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DIGITAL TRANSFORMATION AS A CATALYST FOR SME INTERNATIONALIZATION

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Abstract:

This paper explores digital transformation as a strategic catalyst for small and medium-sized enterprise (SME) internationalization. Digital transformation alters traditional market expansion by establishing three operational mechanisms: expanding foreign market access through digital marketing and e-commerce, strengthening international competitiveness via business model innovations, and optimizing internal resources through data-driven automation. Furthermore, SME internationalization relies on a dual-engine framework that combines internal digitalization with external digital platforms. High levels of internal digital maturity build organizational absorptive capacity and dynamic capabilities, which enable SMEs to effectively utilize external platform infrastructures without suffering from platform dependence. Conversely, external platforms compress entry timelines and lower transaction costs for global market expansion. The success of this digitally driven internationalization is moderated by internal organizational enablers such as strategic leadership vision, digital resilience, dynamic capabilities, and a skilled workforce alongside external systemic barrier. Internal resource constraints, technical skill deficits, regulatory cross-border compliance, and complex digital trade policies often restrict continuous global scaling. Practically, managers must integrate external platform adoption with internal organizational restructuring and continuous workforce upskilling rather than relying solely on software implementation. Policy interventions should prioritize targeted export promotion programs, robust digital infrastructure, and streamlined cross-border regulations to help SMEs overcome market entry barriers.

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Digital Transformation, SME Internationalization, Internal Digitalization, External Digital Platforms

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Introduction

In the increasingly fast-moving global economy, SMEs act as major catalysts for innovation in industry, employment generation, and economic growth. Historically, the main agents of expansion into international markets have been the multinationals, which possess adequate funds, extensive global networks and internationalization capacity. Nonetheless, the intensifying process of globalization necessitates the involvement of smaller firms in international markets to capitalize on new opportunities and remain competitive in the future. Digital transformation can be identified as the key paradigm shift in this regard, affecting the conduct of business in a global context.

In the context of global expansion for SMEs, digital transformation serves as an effective strategy that brings changes to the way the organization works, interacts with its customers, and enters the market. By implementing digital means, digitalizing internally and utilizing digital platforms from external providers, SMEs become capable of making their operations smoother, relying on scarce resources and engaging with consumers from abroad directly. Utilization of the digital environment allows companies to innovate themselves, increasing their efficiency, adaptability, and satisfaction of consumers in the foreign markets. Thus, digital capabilities become not just instruments of operation but important strategic enablers as well.

Problem Identification

While the merits of digitalization have been acknowledged, the process of transformation into a digitally equipped international SME presents itself as quite challenging and laden with practical challenges. The small businesses often have structural limitations that manifest themselves as financial constraints, lack of expertise in technical matters and unwillingness to engage with new technologies. In addition, while the digitalized platforms serve as an easy entry point for reaching international markets, they create a risk of dependence on the infrastructure of the platform, increased international competition and foreign market risks.

Past studies

The previous studies point out that digitalization increases SMEs' competitiveness through improving their productivity, promoting innovation and making possible changes to business models. Moreover, it is noted in the existing literature that digital platforms serve as the means

necessary for reducing entry barriers and reaching markets. Another key finding of the previous studies is that customer engagement strategies and frameworks of decision-making are critical in making international progress through digitalization.

Research Gaps

Despite the above-mentioned important revelations, however, a gap persists about the specific ways in which the phenomenon of digital transformation serves as a catalyst to internationalization of SMEs. Much of the current academic literature tends to treat the issues of digitalization on one hand, and internationalization on the other, separately, hence providing very little insight into how digitalization and use of platforms by enterprises operate in the larger picture of entrepreneurship eco-systems. Also, the existing theoretical models do not provide a comprehensive explanation of the strategic and systemic factors of success internationally. Thus, for internationalization of SMEs, both an internal perspective involving digitalization (digital skills and capabilities of the firm, automation, data integration) and external platforms (third-party e-commerce platforms, cross-border payments platforms, global logistics network) need to be considered, as neither can function effectively on its own.

