Late Starter: A Situation or a Process?

ABSTRACT

This paper critically evaluates the assumptions of the network model of internationalisation in terms of a firm's market knowledge. The discussion is illustrated with the entry of a Portuguese firm into the United States, which can be regarded as a situation of Late Starter. The case suggests that foreign market entry cannot be dissociated from the firm's ability to acquire knowledge through relationships with other firms. The notion of situations in the network model of internationalisation should thus be reformulated in order to consider the sub-processes they are associated with. One such a process is the firm's acquisition of *objective knowledge* and *experiential knowledge*.

Key words: internationalisation, market knowledge, case studies, glass industry

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1. INTRODUCTION

Two key indicators of economic globalisation are growing international trade and foreign direct investment. According to the World Trade Organization, international trade has reached 7.7 trillion dollars in 2000 being 22-times higher than in 1950. Foreign direct investment, on the other hand, has, according to United Nations, reached record levels of 1.3 trillion dollars in the same year. The intensification of international trade and foreign direct investment may, in turn, be associated with both multinational corporations and small and medium enterprises. The United Nations, for instance, estimate that there are around 64,000 multinational corporations with 870,000 foreign affiliates, being responsible for one third of world exports.

At the micro level, international trade and foreign direct investment have been addressed in both studies of multinational corporations and of internationalisation. In this respect, knowledge has been increasingly associated with successful operations abroad either as a source of competitive advantage of multinationals (e.g. Doz et al. 2001) or as an explanatory variable of patterns of internationalisation (e.g. Johanson and Vahlne 1977). In the latter case, the most debated internationalisation process model is probably the Uppsala model (cf. Andersen 1993) in which knowledge is divided into *objective knowledge* and *experiential knowledge* (cf. Penrose 1959). "Objective knowledge is acquired through standardized methods of collecting and transmitting information, i.e., market research, and can easily be transferred to other countries and replicated by other firms" whereas "experiential knowledge is country-specific and cannot be transferred between firms or business units" (Eriksson et al. 1997:340). In general, internationalisation process models suggest that experiential knowledge is more important than objective knowledge in explaining firm internationalisation (e.g. Johanson and Vahlne 1977, 1990; Luostarinen 1980).

Within the IMP tradition, market knowledge has also been present in the discussion of internationalisation (e.g. Johanson and Mattsson 1988) but not as a crucial explanatory construct. Instead, other aspects of internationalisation have been highlighted such as the actors to whom the firm is related during that process and their respective position in a wider production network (e.g. Axelsson and Johanson 1992).

The purpose of the present paper is, therefore, to examine the extent to which a firm's knowledge is determinant for its internationalisation in the context of an industrial network. The key questions addressed are:

a) What type of knowledge is implicit in the network model of internationalisation?
b) Can such knowledge be located within the internationalising firm?

In the next section the key assumptions of the network model of internationalisation are thus reviewed. The methodological aspects of the project in which the present paper is based are discussed in the third section, whereas the correspondent case description is presented in the fourth section. The insights from the case are discussed in the following section, which precedes some concluding remarks in the sixth section.

2. THE NETWORK MODEL OF INTERNATIONALISATION

The network model of internationalisation has been initially proposed by Johansson and Mattsson (1988) and later illustrated with three cases by Axelsson and Johansson (1992). From such a perspective, internationalisation "means that the firm establishes and develops network positions in foreign markets" (Axelsson and Johanson 1992:218) and can be achieved in at least three ways. Firstly, the firm may establish positions in country-based networks, which are new to the firm i.e. international extension. Secondly, the firm may develop its already existing positions in foreign country-based networks i.e. penetration. Finally, the firm may increase the coordination between its positions in different country-based networks i.e. international integration.

Such three ways represent the "how" of firm internationalisation in industrial markets and may, in turn, occur in four different types of situations, which explain "why" firms internationalise. In particular such situations are based on the assumption that "the internationalisation characteristics of both the firm and of the market influence the process" (Johanson and Mattsson 1997:201). Such characteristics include the firm's market assets as well as the market assets of other firms in the network both in the home country of the internationalising firm and in the target country or countries. It is perhaps such a holistic characterisation of internationalisation situations that lead the following criticism to the model (Axelsson and Johanson 1992:219):

> The internationalisation dimension is somewhat loosely premised in the discussion. It could either be interpreted as entry to a specific new market or as a characterisation of the whole production net.

