This work is dedicated to Small and Medium-Sized Enterprise (SME) internationalisation and strategic orientations.

In recent years, these two factors have become prominent as being levers for SME competitiveness and performance in an increasingly global marketplace.

So far, SME business-level strategising when approaching foreign markets has been described as essentially unplanned and reactive or at best opportunistic. Only recently, in the field of international entrepreneurship, has the so-called entrepreneurial orientation, a combination of proactive, innovative and risk-taking behaviour, been identified as key influence for fast and broad internationalisation. Here we ask whether any other strategic orientation constructs such as customer, market, and sales orientation described in the field of strategic management and marketing, do have an impact on internationalisation success and patterns.

An empirical analysis of 150 Italian SMEs uncovers the presence of differentiated strategic types, their profile and their particular characteristics considered crucial for international performance. Possessing and developing a business strategy and related competencies proves to be a critical success factor for Italian SMEs going abroad, regardless of industry, company size or company age.
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Business Strategy in International Small and Medium-Sized Enterprises

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Introduction

We have never considered internationalisation as a separate part of the company or a strategy to be enacted only in difficult moments at home... essentially, critical challenges to succeed in international operations are identical to those at home, so our inventiveness and agility has allowed us to embrace and profit from international opportunities and lines of growth.

S. Liechti, SME owner/manager

Internationalisation is one of the most complex strategies that any firm can undertake. In addition, the strategy is likely to become a necessity more than a mere option. Globalization and an increasingly interconnected marketplace also put small and medium-sized firms in the position to take advantage from the opportunities (or bear the changes) that are affecting both international and their home markets.

It therefore seems reasonable to devote research effort to the small and medium-sized enterprises and their approaches to international expansion and, in particular, to understanding and explaining the strategic drivers that are conditioning their international performance.

From the 1960s onwards, SME internationalisation has been an evolving and promising field of research for academics as well as for practitioners, including governments. The research focused on small and medium-sized firms because of their recognized importance to economic activity, employment, innovation and wealth creation in many countries. Moreover, improving the international contributions of the small business sector is commonly regarded as an increasingly important policy priority. This is particularly true for Italy, where small and medium-sized firms account for 95% of all businesses and for 75% of employment (ISTAT 2007). In addition, the group of international SMEs is reported to outperform their non-exporting counterparts regarding all key economic indicators such as value added per employee, employment rate, and investment per employee and thus is disproportionally contributing to innovation and future growth of the Italian economy.

Factors such as changing consumer preferences, developments in manufacturing, communication and information technology, and overall changing competitive conditions provide a favourable environment for small firms now and in the future. For example, the phenomenon of earlier and faster internationalisation and especially the emergence of the so-called born-globals, firms that compete globally virtually from inception, has been attributed in part to this favourably changed world environment. In general, scholars contend that the nature and pace of internationalisation is determined by industry and other environmental variables as well as internal firm-specific factors,
such as resources, organization, strategy, and product. Indeed, firm-specific influences merit further investigation as they are supposed not only to impact on firms’ strategy and performance, but also, with the resource-based view, to explain performance differences between firms better than the opposed positioning approach. The perspective also reflects the assumption that performance differences are attributable to and influenced by superior work and consequently, that performance is impacted by the firm’s orientation, strategy and management in general.

A firm’s strategic orientation, competitive and functional strategy put together with competitive advantage therefore could be conceived as a configuration of interdependent strategic elements that can help to better understand and explain the overall internationalisation pattern and performance of the small and medium-sized firm.

Melin (1992) as well as Ricart et al. (2004) in recent reviews have highlighted the limited attention that has been paid to the link between internationalisation theory and strategy issues at both conceptual and practical levels. The absence of linkages is even more pronounced in relation to small firm strategies and internationalisation. This lack of research attention is surprising given the importance of the small business sector in general and the impact of the internationalised SME in particular. However, the lack of research focus may be partially explained by the fact that much of the early literature described SMEs export behaviour as essentially unplanned and reactive, with firms responding to unsolicited orders or enquiries rather than pursuing proactive strategies (Bilkey and Tesar, 1977). Resource shortages, including the absence of formal planning, have been offered as an explanation. Also, domestic and international developments are often seen as two diverse strategic ends, rather than being complementary to firm growth (Bell et al. 2004).

