

SMALL BUSINESS BRIEF

**GO INTERNATIONAL GRADUALLY:
ADVICE TO SMALL BUSINESSES FROM
COMPANIES WITH OVERSEAS EXPERIENCE**

Sheri Bridges
bridges@wfu.edu
J. Kline Harrison
harrisjk@wfu.edu
Wake Forest University

ABSTRACT

The limited resources of small businesses often present unique challenges when the companies try to internationalize. This paper examines the decision to enter the global arena from the viewpoint of firms who already are there. The results of a survey of such companies indicate that changes in the external situation often overcome internal reservations firms might have about internationalizing. Survey participants identify issues related to risk management and the assignment of responsibility for international operations as key areas of concern, and they suggest "coping strategies" for small businesses thinking about doing business overseas.

INTRODUCTION

Increased domestic competition, coupled with innovations and advancements in transportation, telecommunications technology, converging consumer needs and wants, and the adoption of multilateral trade agreements have prompted many U.S. companies to look beyond their home borders for growth opportunities. Although the United States remains the world's largest market for goods and services, 75% of total market potential now lies overseas (Keegan 1999).

Like their larger corporate counterparts, small and medium-sized businesses are finding the call of the international marketplace increasingly difficult to ignore. A survey of middle-market companies conducted by Yankelovich Partners for Deloitte and Touche revealed that the quest for expansion was one of their top two concerns (along with staff recruitment and retention), while globalization was the issue of greatest continuing concern (Simon 1998). And a Federal Express survey of small business exporters found 52% of respondents anticipate increasing their export volume this year, with 75% planning an increase over the next five years (Zelade 1998).

However, the global arena -- with its varied cultural, legal, political, and commercial environments -- adds new levels of complexity to business. This complexity can be challenging for a firm of any size to handle, but the risks are especially high for smaller firms: Because of their more modest financial and management resources, they cannot afford to make a mistake.

The purpose of this study is to examine the internationalization decision for small businesses from the viewpoint of companies who already have made the cross-border leap. The results of a survey, "Entering the Global Business Arena: Key Issues in Global Expansion for American Small Businesses," suggest that firms should consider "three Rs" with respect to internationalization: the rationale, risk management, and the responsibility locus. After the conceptual background is set forth and the survey method is described, each of these is discussed in turn. The article concludes with an overview of the findings.

CONCEPTUAL BACKGROUND

The global fever spurred by social, technological, competitive and legislative changes of the recent past has in turn spurred a rise in the number of books, college courses, and articles devoted to global strategy and tactics. Yet a review of the literature reveals a limited amount of research on the subject as it relates to small businesses.

The Internationalization Process

In their review of recent empirical research on how small firms increase their involvement in international operations, Coviello and McAuley (1999) examine 16 studies. They conclude that the internationalization process among small and medium-sized companies is best understood by integrating three major theoretical frameworks: (1) Foreign Direct Investment theory (Anderson and Gatignon, 1986; Buckley and Casson, 1993), which says that firms choose overseas structures and locations that minimize the cost of economic transactions; (2) establishment chain or stage models (Johanson and Vahlne, 1990; Melin, 1992), which propose that internationalization occurs incrementally as firms increase their market knowledge and commitment; and (3) the network perspective, which contends that internationalization is a function of a firm's set of inter-organizational and interpersonal relationships (Axelsson and Easton, 1992).

All 16 of the studies reviewed by Coviello and McAuley (1999) -- 10 of which focus on manufacturing firms -- were published in the period from 1992 to 1998, indicating the inchoate state of the research. Interestingly, none were based in North America, a fact that the authors attribute to the greater interest in internationalization among firms from small markets with limited domestic opportunity. (Eleven were based in Europe, three were from New Zealand, one from Hong Kong and another from Pakistan.)

Which Firms Go Overseas?

Baird, Lyles and Orris (1994) looked at the variance in international strategies of 180 small businesses in Indiana. They found that firms who perceived a higher number of changes their general or industry environments (including the regulatory, technological, competitive, and technological climate) were more likely to have overseas operations. They also found a higher level of internationalization among firms with more formal planning processes.