The present paper shares that criticism being, therefore, exclusively focused on the process of foreign market entry rather than on whether the production net is national or international. According to Axelsson and Johanson (1992:219) foreign market entry can be defined as "the whole process by which firms enter foreign markets over long periods". An alternative focus on internationalisation would be on the characteristics of the firm and the target country or countries at a certain point in time. In this respect and as mentioned above, four situations have been suggested in the network model of internationalisation, which are based on the combination of the degree of firm- and market (production net) internationalisation. Johanson and Mattsson (1988) label such situations the Early Starter (low/low), the Later Starter (low/high), the Lonely International (high/low), and the International Among Others (high/high).

Although an extensive description of the four situations is out of the scope of the present paper (see Johanson and Mattsson 1988, 1997), it is worth reviewing the role of knowledge in each situation. In a situation of Early Starter, it is assumed that "the firm has little knowledge about foreign markets and it cannot count upon utilising relationships in the domestic market to gain such knowledge" (Johanson and Mattsson 1997:202), whereas in a situation of Lonely International, the firm "already possesses good knowledge about many kinds of national markets" (Johanson and Mattsson 1997:204). On the other hand, it is assumed that "the Late Starter has a comparative disadvantage in terms of its lesser market knowledge as compared with its competitors" (Johanson and Mattsson 1997:205), whereas in a situation of International Among Others, "the international knowledge level is higher" (Johanson and Mattsson 1997:206).

From such a description it may be argued that, in contrast to process models of internationalisation (e.g. Johanson and Vahlne 1977, 1990; Luostarinen 1980), knowledge has not been consistently treated as an explanatory variable in the network model of internationalisation (Johanson and Mattsson 1988, 1997). The present paper thus attempts to explore such a gap by focusing on a single situation: the Late Starter. The selection of such a situation is, in turn, primarily justified with the research project on which the present paper is based. The research strategy and design adopted in such a project are discussed in the following section.

3. METHOD

The present paper is based on a research project, which adopted case study methodology. Case studies are an appropriate method for the analysis of "how" and "why" questions and of events over which the researcher has little control (Yin 1994). The selected case - Vitrocristal – illustrates a network of private and public entities, aiming at the creation and internationalisation of a new brand. Such network may thus be regarded as an issue-based net (Brito 1999) i.e. a network of actors dealing with a particular topic through mutual or conflicting interests.

The network under analysis consisted of actors aiming at the design and implementation, national and internationally, of a brand associated to the Marinha Grande Glass Region in Portugal. From an issue-based net perspective (Brito 1999), the unit of analysis in such a network is not the focal organization nor the whole network, but network action *per se*. Such action, which can be spontaneous or deliberated, allows the researcher to capture the dynamic characteristics of industrial systems moved by collective interests.

Data collection was primarily based on semi-structured interviews. The questions were designed to examine the phenomenon in its real context, once the borders between the phenomena and its context are blurred (Yin 1994). The main questions were based on the A-R-A model (Håkansson and Johanson 1984) and its applicability to firm internationalisation (Johanson and Mattsson 1988). In particular, an effort was made to obtain information on how the actors' interests were fulfilled, the resources shared, and activities coordinated.

Data was collected both explicitly and implicitly. In the latter case, cross questions were adopted, enabling the interviewee to analyse the topic in an indirect way. In order to accommodate the specific educational level of some interviewees certain questions were posed in relatively prosaic style (Langley 1999).

The network consisted of twenty-four (24) firms, including producers and transformers, which in some cases were members of the industrial association. In terms of size, the network included firms with very small (less than 10 employees) and small (less than 25 employees) size. It must be noted as well that not all firms joined the network at the time of its inception.

Six (6) out of twenty-four (24) firms were selected as a representative sample of the network. In order to increase the reliability of the findings, the study included data triangulation (Yin 1994), namely two press articles that confirmed some of the interviewees' answers. In this respect, Eisenhardt (1989) also refers to data overlap as a means of enhancing case analysis. Interviews were thus supplemented with publications in the local and national press as well as with direct observation.