Research Objectives

This paper examines how digital transformation enables SME internationalization and identifies the mechanisms and conditions that shape the process. To overcome these research gaps, this paper seeks to critically explore the concept of digital transformation as a driving force of internationalization of SMEs. The objectives of the current study include the following:

1. To analyse the major ways of how digital transformation improves the market access, competitive advantage and resource efficiency in internationalizing SMEs.
2. To investigate the interaction between internal digitalization and external digital platforms as two driving forces of internationalization.
3. To identify the main drivers and barriers that influence the effectiveness of digitally driven internationalization of SMEs.

Contributions

There are many contributions made to the literature of strategic management and international business through this research. The conceptual contribution comes from developing a coherent dynamic theory that explains the relationship between digital maturity, business model innovation, and market entry into foreign markets. The methodological contribution comes from combining the recent empirical results from different regions and industries, thereby offering a deeper insight into how the use of digital technology helps companies cope with resource constraints. Practically, the results of this research have a lot of implications for SME managers and policy makers.

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Methodology

Primary Mechanisms Synthesizing SME Internationalization Process

The digital revolution becomes an important impetus for modern international businesses because it changes the fundamental approaches on SME market penetration, competitive advantage creation, and resource limitations management. Digitalization can provide new ways for internationalization and reduce the cost and risk barriers inherent to the process of entering the foreign market. E-commerce platforms allow SMEs to have a direct contact with international buyers and eliminate all the barriers related to geography and transportation costs. Apart from market penetration, the internal digitalization of the company (for example, by automation systems and data analysis) will make the firm competitive through faster innovation cycles, higher productivity, and adjustment of the business model to the needs of foreign consumers. In addition, digital instruments are going to help manage resource limitations through instant decision making, optimization of the supply chain, and remote operations.

Connection Between Internal Digitalization and External Digital Platforms

As modern SMEs scale across borders, they need to employ a dual engine of development that includes internal digitalization and interaction with external digital platforms. Internal digitalization involves the use of digital technology infrastructure, employees' digital skills, and processes for making decisions based on analysis of data. This creates the internal core of absorptive capacity. In turn, it defines the ability of an SME to adjust its operations and product offer as well as process external market information. On the other hand, external digital platforms such as global e-commerce platforms, digital trading platforms, and cloud services enable the company to access international markets without large investments. It should be noted, however, that the two factors do not work independently but complement each other in a way that high internal digitalization helps to leverage external platforms and to avoid platform lock-in.

Organizational Enablers and Systemic Barriers Moderating Internationalization Success

While digital transformation creates significant opportunities, the ultimate success of digitally enabled SME internationalization is heavily moderated by key internal enablers and external systemic barriers. On an organizational level, leadership vision, digital orientation, dynamic managerial capabilities, and continuous workforce upskilling serve as primary enablers that determine a firm's capacity to execute digital strategies abroad. Organizational agility and a culture open to business model experimentation further allow SMEs to pivot rapidly in response to volatile international conditions. Conversely, SMEs frequently encounter severe systemic and structural barriers that impede their global digital transition. Internally, acute capital shortages, technical skill deficits, and cyber risk exposure pose constant hurdles. Externally, complex regulatory frameworks, cross-border data privacy restrictions, platform dependency risks, and uneven regional digital infrastructure restrict seamless international scaling. Navigating this dynamic balance requires strategic alignment, where internal leadership and organizational readiness actively mitigate external systemic challenges to achieve sustainable international growth.

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Results And Discussion

Digital Transformation Mechanisms In SME Internationalization

An integrative review indicates that digital transformation acts as a multi-faceted catalyst of SME internationalization, revolutionizing the way such resource-poor entities approach international expansion. Initially, firms entering foreign markets encountered high barriers that were associated with the liability of foreignness and structural smallness, which limited their operational capacity (Checchinato & Plechero, 2025; Kargas et al., 2026). Yet, through a systematic use of digital technology, this pattern is disrupted by allowing companies to cut off traditional distribution channels and decrease transaction costs across borders (Torrent-Sellens et al., 2026). While digital transformation does not merely imply the adoption of new technology but rather occurs through three different, though related, mechanisms: foreign market access enlargement, improvement of international competitiveness, and efficient use of internal resources (Davila Segura et al., 2025; Kohli et al., 2025). These mechanisms are designed to form an operational framework which allows small enterprises to attain worldwide reach, enhance organizational resilience and compete with larger multinational corporations (Crupi & Marozzo, 2023; Luu et al., 2026).

