have a great influence on the entry strategy that a firm chooses. A different regulative environment may present new and varying levels of risks, transparency, as well as transaction costs. For PSFs regulations of a foreign nation may act as a significant barrier to expansion, since they have a direct effect on for example licensing requirements, professional standards, and industry-specific regulations. To conclude, poor institutional stability is identified to be an important aspect for firms, since it increases the perceived risk of international operations (Meyer et al., 2009).

A stable and transparent institutional environment has been identified in literature as a major factor and supporter for expanding businesses. By lowering uncertainties and

lowering transaction costs, a stable institutional environment offers a solid ground for new businesses to expand. Institutions can further encourage firms to expand into their market through trade agreements and export promotion programmes for example. On the contrary, an uncertain and complex institutional environment with long bureaucratic processes, an unstable political environment and poor property rights protection increases the uncertainty and creates an unstable ground for firms to expand to (Peng et al., 2008, P. 922). Even though PSFs are not as vulnerable to market restrictions and institutional uncertainties as manufacturing companies, they can still face challenges through the difficult movement of personnel as well as the regulations for delivering services across borders.

### **4.3 Networks and Relationships**

The meaning as well as the significance of networks and relationships in internationalization have been recognized in literature as one of the most crucial external factors for SMEs. Johanson and Mattsson (1988, p. 292) described that firms operate in a complex set of different networks and that firms depend on the relationships built through networks. They underlined that the availability, willingness, and behaviour of other actors like clients, partners, suppliers, and industry contacts still play a significant role. For design consultancy and similar PSFs, where services are strongly based on providing services that are tied to trust and unique expertise, the meaning of well-managed networks as well as relationships only increases.

Johanson and Mattsson (1988) presented the network model of internationalization, where the key factor is the idea that the internationalization of firms is driven by their stance in a larger set of business networks and relationships. The key principle of the model is that internationalization is a process that is shaped by the firm's relationships to networks and not just by strategic decisions and processes. Johanson and Mattsson (1988, pp. 296–297) stated that when companies deepen their position in networks and

relationships, they can improve their possibility to access new opportunities through new markets, clients, and information.

The significance of networks for SMEs has been emphasized in the literature. Coviello and Munro (1997) emphasized the importance of networks, especially for SMEs that offer knowledge-intensive services. The results of a study conducted by Coviello and Munro (1997) prove the significance of networks and relationships. The results implied that formal and informal relationships with foreign clients and partners usually initiated and modified the process of expansion more than the strategic decisions made by a company's management. In addition, Freeman and others (2006) implied, that smaller firms tend to rely more on networks and the opportunities through relationships to encounter the barriers created by the usual lack of resources.

The significance of networks and relationships regarding the internationalization of smaller PSFs has also been highlighted in the literature. Majkgård and Sharma (1998) identified a client-following behaviour as a key initiator for PSFs' internationalization. They found that PSFs tend to initiate their international expansion operations through their existing clients' international operations. Operating through this kind of network-based client-following is especially common for PSFs that offer design or consultancy services as their primary service. These kinds of PSFs usually tend to aim for longer partnerships with clients that might need similar services in other markets. According to Ojala (2009), in addition to the client-following method, well-managed networks and partnerships allow companies to get access to new information and knowledge from foreign markets. Valuable information can lower the uncertainties as well as risks that are associated with internationalization especially for smaller companies.

In the literature, the enabling aspects of solid networks and relationships have been highlighted as one of the most important key drivers of internationalization. Therefore, the absence of solid and extensive networks and partnerships has been identified as a significant barrier for internationalization. According to Coviello and Munro (1997), the

absence of relevant and potential business forward-driving networks restricts a firm's ability to identify opportunities and to build a credible brand image. They also stated that reliance on only a few relationships and networks creates an environment where a firm can become unexposed to new opportunities and create dependence on the few existing ones it surrounds itself with. According to Ojala (2009), building trust and credibility in new networks or institutions can be slow and require a lot of effort. In addition, they highlighted that cultural and institutional differences only complicate the building of important and sometimes crucial networks and relationships.