Criteria such as prudence and embeddedness in the context were used in order to guarantee data relevance. Other interviews were conducted with major actors in the Vitrocristal network, namely the focal firm – Vitrocristal, the industrial association (Associação Industrial de Cristalaria), the Regional Crystal Comission, the national institute of small and medium-sized enterprises (Instituto de Apoio às Pequenas e Médias Empresas), the strategic consultant – Augusto Mateus & Associados, and the industry analysts – Roland Berger & Partners.

In the initial phase of data analysis, the data was presented in a systematic and organized way, frequently using historic narratives. Taking into consideration concrete events and their context, some generalizations were then formulated and associated with extant literature (Langley 1999).

4. THE CASE OF VITROCRISTAL

The crystal sector, which includes products of crystal and glass products obtained through semi-automatic and automatic processes, has been one of the most vulnerable in Portugal. The sector has been suffering from several constrains including: competition from low wage countries (e.g. Eastern Europe); low productivity rates; lack of skilled labour; powerful labour unions; small customer base; narrow gross margins; lack of control over distribution channels; lack of branding; lack of international recognition; lack of design and market research; and lack of sustainable communication and marketing strategies. The majority of firms operating in the sector are located in Marinha Grande region, which produces 80% of crystal in Portugal and employs 30% of the region's active population.

Vitrocristal is a complementary group of firms, which was formed in 1993 with the support of the industrial association. Its creation occurred as an attempt to modernise the local industry given its firms' reduced degree of competitiveness. The government decided to intervene in the recovery of the sector having assigned such task to the national institute of small and medium-sized enterprises. Because such governmental body was not entitled to receive public money Vitrocristal was created and public funds were distributed among the firms enrolled in a production ability program.

Two years later, the lack of visible improvements forced the experts to consider alternative measures beyond mere production processes. In particular, some suggestions were made in terms of brand, design, offering and new markets. In this respect, a leading role was assigned to the industrial association. In fact, the head of the industrial association became the very mentor of Vitrocristal and required assistance from industry analysts in order to develop a cooperation model.

Such a model was meant to support faster decision-making, closer interaction with the market, identification of opportunities, product differentiation, and increased operational flexibility. The idea was to build a progressive horizontal cooperation model, in which a step would follow previous ones and gradually increase the level of ambition. Ultimately, the level of ambition would include the firm's internationalisation taking advantage of the combination of small and large firm sizes.

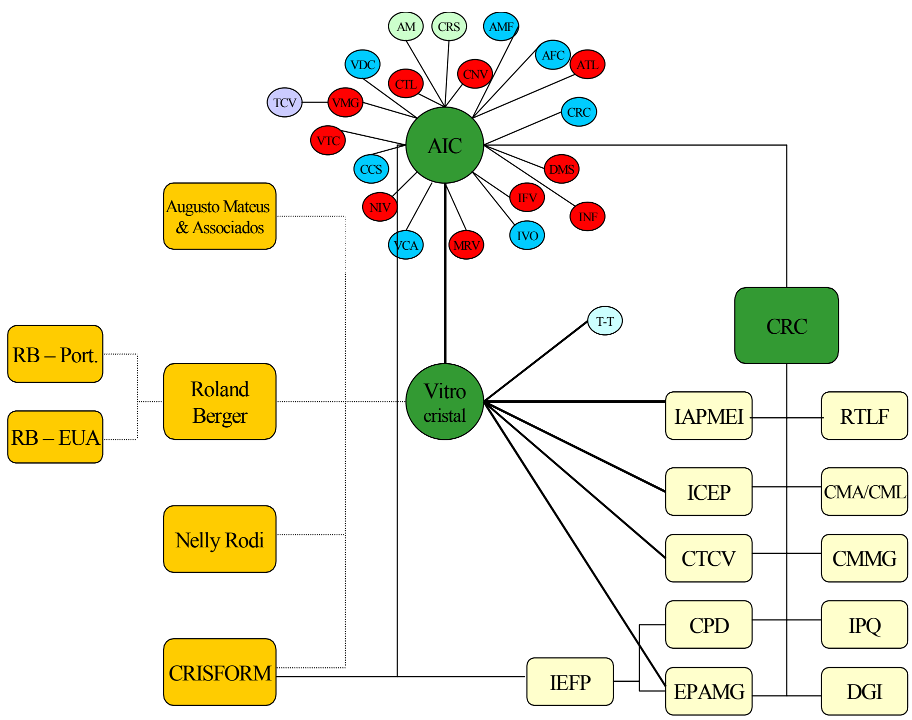
The value chain of the sector was analysed as well as the activities that had to be performed with outside support. As a result, three elements were identified as crucial to the modernisation process: the Marinha Grande Glass Region, Vitrocristal, and a new technical and commercial operator to be in charge of marketing and internationalisation. The Marinha Grande Glass Region was created to: articulate central, local, industrial and regional policies; implement a total quality strategy; promote a differentiated image of the sector and the region; and improve relations with suppliers.