Calof (1993) examined archival data from more than 5,000 Canadian manufacturing companies and found that, although large firms were more likely to export, 48 percent of the smallest firms in the database (sales of \$1,000 - \$499,999) engaged in overseas business.

Analysis of surveys from 49 Canadian software firms led Reuber and Fischer (1997) to conclude that companies with internationally experienced management teams have a higher probability of developing foreign strategic partners and pursue foreign sales sooner after start-up than those whose management teams lack international experience.

Why Go Overseas?

Karagozoglu and Lindell (1998) analyzed completed surveys from 34 small and medium-sized technology firms in the United States. Although limited to a small number of specialized firms, their results showed that the stimuli to go global included pursuit of greater strategic opportunities, inquiries from foreign buyers, and a belief that domestic market sales were insufficient to support competitive levels of R&D spending. They also found that a lack of international management experience and limited information-gathering capabilities posed significant barriers to venturing overseas.

Where Do Firms Go?

The internationalization process among small and medium-sized business services in the United Kingdom was the focus of a study by O'Farrell, Wood and Zheng (1998). The results of their survey revealed a significant relationship between type of industry (engineering consulting, management consulting, market research, computer software, and product design) and location of the firms' first foreign market entry. The authors attribute the finding to the internationalizing company's desire to deal with countries whose demand characteristics are similar to the home market.

Non-Empirical Literature

Much of the remaining literature on small business internationalization is anecdotal in nature, consisting of interviews in which the company executives or government officials offer their advice to would-be international firms. For example, Ake (1993) says going global is "easier done than said." He notes that the psychological barriers to making an international move are often bigger than the legal or cultural barriers, and said firms who take the plunge will find that success breeds success.

Searing (1998) contends that companies with successful products in the U.S. are likely to find receptive markets elsewhere. She suggests that small businesses start off in the most stable markets, moving into riskier areas only after they have gained overseas know-how.

The present research adds to the literature by examining a cross-section of U.S.-based firms who have "been there, done that" and who have advice to give those who would follow in their footsteps. It looks at three issues of importance to any firm considering a cross-border leap: First, what stimulates the decision? Kotler (1997) notes that business would be easier and safer if companies could stay in their home markets and not have to deal with the risks and uncertainties associated with unfamiliar territory. However, firms often have no choice in the matter -- they are impelled to go global by factors that threaten their domestic success or even their very survival.

For example, a company's home market might come under attack by an international firm offering a superior product, lower prices, or both. Or the company might need additional customers to achieve greater economies of scale or to support greater investment in R&D. More basically, the company might believe that profit opportunities overseas are greater than those at home, or simply that it is too risky to be dependent on one market for sales and revenue.

Second, how can the risk associated with such a move be reduced? Aharoni (1994, p. 11) uses the words "massive" and "daunting" when describing the resources that "major" players must commit to their global efforts. The resource and capability constraints of small businesses, which do not permit a full-bore approach to competitive battle in the domestic market, can be

particularly problematic in the global marketplace, which requires efficient, effective management of often-unfamiliar functions and activities.

Finally, who should be involved in the implementation? Close to 90 percent of American firms employ fewer than 20 people, and almost half the U.S. work force is employed by companies with fewer than 500 employees (Aharoni 1994). While these and similar statistics are often used to demonstrate the contributions of small businesses to the gross domestic product, they also illustrate another important fact: Small businesses do not have large staffs to devote to international activities. Consequently, the question of how the internationalization process will be implemented is key.

METHOD

The sample for this survey was randomly selected from the membership of the North Carolina World Trade Association, a group whose mission is to facilitate world trade through education and information exchange. The questionnaire was mailed to 141 association members, who were told that the study's purpose was to identify key issues in global expansion for small businesses. Seventy-six of those surveyed returned completed questionnaires, representing a response rate of 51%. This unusually high response rate was likely due to the congruency between the association's purpose and that of the research.

Of the 76 respondents, 64% classified their firms as service operations, while 20% classified them as manufacturing. The remaining 16% indicated that their firms were both.

The average ratio of foreign sales to total sales among the survey participants was about 38%, with 75% of respondents indicating that more than half their sales came from overseas. Although more than 50% of the firms had no foreign subsidiary, more than one-third of them had at least 10. The remainder had from 12 to 100.