The first fundamental way that digital transformation contributes to SME internationalization is the fast growth in the number of markets available globally. The use of digital marketing methods and e-commerce websites such as SEO and PPC, for example, helps SMEs to go past traditional means of entering foreign markets since they provide an opportunity to connect directly to foreign consumers (Loku & Havolli, 2024; Torrent-Sellens et al., 2026). The reach into the international market is also augmented through data collection processes upstream and downstream from the digital markets. Through the integration of data collection into digital market processes, firms can obtain real-time analytics regarding international customers and tailoring marketing campaigns to meet various cultures (Checchinato & Plechero, 2025; Karaboğa & Karaboğa, 2025). Digital transformation also enables a CRM system, which creates a platform for engaging with foreign customers and responding to their needs and changing trends in the foreign market environment without having a physical presence there (Kargas et al., 2026).

The second mechanism concerns the strengthening of international competitiveness through structural improvements in the capabilities of firms resulting from technology-enabled business model innovations. The digital transformation improves the competitiveness of an SME by developing its dynamic capabilities in terms of technologies, relationships, and finances for the firm to adapt to volatile international business climates (Hazra, 2026; Kohli et al., 2025). In addition, process automation and open innovation systems make it possible for companies to develop new products quickly, collaborate in R&D, and integrate knowledge of the market, hence remaining technologically superior to competitors (Crupi & Marozzo, 2023). Moreover, digitization acts as the absorptive mechanism that supports business model innovation and helps SMEs change their approaches to the creation and appropriation of value, being specifically designed for foreign markets (Luu et al., 2026). Thus, with the help of digitalization, SMEs transform their international exposure into knowledge and innovative business models that enable the formation of sustainable competitive advantages.

International Journal of Entrepreneurship and Management Practices
IJEMP
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Volume 9 Issue 35 (September 2026) PP. 874-887

The third crucial mechanism involves the optimization of internal resources, mitigating the acute resource constraints that typically impede small-firm global growth. Digitalization drives operational efficiency by automating routine administrative and operational workflows, thereby lowering transaction and production overheads (Davila Segura et al., 2025; Kargas et al., 2026). The deployment of advanced technologies, such as Robotic Process Automation (RPA) within human resource management and operational workflows, reduces manual labor requirements, minimizes error rates, and accelerates execution speed across international borders (Turcu & Turcu, 2021). Furthermore, data-driven decision-making and supply chain analytics optimize inventory management and resource allocation, ensuring that capital is deployed efficiently toward high-yield international growth opportunities (Checchinato & Plechero, 2025; Hazra, 2026). By streamlining internal operations and reducing structural overheads, digital transformation enables SMEs to achieve economies of scale and reallocate saved capital toward strategic cross-border expansion activities (Torrent-Sellens et al., 2026).

Combining all three mechanisms, it becomes clear that market access, competitiveness, and resource optimization cannot be regarded as separate pillars, but represent an interconnected and coordinated approach. Enhanced market access provides valuable international customer data that is used for innovating business models and improving competitiveness, whereas resource optimization ensures that the company has enough funds and freedom to scale internationally (Kargas et al., 2026; Luu et al., 2026). At the theoretical level, these findings further develop the ideas behind Resource-Based View and Dynamic Capabilities framework, highlighting that digital technologies act as organizational routines which enable firms to convert their static resources into dynamic capabilities (Kohli et al., 2025). At the practical level, this research shows that SMEs need to integrate internal digital transformation processes with external market engagement strategy because simply adopting digital technologies will not lead to success if the company does not change its internal procedures and train its employees (Davila Segura et al., 2025; Turcu & Turcu, 2021). Overall, digital transformation plays the role of a strategic catalyst that removes all conventional limitations for SME internationalization.