Vitrocristal, on the other hand, was created to coordinate the firms with the industrial association, supporting infrastructures, and society at large. One of its goals was the creation and development of management capability through the recognition of the special needs of the sector and its accommodation by the cooperation model being implemented. The technical and commercial operator was the industry analyst – Roland Berger & Partners – remaining external to Vitrocristal, but available to its firms. Its selection resulted from its consulting experience with market research and strategic formulation for the industry in Europe. Its worldwide expertise in the sector, including close contact with some specific markets, was also valued in its selection.

The implementation of the cooperation model required some further measures such as the creation of a demarked region and the establishment of an educational centre. A Regional Crystal Comission was also created being assigned the involvement of all forces in the region. The commission was expected to improve the promotion of the region and its products, and to promote any projects that may benefit specific technical processes. It was also responsible for the establishment of standards to which the firms producing and transforming crystal products should conform.

Firms in the region were informed of the conditions to be a part of the network and other bodies were invited to equally be part of it. This was the case of the professional educational and training centre – Crisform, which was in charge of educating the industry's labour force; and the French fashion analyst – Nelly Rodi – who was in charge of identifying fashion and market tendencies. In sum, the production network aggregates the entities shown in Figure 1, in which the dotted lines (left side) represent relationships primarily based on *information exchange* (IMP group 1982).

Figure 1 – Glass production network in Marinha Grande



A key aim of the Marinha Grande Glass Region project was the creation of a brand, which would promote the firms of the region nationally and internationally. The idea was to create an industrial brand based on a "controlled origin denomination", in order to enhance the quality of the crystal produced in Marinha Grande. The brand was named "MGlass" having become a distinctive factor of the region. The products of the different firms in the network were now granted a seal of the region upon the compliance to certain standards of quality and design.

Given the attractiveness of some markets, Vitrocristal decided to enter European markets as well as the US market. Market studies had identified substantial rates of growth in countries such as Spain, France, Germany, Italy, United Kingdom, Sweden, Belgium, The Netherlands, and Japan. In some European countries Vitrocristal adopted export entry modes, following similar experiences by some of its constituent firms.

In addition, outside consultants emphasised the strategic importance of the US market in terms of opportunities and reference value. In the United States Vitrocristal adopted an investment entry mode supported by its MGlass brand. The objective was the achievement of a 1% market share within five years. For that purpose, the firm participated in a showroom in New York and an advisory firm was hired to identify market tendencies. In addition, market knowledge from Roland Berger and ICEP (Investments, Trade and Tourism of Portugal) was utilized. A permanent showroom was then opened in one of the most famous avenues in Manhattan. The firm operated as a sales subsidiary, option that allows a better control over the distribution channels and a better return from the investments made in the creation of the brand.

In terms of promotion, Vitrocristal decided to use local advertisement firms with special emphasis on branding. Public relations were also carefully planned given the sophistication of the US market in terms of designed glass and crystal products. The choice of the US market was based on its attractiveness (namely in terms of size), but also on the positions that other actors in the Vitrocristal's domestic production network had in that market. In particular, Roland Berger and ICEP, whose knowledge was also brought to Vitrocristal.

At the time of entry to the American market, the majority of the actors in Vitrocristal's production network had already internationalised. They used to search for suppliers and place orders wherever it seemed most convenient, based on quality, design, costs, flexibility and delivery conditions. Competitors operate worldwide with global brands, namely against MGlass in the US market. In addition, the consultants hired in order to enter the US market were themselves international, given their knowledge of and experience with international markets.