More than 39% of the firms had export departments, with about 14% employing export managers. Less than 5% engaged in overseas production, and none assembled abroad.

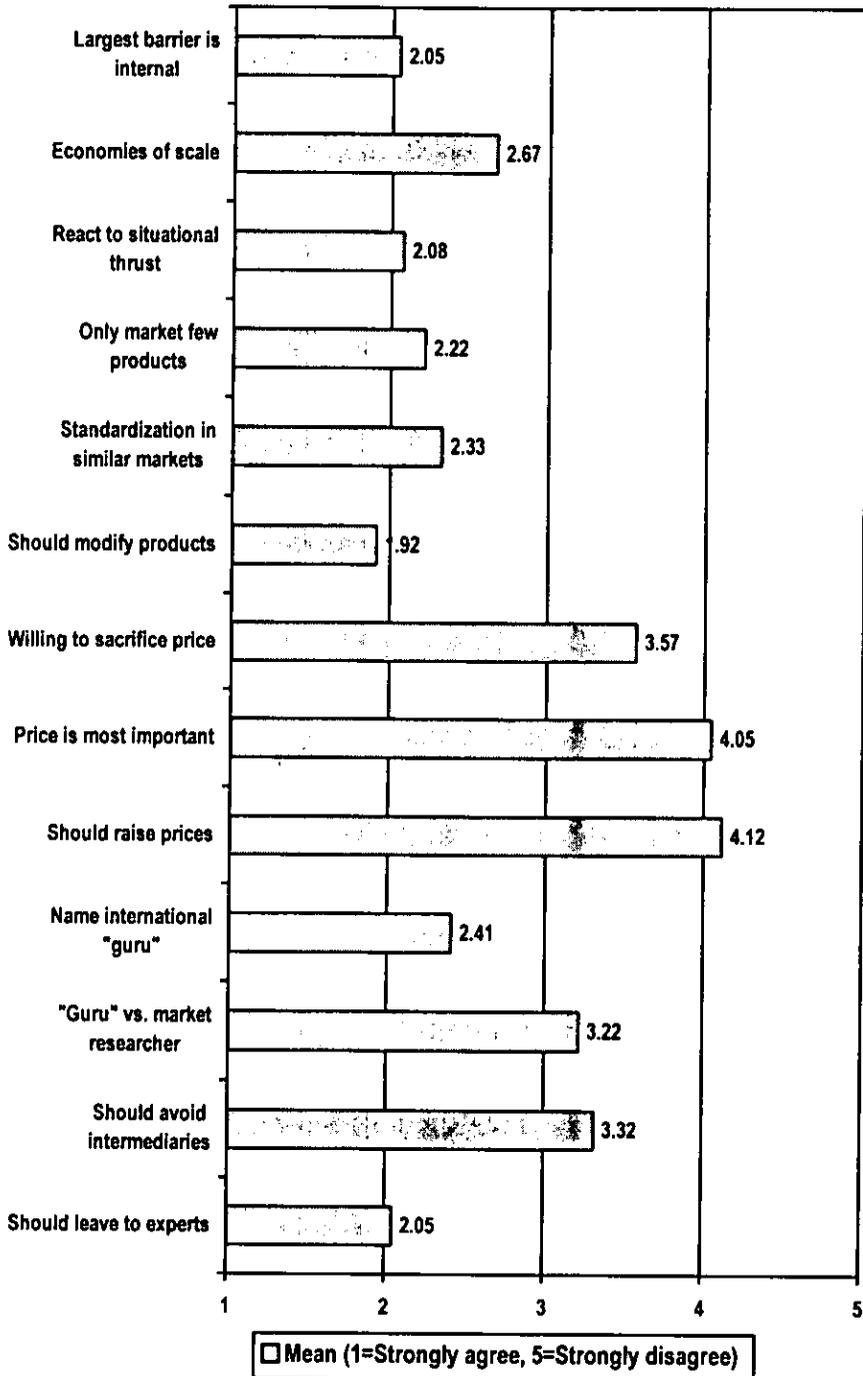
Survey participants were presented with a series of statements related to the decision by a small business to expand globally, and were asked to indicate on a five-point Likert scale the extent to which they agreed or disagreed with each of the statements (1 = strongly agree, 5 = strongly disagree). The statements pertained to three general aspects of internationalization: motives for going global, steps the firm could take to manage risk, and the locus of responsibility for global efforts.