This apparent lack of strategizing by SMEs however has to be qualified. After the seminal work of Mintzberg and Waters (1985) the notion of strategy formation has been progressively broadened by introducing concepts such as entrepreneurial or umbrella notions of strategy formation and the view of an a priori, analytic process or the two alternatives of deliberate and emergent have been extended. Also, as Bell et al. (2004) note “the absence of an explicit and formal strategy does not equate to the lack of strategic vision, whether or not this involves a global focus”. Especially in a SME setting, a formal plan might be less crucial due to management centralisation in the hand of the owner/manager, coupled with flat hierarchies and easy communication. In addition, the notion of the emergent and entrepreneurial strategy formation described by Mintzberg and Waters (1985) fits well into a SME context that is characterized by flexibility, adaptability and closeness to customers. Also the “strategic vision” mentioned by Bell et al. (2004) might be more expressive of overall SME strategic behaviour and its coordination.

Building on these thoughts, the current work seeks to contribute to the understanding of SME internationalisation patterns and performance by putting them into the context of the firm’s overall strategic “configuration”, that is hypothesized to consist of strategic orientation, competitive/functional strategy and competitive advantage. In this way additional insights into the drivers of SME internationalisation are provided that complement current internationalisation models and approaches.
Introduction

The current work’s point of departure is the generalization from key findings in recent international entrepreneurship research, in particular the born global stream of research. In this (young, small, and global firm) context scholars contend that the entrepreneurial orientation, defined by the three-dimension-combination of innovativeness, proactivity and risk-taking, is conditioning early, fast and intense internationalisation. Also, international orientation has been discerned as a key variable in international entrepreneurship and in extant export performance research. Strategic orientation therefore seems to be a key influencing element of a firm’s behaviour and approach towards internationalisation.

Beyond the recent focus on entrepreneurial orientation in an international setting, strategic orientations are important constructs of investigation in strategic management, strategic marketing and entrepreneurship research. A large body of literature in these streams is describing a variety of strategic orientations such as market orientation, innovation orientation and entrepreneurial orientation with a large variety of meanings and definitions as to their nature and dimensions, their interrelationships and questions related to antecedents, outcomes and moderators. Contrary to this ongoing controversy within the streams and the lack of boundaries across the fields, they share one common view: any field of research is convinced that strategic orientations are important determinants for superior firm performance and much empirical work confirms this view in the domestic context. Surprisingly, the strategic orientation-performance link has not been extended to the international setting, except for the international entrepreneurship construct and the isolated research efforts regarding export market orientation by Cadogan and colleagues (1999, 2001). However, the relationship between strategic orientation and international performance is intuitively convincing. Market orientation and the resulting knowledge about markets, entrepreneurial orientation and a proactive and innovative approach will also increase a firm’s ability to discover and exploit international opportunities. The empirical studies regarding the strategic management typology for example found support for superior performance of prospectors, defenders, and analyzers, over reactors (Snow and Hrebiniak, 1980, McKee et al. 1989, Conant et al. 1990, Snow and Hambrick, 1983) and were confirmed by Naidu and Prasad (1994) in the international context. A meta-analysis confirmed the positive link between market orientation and performance with Ruokonen et al. (2008) supporting its importance in the international setting. Regarding entrepreneurial orientation, the research produced mixed results, some studies (Wiklund 1999, Zahra 1991, Zahra and Covin, 1995) found support for a positive relationship, whereas others did not. Most recently, Jantunen et al. (2008) have investigated the strategic orientations of born globals, their findings indicate that strategic orientations are related to a firm’s international performance, as do the overall findings in the born global field (Rialp et al., 2005). It therefore seems reasonable to assume that strategic orientations also condition international performance.