In Vitrocristal, most of the firms had already internationalised mainly in reactive fashion, that is, following their customers' initiative to place an order. Foreign customers typically contacted the firms in Marinha Grande region and set their orders based on certain criteria such as the ability to produce small series according to their specifications, the knowledge of some techniques, and quality.

Vitrocristal faced a great delay compared with other actors in the US market, having no incumbent's advantage. However, the network tried to establish a position in a small portion of New York's crystal market. The target market was essentially young people with high-income levels and art lovers who appreciate highly designed crystal pieces. MGlass products were sold in specific retail chains and department stores, with premium prices, which, in spite of the high positioning of the product, remained lower than those of Italian and French competitors.

5. DISCUSSION

The Vitrocristal case corresponds to a situation of Late Starter. Indeed, the firm's internationalisation is characterised by a high degree of internationalisation of the target market (US) and a low degree of internationalisation of the firm (Vitrocristal). In spite of a large share of sales in foreign markets, the firms belonging to Vitrocristal should not be considered highly international given the occasional rather than strategic nature of their exports.

On the other hand, entering in the New York market appears to have been primarily based on strong relationship investment, including intangible aspects. In particular, Vitrocristal's entry into the US market through a sales subsidiary can be regarded as the outcome of a learning process based on the experiences of several actors. In the one hand, the firms in the network already had some international experience through direct and indirect exports. In the other hand, consultants had reasonable international experience. Entering into the US market was thus a cumulative process (Axelsson and Johanson 1992) in which the experience of several firms in the local network was combined.

Gathering individual knowledge under a leading entity such Vitrocristal has allowed a sort of knowledge synthesis, which constituted, in turn, the basis for international expansion strategies. In the case of Vitrocristal, knowledge was brought from the outside and incorporated into the organisation. The leading entity was Vitrocristal itself, personalised by its mentor – the head of the industrial association – and respective staff.

Thus far, the interpretation of Vitrocristal's internationalisation has, nevertheless, provided little answer to the questions raised in the introductory section. The first question was: what type of knowledge is implicit in the network model of internationalisation? In this respect, it is worth reviewing a recent contribution by Eriksson et al. (1997) in which they further divide experiential knowledge into *internationalisation knowledge* i.e. the firm's capability to engage in international operations (e.g. routines, procedures, structures), *foreign business knowledge* i.e. knowledge of clients, the market, and competitors, and *foreign institutional knowledge* i.e. knowledge of government, institutional framework, rules, norms and values (e.g. how law is applied in practice, bureaucracy, language). The authors argue that accumulating experiential knowledge is rather expensive once it requires "collection, transmission and interpretation" (Eriksson et al. 1997:341) based on current activities, themselves the result of resources committed to the target country.

Correspondingly, the case of Vitrocristal can be interpreted in terms of the sub-components of *experiential knowledge* in the one hand, and *objective knowledge* in the other. Such types of knowledge constitute the answer to the first question and form the basis for an answer to the second one: can such knowledge be located within the internationalising firm? In this respect, Forsgren (2002:266) compares experiential knowledge – which he labels *market-specific knowledge* – with objective knowledge as follows:

> Market-specific knowledge is something that develops at the operational level, and consequently tends to keep the firm within its current business. General knowledge can be expected to be accumulated at levels higher up in the hierarchy, and can function as a driving force to take steps in directions which are new to the firm.

From such an interpretation of *experiential-* and *objective knowledge*, respectively, Vitrocristal's entry into the US market can be explained with the *objective knowledge* ordered to outside consultants (with international experience) by its mentor, the head of the industrial association. A closer inspection of the components of *experiential knowledge* reveals, however, that *internationalisation knowledge* is not country-specific either once "it is a firm-specific experience relevant to all markets" (Eriksson et al. 1997:352). From the case description was not clear, however, whether Vitrocristal was able to acquire internationalisation knowledge held by its constituent firms and more importantly outside consultants.