Interdependence of Internal Digitalization and External Digital Platform Use

According to the literature, small and medium-sized enterprises' (SMEs') internationalization development is characterized by the dual-engine model of internal digitalization and external use of digital platforms. Traditionally, internationalization was conditioned by the need for considerable investments and physical resources as well as foreign networks which were not affordable for companies with limited financial resources (Hervé et al., 2020; Pini et al., 2018). The advent of digital economy has altered the logic of internationalization and has led to the transformation of the traditional model into the dynamically developing one, which is based on the interaction of firm's internal abilities and external digital environment (Yang et al., 2023; Zhang et al., 2025). Instead of being seen separately, current studies have shown that the congruence between internal digitalization level and platform use is one of the drivers of export intensity and international market development (Fan et al., 2023; Peng et al., 2025). To comprehend such interaction, it is important to consider how the internal operational ability affects the use of external platforms in terms of risk management.

Internal digitalization is where the baseline and the absorptive capacity for dealing with complex global markets are established. This aspect relates to the internal integration of sophisticated software, data analysis, automation of business processes, and digitized skills

among management and employees (Hervé et al., 2020; Pini et al., 2018). Through internal digitization of core business processes, SMEs ensure maximum efficiency, align information technology with the strategic priorities of the company and build flexible organizational structure (Peng et al., 2025; Zhang et al., 2025). Internal digital readiness provides companies with the necessary agility to analyse the data of foreign consumers, adapt their product designs, and organize their global supply chain management (Fan et al., 2023; Yang et al., 2023). Lack of internal digitalization may cause inefficiency for small firms because the old administrative systems will not be able to cope with the speed and flexibility needed in global digital commerce (Chen et al., 2024; Pini et al., 2018). Thus, internal digitalization is an important organizational structure for preparing the company for entering international markets.

While internal capabilities provide a firm foundation for an SME, external digital platforms are regarded as a gateway through which SMEs can link themselves to international markets, resources, and customers. External platforms, such as international e-commerce marketplaces, digital trade intermediaries, and cross-border payment platforms, provide a readily available infrastructural base that decreases entry and transaction costs (Fan, 2019; Fan et al., 2023). Such platforms make it possible for smaller firms to leverage turnkey solutions of international logistics, marketing, dispute resolution, and branding that would not have been financially feasible otherwise (Fan et al., 2023; Zhang et al., 2025). At the same time, involvement in the platform increases collaboration opportunities and integration within value chains and provides access to common digital resources and business ecosystems (Holopainen et al., 2026; Yang et al., 2023). Thus, external digital platforms work as effective scaling mechanisms, compressing the time necessary for small firms to reach foreign markets and exports (Fan, 2019; Hervé et al., 2020).

Sustainable cross-border growth largely depends on the synergistic relationship and complementary nature between internal digital capabilities and external platform use. Internal digitalization to high levels is critical for building up organizational absorptive capability to harvest strategic value from the infrastructure of external platforms (Peng et al., 2025; Yang et al., 2023). Mature internal digital capabilities of SMEs help in absorbing information from the market through platforms, linking the cross-border e-commerce interface with its ERP system, and changing the level of production or inventories (Fan et al., 2023; Zhang et al., 2025). On the other hand, involvement in using platforms offers timely feedback on the market to inform future investment in internal digitalization, which leads to further technological development and training (Holopainen et al., 2026; Pini et al., 2018).

However, while there may be certain benefits from the strategic perspective of this dual approach, the relation between the two elements is non-linear, implying certain strategic challenges that need to be considered. Overreliance on the external platform without proper internal digital capability development may result in platform dependency, fierce competition, lack of ownership of customer data, and risks of changes in platform policies (Chen et al., 2024; Fan, 2019). In this regard, the phenomenon can be discussed in the context of digitalization paradox, as digital investments become inefficient in case of the lack of the evolution of internal organizational practices and strategies along with platform implementation (Chen et al., 2024; Zhang et al., 2025). For sustainable international development, SMEs' leaders must integrate the external platforms with internal capabilities by making use of platforms for entering the market and developing internal digital assets for keeping strategic flexibility (Fan et al., 2023; Peng et al., 2025).