RESULTS

Rationale For Entering International Arena

The results in Figure 1 show that respondents believe that while psychological barriers are the biggest hurdles to overcome in entering the global arena, external factors can hasten the decision. Respondents strongly agreed ($\bar{x} = 2.05$) with the statement that "The largest barrier an American small business will face in global expansion is an internal one (deciding whether or not they really want to sell in foreign markets), not an external one." Moreover, they agreed that the decision to internationalize can produce "substantial economies of scale in production and marketing" ($\bar{x} = 2.67$), suggesting that the active pursuit of cost efficiencies can be an international expansion driver.

Figure 1 - Respondents Level of Agreement on Statements Related to "Going Global"

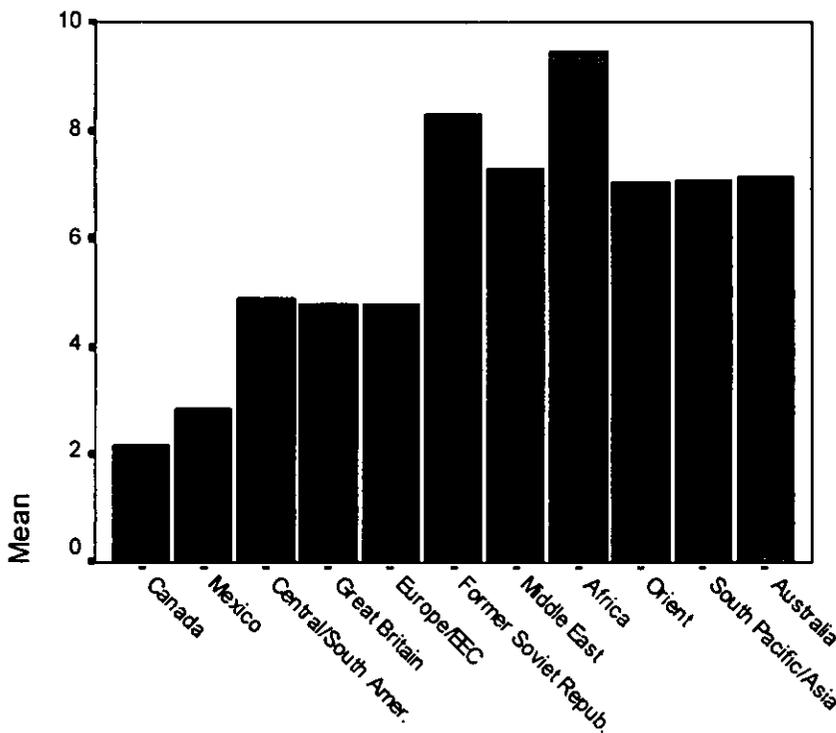


The results also show strong agreement ($\bar{x} = 2.08$) with the statement that, "Because of the risks and difficulties of entering foreign markets, most small businesses often do not act until some situation or event thrusts them into the international arena, such as a domestic importer, a foreign importer, or a foreign government asking the company to sell abroad."

Risk Management

When asked to identify the countries/regions of the world in which small businesses are most likely to be successful marketing their products or services (see Figure 2 for a graphical representation of mean rankings), almost 60% of respondents ranked Canada as number one, while Mexico placed first among 21% percent of respondents and second among 47%.

Figure 2 – Level of Perceived Risk in Selected Regions



Behind the United States' neighbors to the north and south, Great Britain, Europe/EEC and Central/South America ranked third, fourth, and fifth, respectively. Interestingly, Australia, an English-speaking country, ranked eighth behind the Orient, which was sixth, and Southern Asia/South Pacific, which was seventh, possibly because it is not as active a trading partner and hence represents a less-developed market for American products.

The Middle East, ninth, Africa, tenth, and the former Soviet Republics, eleventh, were at the bottom of the list. Their poor showing presumably has much to do with the instability of their political and/or economic environments.