Taken together, objective knowledge and internationalisation knowledge may explain Vitrocristal choice of an investment entry mode – sales subsidiary – into a distant country – the US – in an early stage of its internationalisation. Such entry mode choice was even anticipated by Johanson and Mattsson (1997:205) who contend that: "establishment of a sales subsidiary should be made earlier if the firm is a Late Starter than if it is an Early Starter". It must be noted, however, that, in contrast to the present paper, their arguments preclude considerations in terms of objective and experiential knowledge.

The two remaining components of *experiential knowledge* – *foreign business knowledge* and *foreign institutional knowledge* – are more difficult to assess in the case of Vitrocristal. One reason for such a difficulty is conceptual. In fact, from an industrial networks perspective, foreign market entry is characterised simultaneously by the lack of control of any one actor over such a process, and by the opacity of relationships between the actors involved (Axelsson and Mattsson 1992). This means that, by itself, Vitrocristal could not control the entry into the US market and, therefore, did acquire *foreign business knowledge* and *foreign institutional knowledge* from other actors in the domestic production network. However, the very relationships by which knowledge could be acquired are supposedly opaque or invisible to an outsider, rendering almost impossible the empirical confirmation of such an argument.

In this respect, Hadley and Wilson (2003:705) argue that, compared with the Lonely International, a Late Starter should enjoy relatively more *foreign business knowledge* and relatively less *foreign institutional knowledge*. In particular, the *foreign business knowledge* of a Late Starter should be enhanced by its entry into an internationalised market, whereas it *foreign institutional knowledge* should be inhibited by more indirect relationships with such a market. This is not the case of Vitrocristal, given the entry mode selected. A sales subsidiary represents a direct relationship with the target market, which should enhance the firm's ability to learn about the local institutional environment (e.g. government, laws, culture). On the other hand, because Vitrocristal's target market is highly international – the US – there should indeed be more opportunities, compared to a Lonely International, to learn about local actors (e.g. customers, competitors, suppliers).

6. CONCLUSIONS

The present paper attempts to explore the extent to which a firm's knowledge may constitute an explanatory variable of its internationalisation. Although knowledge is included in the network model of internationalisation, its implications for the firm's internationalisation have usually been articulated in rather superficial fashion. One possible explanation for such a tendency is the very discussion of the four situations in the model, which includes arguments for both the "how" and "why" of internationalisation. In contrast, the present paper is exclusively focused on one "how" of internationalisation – foreign market entry – and in one "why" of internationalisation – knowledge. In addition, the paper is exclusively focused on one situation of the network model of internationalisation – the Late Starter.

Based on a longitudinal case study the paper seeks to answer two main questions: a) what type of knowledge is implicit in the network model of internationalisation? and b) can such knowledge be located within the internationalising firm? The first question was primarily answered through literature review (e.g. Johanson and Vahlne 1977; Eriksson et al. 1997; Forsgren 2002) and illustrated with the internationalisation of an actor – Vitrocristal – which is a group of firms (Håkansson and Johanson 1984).

The second question was explored rather than answered with the discussion of the same case of internationalisation. In this respect, a recent contribution (Hadley and Wilson 2003) was also reviewed and confronted with the insights of the case. This was important given the acknowledgement by the very same authors that: "a longitudinal study would help to identify patterns of knowledge accumulation during a firm's internationalisation process" (Hadley and Wilson 2003:715) in contrast to their own "static cross-sectional research design" (Hadley and Wilson 2003:714).

More generally, the present paper poses a question in its own title – Late Starter: a situation or a process? In this respect and as mentioned above, the original network model of internationalisation has been criticised for being too holistic. In other words, it includes a discussion of both the "how" and "why" of firm internationalisation. It can therefore be argued that the "how" aspect of a Late Starter is more concerned with the *process* of internationalisation rather than with a *situation* i.e. the characteristics of the firm and the market (production net). This point was, in fact, touched upon by at least one earlier contribution, which criticises the loose discussion of the internationalisation dimension in the network model (Axelsson and Johanson 1992). More specifically, the present paper explores a sub-process associated with the situation of Late Starter, by which the internationalising firm may acquire knowledge from other actors in the production network. In this respect, the paper suggests that *objective knowledge* and *internationalisation knowledge* may indeed be acquired through relationships, whereas the external acquisition of *foreign business knowledge* and *foreign institutional knowledge* remains open to debate.

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