Organizational Enablers and Systemic Barriers to Digital SME Internationalization

Scholars have shown that even though digital technologies offer effective means for accessing global markets, digital transformation per se is far from being sufficient for successful internationalization. The results of digitally driven expansion across borders are highly contingent upon internal organizational enablers and external systemic barriers (Bargoni et al., 2024; Nahar & Alam, 2026). SMEs operate under the influence of complex internal and external environments, wherein particular capabilities of firms accentuate their strengths, while ongoing environmental resistance hinders their international development (Harmanci et al., 2025; Sannegadu et al., 2024). As a result, the analysis of digitally driven internationalization of SMEs is contingent upon the examination of interaction between internal organizational preparedness and external environmental challenges moderating its pace, scale, and sustainability (Abdelwahed et al., 2025; Elsharnouby et al., 2024).

Organizational level enablers represent important facilitators that can help SMEs make the best use of digital tools in foreign markets. The high-confidence enablers are represented by sophisticated digital capabilities and organizational digital resilience which enable the firm to be flexible and adapt its processes to the new environment in case of any disturbances of global market (Abdelwahed et al., 2025; Kumar et al., 2024). At the same time, those technical capabilities are facilitated by an entrepreneurial orientation and strategic leadership which create the innovation-oriented mindset important for entering foreign markets (Harmanci et al., 2025). The creation of unique human capital – internal skilled labor, export experience, and digital skills – is the way to turn digital routines into successful export activities (Elsharnouby et al., 2024; Rahman & Mendy, 2019). In terms of external resources, strategic binding networks, inter-firm relationships, and government support program play the role of compensation for the small-firm resource disadvantage (Harmanci et al., 2025; Udomkit & Schreier, 2017).

On the other hand, several systemic barriers with high confidence levels mitigate internationalization consequences by causing friction and risk. External systemic barriers include institutional and regulatory restrictions, such as trade regulations, foreign requirements for compliance, and financial barriers (Nahar & Alam, 2026; Sannegadu et al., 2024). The lack of information and experience with foreign markets also hinders decision-making and risk evaluation processes due to a lack of knowledge about target regions (Chaplin, 2013; Sannegadu et al., 2024). Internal systemic barriers include a lack of resources in terms of financial capital and technological capabilities to implement sophisticated digital systems (Chaplin, 2013; Harmanci et al., 2025). Human factors, in particular, lack of digital skills among employees, along with cultural and language differences, hinder communication with foreign stakeholders (Clavijo-Olmos, 2022; Rahman & Mendy, 2019).

The dynamic interplay of organizational enablers and systemic barriers creates the moderating mechanism through which the internationalization path of an SME is determined. Organizational enablers are capable of actively protecting the organization from systemic barriers; for example, strong strategic networking and government intervention mechanisms facilitate the process of bridging gaps in foreign market knowledge and overcoming institutional barriers (Harmanci et al., 2025; Udomkit & Schreier, 2017). At the same time, high levels of digital resilience and human capital enable the SME to operate in conditions of resource scarcity and to overcome people-related barriers in expanding into foreign markets (Elsharnouby et al., 2024; Kumar et al., 2024). On the other hand, when the systemic barriers

like stringent regulatory requirements or capital deficiencies outweigh the internal strengths of a firm, the anticipated performance improvements due to digital transformation remain unrealized (Nahar & Alam, 2026; Sannegadu et al., 2024).