The respondents believe that, once the decision has been made regarding the country or region of the world in which the firm will do business, firms can and should take further steps to minimize their risks. The survey participants indicated strong agreement ($\bar{x} = 2.22$) with the statement that small businesses should begin by "marketing only a few of their products initially" as opposed to taking their entire product assortment overseas. Moreover, they strongly agreed ($\bar{x} = 2.22$) that standardization is practical only in economically similar markets. In fact, they recommended ($\bar{x} = 1.92$) that small businesses consider modifying products to meet better the needs of foreign consumers, and disagreed with the statement ($\bar{x} = 3.57$) that "people around the world are willing to sacrifice preferences . . . for lower prices at high quality."

On the subject of price, respondents disagreed ($\bar{x} = 4.05$) with a description of this decision variable as "the most important factor in determining if the product will be a success." Nor did they support the suggestion ($\bar{x} = 4.12$) that a small business should consider raising its prices to cover exporting expenses or to send a quality signal.

Responsibility Locus

With respect to the assignment of responsibility for activities associated with the going global, the survey results suggest that firms recognize the need for expert involvement, but also understand the desire for small businesses to retain control. Respondents agreed ($\bar{x} = 2.41$) that small businesses should appoint an "international guru" to make the global decision. However, they are unclear ($\bar{x} = 3.22$) about the advantages of having this guru travel overseas to meet potential agents and consumers, as opposed to hiring someone to research a particular country's market potential.

Respondents disagreed ($\bar{x} = 3.32$) with the statement that small businesses should "avoid using trade intermediaries whenever possible" and also with the opinion ($\bar{x} = 3.88$) that it is acceptable for the firm to leave worries and duties related to letters of credit, shipping, and documentation to the experts.

DISCUSSION AND CONCLUSION

Taken as a whole, the advice from experienced firms to those contemplating an international move can be summed up as "Think big in small ways." The survey participants seem to understand the need for small businesses to heed the siren call of the global marketplace, but to do so in ways that makes size a strength, rather than a liability.

The results show that the decision to enter the global market often is made reactively, rather than proactively, when an external situation or event prompts the firm to respond. Proactive moves would be consistent with the entrepreneurial orientation of many small businesses. However, it may be that fear of the unknown and an awareness of the extraordinary resource demands engendered by going overseas lead to inertia on the part of small businesses. On the other hand, a reactive response to an externally generated threat or opportunity is consistent with the speed, responsiveness and flexibility that many small businesses exhibit, especially as compared to their larger counterparts.

With respect to decisions regarding where to go, survey participants strongly agreed that firms should take their first steps close to home, identifying Canada and Mexico as the top two international markets to pursue. The high rankings for these countries are not surprising, given that they share borders with the U.S. and are NAFTA signatories. Moreover, the result is consistent with advice from Griffin and Pustay (1996, p. 37), who identify the first rule of

internationalization as "know the territory" and contend that many businesses fail internationally because they are ignorant of "basic geography, market characteristics, and politics."

Survey respondents also strongly supported suggestions that small businesses limit the number of products marketed overseas as another way of minimizing risk. Selection of a few key offerings reduces marketing costs, and provides "experience curve" effects that can be applied to products that require more effort to achieve their market potential.

With respect to the products themselves, respondents apparently believe that moving away from customization toward standardization might be easier in theory (see Levitt 1983) than in practice. They indicated that standardization is practical and practicable only in economically similar markets and agreed that product modifications should be considered if they are necessary to satisfy foreign consumers.

The survey participants also believe that gaining expertise about the internationalization process is important, and that such expertise can be provided by a "guru" inside the company or by knowledgeable, experienced individuals and firms outside. However, they believe the small business should remain concerned about and involved in the process, even when outside experts have been engaged. In total, the responsibility-related results point to a perceived need to balance the external competence—internal control issues that confront a small business in the global arena.

As the world continues to get smaller, the role of small businesses in the global economy is likely to get larger. The present research provides advice from a sample of North Carolina firms regarding the global arena and the process for entering it. However, a larger-scale study of small businesses from across the United States could provide even greater insight into the unique challenges and opportunities faced by members of this vital economic sector.