Notwithstanding the fact that strategic orientations have been identified in all research streams as an important theoretical construct and determinant for performance, none of the streams have been particularly concerned with the process by which strategic orientation translates into superior performance. Knight (2001) states that very
little is known about the effect of having an international entrepreneurial orientation and strategy and their link with international performance. Slater and Narver propose that “understanding the link between market orientation and strategies […] is important to our comprehensive appreciation of market orientation’s contribution to organizational effectiveness.” In addition to this view Morgan and Strong (1998) see strategy as the vehicle through which strategic orientations become manifest. Notwithstanding these views, there has been only limited work on the relationship between strategic orientation and the competitive and functional strategies that companies pursue. Market orientation with its dimensions of customer and competitor knowledge has been primarily linked to differentiation (Homburg et al. 2004; Narver and Slater 1990; Pelham and Wilson 1996). Niche strategy has been related to both, entrepreneurial orientation and customer orientation (Rialp et al. 2005; Frambach et al. 2003; Campbell-Hunt 2000), whereas innovation orientation was found to be involved more in differentiation than in focus strategies (Zahra 1993; Campbell-Hunt 2000). Siegel et al. (1993) found empirical support for focused strategy leading to more growth in entrepreneurial ventures, whereas Baum et al. (2001) show focus and low-cost-strategy negatively related to the sales and employment growth of these firms. In general, putting empirical findings and theoretical reasoning together, strategic orientations and strategy seem to be closely linked. Further, with varying strategic orientations, different strategies – competitive and functional – seem to be valued whereas entrepreneurial/ market oriented/prospector firms are supposed to put emphasis on product and service development, being that they are prone to advertising and promoting their output, putting emphasis on high quality and customer satisfaction and being growth oriented (McKee et al. 1989; Miles and Snow 1978; Gale and Swire 1977; Miles and Snow 1986; Buzzel and Gale 1987) their production-oriented/defender counterparts could be best described as directing attention towards reducing manufacturing and distribution costs, with low advertising and promotion activity, emphasizing either price or quality, and not valuing customer orientation and market changes (Wright et al. 1995; Dess and Davis 1984; Miles and Snow 1986; Porter 1980). Again, as was the case for the strategic orientation-performance association, the studies reviewed concentrate mainly on the large firms and on domestic markets.

In summary, there is a research gap in literature regarding internationalisation and strategy issues in the SME setting in general and recent reviews highlight the importance to investigate the topic both on a conceptual and an empirical basis. In this context, many alternative strategic orientations have been identified as important drivers for firm performance in four different research streams but findings are limited mainly to large companies and the domestic context. Here it is proposed that especially in SMEs the importance of orientation could be amplified because it responds to their structural characteristics and acts as a “simple” unifying coordinating mechanism for firm behaviour on all levels. Strategic orientation as has been illustrated above, is hypothesized and shown to value different competitive and functional strategies: including strategy into investigation which therefore adds information on how strategic orientations become manifest and if and how strategy is aligned with strategic orientation. When strategic orientation and strategy adequately combine, a competitive
advantage will be achieved, that in turn is manifest and measurable along marketing/product/technology advantages. All these “strategic elements” put together describe the firms’ different strategic profiles according to the variables used to express and measure the concepts. Finally, the strategic profile is assumed to influence international performance and the firm’s internationalisation paths and patterns. It therefore puts international performance in the context of the firm’s overall strategic posture, assuming that strategic behaviour on domestic and international markets is complementary and that the firm’s competencies are allocated wherever it is operating.

Therefore, grounded on the idea of an overall SME strategic configuration, this work seeks to identify strategic types in a sample of Italian international SMEs and their potential performance association in an international setting. The underlying assumptions are that SME behaviour is neither uniform nor reactive only, that SMEs are able to overcome resource limitations by valuing their strategic profiles and competencies, and that these firm-specific internal factors are able to enhance understanding and explanation of international performance differentials and internationalisation paths and patterns.

Consequently, the theoretical frame adopted is the resource-based view that conceives a firm as a unique bundle of tangible and intangible resources (that is assets, capabilities, processes, managerial attitudes, information and knowledge) that are controlled by a firm and that enable it to devise and implement strategies aimed at realizing competitive advantage (Barney 1991; Wernerfelt 1984). The theory contends that the principal determinants of a firm’s strategy and performance are the firm’s internal resources (Barney 1991; Collis 1991). The frame combines the resource-based view with the closely intertwined perspective of international entrepreneurship, that puts the entrepreneur and his/her characteristics at the centre of firm behaviour. This view also combines nicely with the importance of knowledge that is at the core of many internationalisation models. In general, the RBV is becoming an increasingly used framework to explain performance differences, also in international markets. Andersen and Kheam (1998) as well as Dhanaraj and Beamish (2003) for example used a resource-based framework to investigate the growth strategies of exporting SMEs. Figure 1 summarises the work’s theoretical foundations and the constructs used.