This synthesis of the above moderating mechanisms produces significant implications both theoretically and for management practice when it comes to the growth of small firms internationally. Enlarging the scope of institutional and resource-based theories, this research clearly shows that adoption of technology should be combined with building internal capabilities and relations outside the firm to achieve sustainable competitive advantages (Abdelwahed et al., 2025; Nahar & Alam, 2026). For SMEs' managers, the findings emphasize that the use of technological tools alone does not bring about competitive advantage unless accompanied by efforts to develop employees' skills, accumulate knowledge regarding exports and build a network of partners (Elsharnouby et al., 2024; Udomkit & Schreier, 2017). For policymakers, this evidence shows the importance of developing programs aimed at supporting exports, simplifying digital compliance and creating favourable entrepreneurship environments (Harmanci et al., 2025; Sannegadu et al., 2024). In other words, alignment between internal organizational readiness and appropriate institutions is important for achieving successful growth internationally.

Conclusion

In conclusion, this critical literature review has provided a systematic synthesis of contemporary research on the role of digital transformation as a strategic trigger for SME internationalization. Specifically, the synthesis identifies three central conclusions on the ways in which digital instruments influence the cross-border growth process of small firms. Firstly, the mechanism of digital transformation includes three core dimensions: opening new markets through e-commerce and digital marketing strategies; building international competitiveness through process automation and innovative business models; and managing scarce resources through data analytics and operational workflows. Secondly, SME internationalization is based on a dual engine model where internal digital capabilities (digital alignment, digital skills, absorptive capacity) and external digital platforms (cross-border e-commerce platforms, cloud infrastructure) act synergistically. Internal digitalization ensures that the organization is ready to absorb market information and prevents its dependence on the platform; the external platforms provide additional reach and scaling. Finally, performance outcomes of digital SME internationalization are moderated by certain organizational enablers (leadership vision, digital resilience, strategic networks) and systemic obstacles (capital shortages, regulatory challenges, cultural conflicts).

Theoretical Implications

First, the results of this review have made important contributions to strategic management and international business literature. The integration of the Resource-Based View (RBV) and Dynamic Capabilities perspective with institutional theory has shown that digital technologies are more than operational tools; they represent the core organizational routines that allow transforming resource constraints into dynamic global capability. Moreover, this review has overcome the fragmentation between the micro-perspective of managerial characteristics and the macro-perspective of organizational process by showing how the digital orientation and internal capabilities of managers allow small companies to use the infrastructure of the external platform. Finally, the review broadens existing models of SME internationalization by

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switching them from stage-based accumulation models to technology-enabled agile scaling models.

Managerial and Practical Implications

In practical terms, the present review provides actionable insight into how SME owner-managers, corporate strategists, and economic policymakers can facilitate the effective internationalization of their respective organizations. The findings imply that simply purchasing independent software products is not enough for successful internationalization; managers need to integrate external platform adoption into organizational changes, business model innovation, and employee training. For policymakers and economic development practitioners, the implications of the study mean that there needs to be support in the form of targeted export promotion programs, investment into digital infrastructure, reduction of cross-border regulatory burden, and provision of networking opportunities to resource-limited SMEs to help them overcome the entry barriers.

Limitations

While comprehensive in terms of synthesis, this research suffers from several natural limitations. Firstly, as the bulk of the literature is sourced from academic databases, the potential publication bias towards successful performance of companies that have gone through the process of digital transformation is a possibility. Secondly, due to the prevalence of cross-sectional and region-specific empirical literature on the matter, capturing the non-linear, multi-step processes of digital internationalization under different institutional settings proves to be problematic. Thirdly, the rapid emergence of new and fast-evolving technologies in such areas as generative AI, cross-border digital currencies, and complex supply chain monitoring is outpacing the pace of empirical literature review.

Suggestions for Future Research

To address these limitations, there are several interesting avenues of research that can be further pursued. One way to go about it would be to conduct longitudinal, qualitative, and mixed-method research to understand how digital capabilities and platform adoption of the organization change over time at each stage of the foreign market penetration process. Moreover, cross-country and cross-industry comparative research is necessary to assess how different institutional settings, digital maturity, and regulations affect the link between digital adoption and export performance of SMEs. Finally, further research is needed to explore how the use of new Industry 4.0 technologies such as AI customer analytics, automated blockchain logistics, and robotized business process management affects liability of foreignness and platform lock-in risk mitigation.

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