#### **4.4 Cultural Distance**

Cultural distance has been discussed and widely studied in literature as a factor regarding internationalization. Cultural distance refers to the differences between a firm's home country and a foreign host country. The key differences between them are usually considered to be related to values, norms, language, business practices, and social behaviors (Hofstede, 2001, pp. 8–14). In the context of professional service SMEs, where the business model is usually based on close interaction with clients, understanding of local expectations and effective communication, the significance of cultural distance only increases. For PSFS, this means that cultural differences have a direct effect on international operations and its success.

Hofstede (2001, pp. 24–34) developed a framework to understand cultural differences across nations and their significance to firms better. The framework looks at how much a society can accept unequal power between people. It also considers if a culture puts the individual or the group first. Another aspect is whether its main values lean toward competition and toughness or toward cooperation and care. Finally, it examines how well a culture handles uncertainty. Based on the framework, Kogut and Singh (1988) developed it further by demonstrating how companies choose entry modes based on cultural differences. Building on this framework they explained how firms tend to choose

entry modes that require a lower level of commitment when the cultural distance increases.

Cultural distance has a significant relevance for PSFs that try to expand into foreign markets. For example, communication with clients, negotiation practices, expectations for service, and leadership mechanisms can all differ greatly compared to the home country of a firm (Hofstede, 2001, pp. 440-450). PSFs usually operate in an environment where projects require close cooperation with clients that has certain expectations regarding the quality as well as the service overall. The ability to navigate and identify cultural differences in this kind of environment plays a significant role. Successful design choices and solutions in a certain environment can be deemed as inefficient in a totally different cultural environment. The ability to understand cultural differences and to find solutions to new problems requires a high level of understanding of cultural differences and norms.

Differences in language represent one of the most immediate dimensions of cultural distance. Language barriers may have a negative effect on communication, negotiations, and everyday project management especially for smaller companies that don't necessarily have enough employees equipped with proper language skills. The Uppsala model addresses cultural differences through the psychic distance concept. According to the Uppsala model, firms tend to internationalize gradually, where the first step is to expand into markets that feel psychologically close (Johanson & Vahlne, 1977, p. 24). After accumulating knowledge and expertise in the first country, firms can feel more comfortable expanding further into regions with even greater cultural distance.

According to Eriksson and others (1997), companies that invest and commit to better understanding and navigating the complexity of cultural differences position themselves to better adapt and adjust their services to foreign customers. He also underlined that prior knowledge and experience in culturally different environments enable companies to reduce the uncertainties that are associated with expanding to foreign markets. Expanding into markets that are culturally close enables companies to expand more easily.

For example, a Nordic-based consultancy firm can find it much easier to expand first into another Nordic region where cultural norms, values and business practices share the same principles. However, according to Kogut and Singh (1988), significant cultural distance can increase the perceived risk as well as the costs of adaptation. They also underlined how difficulties in communication can lead to misunderstandings, delays, and stressed client relationships.

## 5 Conclusions

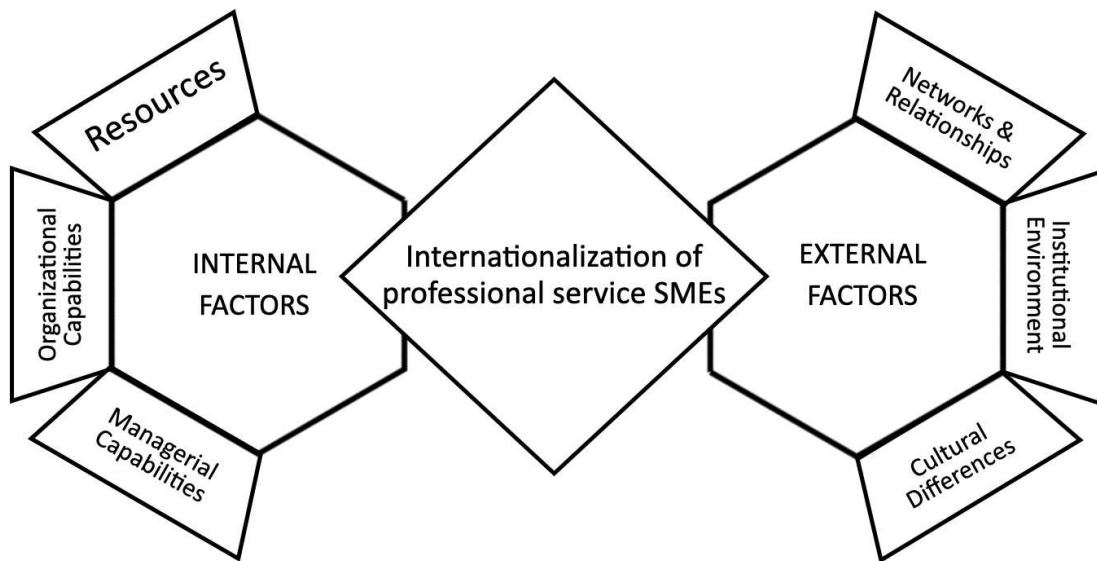
The core aim of this study was to identify internal and external enablers and barriers that influence the internationalization process of small and medium-sized professional service firms. This study has identified and analyzed the key factors that either limit or support internationalization through international business and strategic management literature.