The methodological approach of the work is quantitative in nature, with a strong exploratory element due to the analytical technique employed. Following formulation of the research question, the process of a quantitative research strategy entails definition of the research method, that includes development of the research instrument, selection of the research subjects and collection of data. The research instrument, a four-page self-completion questionnaire with no open questions, was jointly developed by six European Universities1 under a common research project on SME internationalisation. The overall scope of the project is to develop a cross-country perspective of the internationalisation process, strategies and performance in an international SME universe. The questionnaire was developed following a literature review in the fields of international business,

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1 The University of Vaasa, Finland (project leader), Athens University of Economics & Business Greece & University of Glasgow, Scotland, University of Applied Sciences HTW Chur, Switzerland, University of Southern Denmark, Denmark, Autonomous University of Barcelona, Spain.
international marketing, and international entrepreneurship and it was discussed and fine-
tuned in project meetings with the researchers involved. The English version was
translated and pretested locally with SME managers. The final questionnaire is organized
in five major sections relative to (1) firm demographics, (2) the role and the importance
of foreign markets (foreign sales, foreign market selection, mode selection, time of entry
etc.), (3) the companies competitive and (4) functional strategy in terms of its adopted
standardization/adaptation practice in foreign markets, and finally (5) company
international performance and perspectives. Following the general objective of cross-
country analysis, also the selection of the research subject – international manufacturing
SMEs – was agreed upon by the Universities involved.

The survey started in early 2007, when the questionnaire was mailed to a random
sample of 850 exporting SMEs in the manufacturing sector. The final dataset used for
research purposes consists of 148 international manufacturing SMEs representative of
the corresponding SME universe (effective response rate of 17.4%).

Data analysis is comprehensive of both descriptive and multivariate analysis.
Descriptive statistics are reported regarding firm’s demography and internationalisation
patterns and further include a correlation analysis on the relationship between all items
measuring strategic orientation, strategy, and competitive advantage and export intensity.

The research questions of whether a strategic typology exists in an international
SME universe and if/how these alternative types condition international performance
are answered by employing Cluster analysis. Cluster analysis is an explorative
multivariate statistical method that allows structure-discovery from data. It is a
common approach in a variety of disciplines when the objective of analysis is
classification of different subjects with regards to a variety of concepts, such as firms’
strategic orientation, strategy, and competitive advantage or performance. The

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2 The sample was drawn from the official database of the Union of the Italian Chambers of Commerce.
Introduction

...technique represents a meaningful way to respond to the analytical challenge of analysing complex realities such as strategic firm behaviour. Therefore, Cluster analysis is employed here (1) to uncover both strategic types and performance groups from data and (2) it is used to statistically confirm a potential performance association of different strategic profiles and international performance. Whereas, in general, quantitative research strategy puts emphasis on a deductive view of research this method of analysis involves more of an inductive element and therefore also leads to conceptualization.

The resultant SME typology will be of help to better understand and explain alternative strategic profiles (by their discriminating underlying strategic elements) and their potential international performance implications. It will add knowledge to the strategy – internationalisation linkage, and it will complement internationalisation process research regarding patterns and paths of internationalisation.

The remainder of the work is organized as follows: the first chapter “small firm internationalisation” starts with a description of the importance and characteristics of the small and medium-sized international firm and influencing factors of SME internationalisation. It continues with the presentation and discussion of the relevant theoretical foundations, that is, international business/internationalisation theories and models. Chapter 2 reviews and analyzes the strategic orientation literature emerging from four different research streams followed by the identification of the research gap and definition of the research questions. Chapter 3 presents the conceptual framework that is developed in order to address and empirically analyze the research questions. The empirical part of the work starts with a description of the quantitative research strategy (Chapter 4) and its elements. Descriptive statistics and multivariate statistical analysis are reported and discussed in Chapter 5. The work ends with conclusions and future research directions.