REFERENCES

- Aharoni, Y. (1994). How small firms can achieve competitive advantage in an interdependent world. In Tamir Agmon and Richard Drobnick, Small firms in global competition (pp. 9-18) New York: Oxford University Press.
- Ake, J. J. (1993). Easier said than done. INC., 15 (2), 96-99.
- Anderson, E. & Gatignon, H. (1986). Modes of entry: A transactions cost analysis and propositions. Journal of International Business Studies, 17 (3), 1-26.
- Axelsson, B. & Easton, G. (1992). Industrial networks: A new view of reality. London: Routledge.
- Baird, I. S., Lyles, M. A., & Orris, J. B. (1994). The choice of international strategies by small businesses. Journal of Small Business Management, 32 (1), 48-59.
- Buckley, P.J. & Casson, M.A. (1993). Theory of international operations. In P.J. Buckley and P. Ghauri, The internationalisation of the firm: A reader (pp. 45-50) London: Academic Press.
- Calof, J. (1993). The impact of size on internationalization. Journal of Small Business Management, 31 (4), 60-67.
- Coviello, N. & McAuley, A. (1999). Internationalisation and the smaller firm: a review of contemporary empirical research. Management International Review, 39 (3), 223-232.
- Griffin, R.W. & Pustay, M. W. (1996). International business: A managerial perspective. Reading, MA: Addison-Wesley Publishing Co.

- Johanson, J. & Vahlne, J.E. (1977). The internationalisation process of the firm: A model of knowledge development and increasing foreign market commitments. Journal of International Business Studies, Spring/Summer, 23-32.
- Karagozoglu, N. & Lindell, M. (1998). Internationalization of small and medium-sized technology-based firms: An exploratory study. Journal of Small Business Management, 36 (1), 44-59.
- Keegan, W. J. (1999). Global marketing management. Upper Saddle River, NJ: Prentice-Hall.
- Kotler, P. (1997). Marketing management. Upper Saddle River, NJ: Prentice-Hall.
- Levitt, T. (1983). The globalization of markets. Harvard Business Review, 61 (3), 92-103.
- Melin, L. (1992). Internationalisation as a strategy process. Strategic Management Journal, 13, 99-118.
- O'Farrell, P. N., Wood, P.A., & Zheng, J. (1998). Internationalisation by business service SMEs: An inter-industry analysis. International Small Business Journal, 16 (2), 13-33.
- Reuber, A.R. and Fischer, E. (1997). The influence of the management team's international experience on the internationalization behaviors of SMEs. Journal of International Business Studies, 28 (4), 807-825.
- Searing, M. (1998). Avenues to foreign markets. Nation's Business, 86 (8), 18-19.
- Simon, F. (1998). A global blueprint for midsize companies. Chief Executive, 137 74-75.
- Zelade, R. (1998). You're never too small for global fever. International Business, 11 (1), 6.

Sheri Bridges is an assistant professor of marketing in the Wayne Calloway School of Business and Accountancy at Wake Forest University. She received her Ph.D. from Stanford University and teaches courses in Marketing, Consumer Behavior, and Marketing Communications. Dr. Bridges' primary research interests are in the areas of brand equity and consumer response to marketing strategy. Her most recent publication was in the Journal of Marketing. Before joining the Wake Forest faculty, Dr. Bridges was marketing director for a San Diego company that manufactured residential security systems and city editor of a daily newspaper in Florida.

J. Kline Harrison is an associate professor of management in the Wayne Calloway School of Business and Accountancy at Wake Forest University, where he also serves as Associate Dean for Curriculum and Administration. He received his Ph.D. from the University of Maryland and teaches courses in Organizational Behavior, Human Resources Management, and International Business. Dr. Harrison's research primarily focuses on international human resource management. His publications include articles in the Journal of Applied Psychology, Administrative Science Quarterly, International Journal of Intercultural Relations, Journal of Social Psychology, and Journal of Management Education, as well as a book entitled, Personnel/Human Resource Skills Modules. Prior to assuming his position at Wake Forest in 1990, Dr. Harrison was a management training consultant in Washington, D.C. working with a variety of organizations in both the public and private sectors. His trainees ranged from corporate executives to first-time supervisors and included both American expatriates and foreign nationals.