Managerial capabilities have been identified as a crucial factor especially for smaller professional service firms. Capabilities like international experience, strategic decision-making as well as understanding of cultural differences are highlighted to be especially important for smaller companies, where leadership and power are often focused on only a few individuals. Firm resources were also identified to be a central internal factor that influences the internationalization of professional service SMEs. Resources such as financial, human and technological resources define both the speed as well as the success of international operations. The lack of these necessary resources are described as a major internal barrier and obstacle for professional service SMEs. In addition, another major internal factor for internationalization was identified to relate to knowledge, experience and organizational capabilities. These characteristics shape the ability to learn from international environments, coordinate cross-border activities, and adapt to varying market demands. The key concepts of absorptive capacity and dynamic capabilities were identified to have a decisive impact on PSFs that differentiate through specialized expertise.

External factors examined through the literature reveal broader environmental influences that shape the international process. Market conditions such as the demand, the size, the competitive intensity and the potential opportunities to scale in a certain market directly affect PSFs internationalization. They determine the attractiveness as well as the opportunities of the market for firms to internationalize into. Institutional environment of a market sets the regulatory and political ground in which companies have to operate in. Institutional uncertainties, tight policies and political instability were

identified as factors that can create barriers for companies to expand. From all the external factors, networks and relationships were highlighted as one of the most significant. The significance rises from the nature of PSFs, which tend to offer services that are immaterial and based on close client collaboration and mutual trust. Client-following behavior, recommendations and long-term client relationships were described to push firms to international expansion, usually more than strategic decisions or planning. Lastly, cultural distance was found to have a direct effect on communication, client expectations and service delivery for PSFs. Cultural awareness and prior international experience were highlighted as decisive characteristics that determine how effectively a firm can operate in foreign markets.

The key finding of this study is that both internal and external factors can act as enablers as well as barriers. For PSFs, the difference in which way these factors fall is determined by the firm's ability to manage, navigate, adjust and respond to them accordingly. Strong management capabilities and abundant resources may not fully compensate for an unstable and unfavorable external environment. Vice versa, a favorable external environment may not compensate for a firm-specific internal weaknesses. The findings from literature suggest that the knowledge-intensive and relationship-based nature of PSFs dictates, that managerial competencies, absorptive capacity, network relationships and cultural sensitivity are significant factors that are decisive for international success. The determining factor to turn international expansion into long-term growth is the firm's ability to combine internal expertise with external relationships. Long-term growth is essential for PSFs if they wish to achieve bigger goals and not just stay in a single project-based activity. These key internal and external factors are highlighted in the next figure. See Figure 1.



**Figure 1.** Internal and external factors influencing professional service SMEs internationalization

To summarize, the internationalization of professional service SMEs is shaped by the combination of specific internal firm capabilities and external environmental conditions, which are showcased in the figure above. Literature that was reviewed in this paper implies, that internal and external factors are strongly connected to each other and therefore also influence each other. In addition, professional service SMEs should approach the concept of internationalization through a clear understanding of external factors as well as their own capabilities. To conclude, successful international expansion of PSFs depends on how effectively they can align their internal resources with the opportunities and constraints of the foreign markets that they choose.

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